

# AGENDA

## Audit Committee

**Monday, 22 July 2013 AT 10:00**

**In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG**

### **Briefing Meeting**

A private preparatory / briefing meeting for Members of the Committee will be held at 9.30 am in the Flensburg Room

### **Appointment of Chairman**

To appoint a Chairman of the Audit Committee

### **Appointment of Vice-Chairman**

To appoint a Vice-Chairman of the Audit Committee

### **Apologies for Absence**

To receive apologies for absence and notification of substitutions.

### **Declarations of Interest**

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any item on the agenda at this stage.

### **Public and Press**

To agree that the items of business within Part A of the agenda should be dealt with in public; and that the items of business within Part B of the agenda should be dealt with in private.

### **Minutes**

**5 - 20**

To approve and sign the Minutes of the meeting held on 15 April 2013.  
[Copy Minutes in Minute Book Volume 40(1) / herewith]

## **PART A**

### **To be considered when the Public and Press are present**

<b>A.1</b>	<b><u>MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL</u></b>	<b>21 - 44</b>
	The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 5 March, 4 April and 6 June 2013 are submitted for information. (Copy Minutes herewith)	
<b>A.2</b>	<b><u>AUDIT PLAN 2012/13</u></b>	<b>45 - 64</b>
	The Director of Grant Thornton to present their Audit Plan for 2012/13. (Copy Audit Plan herewith)	
<b>A.3</b>	<b><u>FEE LETTER 2013/14</u></b>	<b>65 - 68</b>
	The Director of Grant Thornton to present their fee letter for 2013/14. (Copy Letter herewith)	
<b>A.4</b>	<b><u>GRANT CERTIFICATION WORK PLAN FOR 2012/13</u></b>	<b>69 - 76</b>
	The Director of Grant Thornton to present their Grant Certification Work Plan for 2012/13. (Copy Report herewith)	
<b>A.5</b>	<b><u>ANNUAL GOVERNANCE STATEMENT 2012/13</u></b>	<b>77 - 90</b>
	The Director of Resources to submit a report updating Members on progress made to the Annual Governance Statement. (Copy Report RD.22/13 herewith)	

<b>A.6</b>	<b><u>STATEMENT OF ACCOUNTS 2012/13</u></b>	<b>91 - 190</b>
	The Director of Resources to submit a report enclosing the 2012/13 Statement of Accounts for Members' information. (Copy Report RD.23/13 herewith)	
	The following background reports are also submitted:	
<b>A.6(a)</b>	<b><u>PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13</u></b>	<b>191 - 220</b>
	(Copy Report RD.12/13 herewith)	
<b>A.6(b)</b>	<b><u>PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL PROGRAMME 2013-14</u></b>	<b>221 - 242</b>
	(Copy Report RD.11/13 herewith)	
<b>A.7</b>	<b><u>TREASURY MANAGEMENT OUTTURN 2012/13</u></b>	<b>243 - 266</b>
	The Director of Resources to submit a report providing the annual report on Treasury Management and the regular report on Treasury Transactions. (Copy Report RD.13/13 herewith)	
	[The 2012/13 Provisional Outturn Reports were also considered by the Executive and the Resources Overview and Scrutiny Panel - copy Minute Excerpts herewith]	
<b>A.8</b>	<b><u>TREASURY MANAGEMENT COUNTERPARTIES</u></b>	<b>267 - 278</b>
	The Director of Resources to submit a report concerning the amendment of the limits which can be invested with different counterparties. The matter was considered by the Executive and the Resources Overview and Scrutiny Panel. (Copy Report RD.08/13 and Minute Excerpts herewith)	
<b>A.9</b>	<b><u>INTERNAL AUDIT PROGRESS REPORT 2013/14 (NO.1)</u></b>	<b>279 - 362</b>
	The Director of Resources to submit a report summarising the work carried out by Audit Services since the previous report to the Committee on 15 April 2013. (Copy Report RD.26/13 herewith)	

**A.10     INTERNAL AUDIT OUTTURN REPORT 2012/13 AND REVIEW OF THE  
EFFECTIVENESS OF INTERNAL AUDIT SERVICES**

**363 -  
414**

The Audit Manager to submit a report summarising the work carried out by the Internal Audit Shared Service for the year 2012/13. Information relating to the effectiveness of Internal Audit is also provided.

(Copy Report RD.25/13 herewith)

**PART B**

**To be considered when the Public and Press are excluded from the meeting**

**B.1     OUTCOME OF INTERNAL INVESTIGATION**

- Information relating to any individual;
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

**Note:**

Enquiries, requests for reports, background papers, etc to Lead Committee Clerk : Morag Durham - 817036

**Committee Membership**

**Conservative:** Earp, Mallinson E, Nedved (substitutes Bowman S, Craig, Parsons)

**Labour:** Atkinson K, Atkinson P, Bowditch, Patrick (substitutes Boaden, Franklin, Whalen)



## **AUDIT COMMITTEE**

**MONDAY 15 APRIL 2013 AT 10.00 AM**

**PRESENT:** Councillor Ms Patrick (Chairman), Councillors Bowditch, Craig (as substitute for Councillor Mrs Mallinson), Ms Franklin, Nedved, Mrs Parsons (as substitute for Councillor Mrs Bowman – until 11.55 am) and Miss Sheriff

**OFFICERS:** Town Clerk and Chief Executive  
Deputy Chief Executive  
Director of Governance  
Director of Community Engagement  
Director of Local Environment  
Financial Services Manager  
Audit Manager  
Chief Accountant  
Policy and Performance Officer

**ALSO**

**PRESENT:** Ms Jackie Bellard (Director, Grant Thornton); and  
Mr Richard McGahon (Manager, Grant Thornton)

### **AUC.16/13 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Mrs Bowman and Mrs Mallinson.

### **AUC.17/13 DECLARATION OF INTEREST**

Councillor Miss Sherriff declared a registrable interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 (Audit Services Progress Report 2012-13 (No. 4)) because she also served on the Board of Carlisle Leisure Limited.

### **AUC.18/13 MINUTES**

The Minutes of the meeting of the Audit Committee held on 11 January 2013 were submitted.

**RESOLVED** – That the Minutes of the meeting of the Audit Committee held on 11 January 2013 be agreed as a correct record and signed by the Chairman of that meeting.

### **AUC.19/13 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL**

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 3 January and 21 February 2013 were submitted for information.

**RESOLVED** – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 3 January and 21 February 2013 be noted and received.

## **AUC.20/13      CERTIFICATION WORK REPORT 2011/12**

The Manager (Grant Thornton) presented the Certification Work Report for 2011/12.

He explained that the report summarised their overall assessment of the Council's management arrangements in respect of the certification process and drew attention to significant matters in relation to individual claims. An overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work performed was provided at Appendix A.

Members were asked to note that all work reported in the certification report had been completed by the Audit Commission prior to Grant Thornton's appointment as the Council's auditors. Therefore the findings set out in the report represented the results of the Council's previous auditors' work.

A summary of all claims and returns subject to certification and details of grant certification fee were also provided at Appendix B. The claims in respect of the Housing Benefit and Council Tax Benefit Scheme and the National Non-domestic Rates Return were substantial in terms of the authority.

The Manager (Grant Thornton) reported that overall the City Council was performing well and there were no significant matters arising from their certification of claims and returns, which was good news. He added that:

- there were no amendments to claims this year
- only one qualification letter was issued on the Housing Benefit and Council Tax Benefit claim
- less errors were found on the benefits claim in 2011/12 compared with the previous year
- supporting working papers for the claims and returns were good, which enabled certification within the deadlines

In terms of the way forward, the Manager (Grant Thornton) explained that the Council had implemented the agreed recommendations in the Audit Commission's Certification of Claims and Returns – Annual Report 2010/11. For 2011/12 there was only one error in the detailed testing of benefit cases which represented a significant improvement on the previous year. Accordingly, there were no issues that required a recommendation to be made.

In conclusion, the Manager (Grant Thornton) reiterated that this was a very good news report for the City Council.

RESOLVED – That the Audit Committee received the Certification Work Report 2011/12; and was pleased to note the significant improvement from the previous year.

## **AUC.21/13      GRANT THORNTON – AUDIT COMMITTEE UPDATE**

The Director (Grant Thornton) submitted a paper detailing progress in delivering Grant Thornton's responsibilities as the Council's external auditors. Also included was a summary of emerging national issues and developments which may be of relevance to the authority.

She drew Members' attention to page 5 pointing out that in previous years a detailed Audit Plan would have been issued at this stage. Grant Thornton would not, however, issue the Audit Plan until the results of the interim visit (scheduled to be completed by mid April 2013) were included. The Plan would therefore be submitted to the next Audit Committee following that date.

The Director (Grant Thornton) advised that no significant matters had been identified at this stage of the process. The Manager (Grant Thornton) added that there was nothing significant which would impact on their view of the Accounts.

There were no significant changes in approach to the Value for Money (VFM) conclusion work carried out in previous years. However greater emphasis had been placed on financial resilience and a separate report would be produced and reported in September alongside the ISA+260 Audit Findings Report.

Referring to page 5 (interim accounts audit), the Chairman asked whether a different range of skills could be accessed under Grant Thornton.

In response the Manager (Grant Thornton) advised that although the skill set was very similar to that under the audit practice, there may be a slight difference in focus in terms of information technology.

The Director (Grant Thornton) added that she had used VAT and employee services specialists to gain an understanding / level of assurance of the Council's VAT and taxation environment.

The Chairman asked whether the emerging issues referred to in the report would create additional work.

The Financial Services Manager replied that CIPFA had, in December 2012, issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes (BRRS). In summary, the accounting treatment for the BRRS would be similar to council tax. Training would be provided on those changes as part of the 2013/14 accounts.

The Manager (Grant Thornton) added that there were a number of reports which would prove useful for Members going forward. He undertook to extract those reports and forward them to the Lead Committee Clerk for onward transmission to Members of the Committee.

The Chairman thanked the Director and Manager for submission of the report.

RESOLVED – That the Audit Committee noted the content of the Update Report; and that appropriate resources would be required to address the emerging issues referred to.

## **AUC.22/13      AUDIT COMMITTEE'S ANNUAL REPORT 2012/13**

The Chairman presented report RD.04/13 summarising the work undertaken by the Audit Committee during the period from 16 April 2012 to 11 January 2013.

The Chairman stated that the existence of the Audit Committee and its work programme enabled the Council to demonstrate that it was following the recommended best practice of

the CIPFA Practical Guidance for Audit Committees in Local Authorities. The Committee had strengthened the Council's internal control process through its ability to ensure that systems and controls were robust; that challenges were raised as appropriate; and that adequate follow-up procedures were in operation in relation to audit recommendations. That had been noted and commented on by the Audit Commission's Audit Manager.

In conclusion, the Chairman recommended that the Audit Committee note and accept the report.

RESOLVED – That the Annual Report of the Audit Committee, which would be submitted to the City Council on 30 April 2013, be noted and accepted.

#### **AUC.23/13      STRATEGIC AUDIT PLAN AND AUDIT PLAN FOR 2013/14**

The Audit Manager (Carlisle City) submitted report RD.06/13 providing details of the updated Strategic Audit Plan and the proposed Audit Plan for 2013/14.

She referred Members to the Risk Assessment Model utilised by Carlisle City which was in line with a version endorsed by CIPFA and the Institute of Internal Auditors.

The Audit Manager (Carlisle City) then outlined for Members the revised Audit Risk Assessment (Strategic Risk Based Plan) which had been prepared in line with best audit practice. Discussions had taken place with all Directors regarding the Strategic Audit Plan for their respective Directorates and their comments incorporated into the planning arrangements. Reference had also been made to those systems identified by Directorates as being business critical.

She emphasised that the strategic risk based approach to audit planning did not provide coverage of all audit areas within a given period, rather the model was dynamic and to some extent subjective in areas. It identified the "risk areas" which could be addressed over any given timescale, ad-hoc demands, etc. depending on the audit resources available for the year. The draft Annual Audit Plan 2013-14 was attached at Appendix A.

In conclusion, the Audit Manager (Carlisle City) pointed out that any significant extra demands on audit time which could not be accommodated within the contingency allocation may require a revision to the Audit Plan. In such circumstances those revisions would be considered / authorised by the Director of Resources, before being reported as part of the quarterly progress reporting to the Committee for Members' consideration / approval.

Speaking from a personal point of view, the Chairman was pleased to note that street cleaning was on now the Agenda.

RESOLVED – (1) That the Audit Committee noted the content of Report RD.06/13.

(2) That the Audit Committee had considered and approved the Internal Audit Plan for 2013/14 attached as Appendix A to the report.

#### **AUC.24/13      AUDIT SERVICES PROGRESS REPORT 2012-13 (NO. 4)**

Councillor Miss Sherriff, having declared a registrable interest, took no part in discussions on this item of business.

The Audit Manager (Carlisle City) submitted report RD.05/13 summarising the work carried out by Audit Services since the previous report to Committee on 11 January 2013 and detailing progress made on delivery of the approved Audit Plan during the fourth quarter of 2012/13.

The current position of the Plan up to 8 March 2013 was illustrated at Appendix A for Members' assistance.

She outlined the key points which were:

- The Plan called for 540 direct audit days to be delivered in 2012/13. 546 days had been delivered, which was 6 days over the annual target. Further (planned) audit days had been necessary up to the end of March in order to complete the remaining work on the material financial systems reviews.
- Investigatory work had impacted to some extent on planned work during 2012/13. Some of that time had been met by redirecting planned audit days from other areas of the Audit Plan and also through an element of available contingency time. There were, however, some additional (unplanned) days to be charged for separately. The Director of Resources had been kept informed on the progress made regarding those investigations and was aware of those additional unplanned days to be charged resulting from that work.

Members were asked to note the progress made against the agreed 2012/13 Audit Plan.

At this point of the year it was necessary to revisit the Plan and determine which audits were yet to be completed. 3 audits – (Electoral Registration; Transformation – would now be examined as part of the wider review of Improvement, Efficiency and VFM Programme; and ICT Project Management) had not yet commenced and there was insufficient time to start those before the year end due to other work priorities. Those had been rolled forward to the 2013-14 Audit Plan.

The Director of Resources had, following discussions with the Senior Management Team, agreed to the above changes.

Members were asked to note the amendments to the 2012/13 Audit Plan.

The Audit Manager (Carlisle City) outlined the background to and scope of the Audit of Customer Services which had been conducted following a very detailed briefing with Management. The final report had been issued in September 2012; 6 grade B recommendations and a restricted assurance were reported at that time. She explained that progress to finalise the audit report had been delayed in some parts. Due to the constantly changing and evolving nature of the service it was essential that the audit opinion provided should be reflective of the current service provision. To that end, a formal follow up of the agreed actions arising from the review of Customer Services would be undertaken in April 2013. Any matters arising from the follow up would be combined with the initial audit findings and reported to the Audit Committee at its meeting in July 2013. The Deputy Chief Executive and Director of Resources had commented upon and agreed that approach, which Members were now asked to note.

Turning to the matter of previous Audit Recommendations, the Audit Manager (Carlisle City) reported that a revised follow up system was now in operation utilising Covalent, the

corporate performance management system. That revised system placed the onus upon Managers to feedback on the action which they had taken within the agreed timescales to effectively implement the recommendations to which they were assigned responsibility. Importantly, the arrangement only affected audits with substantial and reasonable assurance ratings; those audits with restricted (and limited) assurance being formally followed up and reported on separately by Audit Services. Additionally, those recommendations arising from the material financial system reviews were routinely followed up and reported on as part of the next year's audit findings.

There are no matters to be brought to Members' attention regarding the follow up of audit recommendations via Covalent. Audit Services continued to work with Managers to assist them with that new arrangement.

She added that the Audits of Tendering and Contracting and the Carlisle Cycle Scheme (aka Connect 2 Cycle Scheme) were both restricted assurances which required formal follow up. In line with agreed audit practice, follow ups on those two audits would be completed in quarter 1 of 2013-14, the outcomes of which would be reported to Members once finalised.

Members were asked to note the revised arrangements for follow up of previous recommendations and the current status thereof.

The Chairman felt that it would be useful for the Committee to be appraised of performance by Managers in terms of feeding back on actions they had taken within the agreed timescales.

The Audit Manager (Carlisle City) explained that an audit resource was in place to provide training for Managers. Performance details could be provided along the lines requested.

The Manager (Grant Thornton) added that Copeland Borough Council's Audit and Governance Committee received quarterly or six monthly performance reports, and it may be useful to look at those as an example.

Referring to audit reporting arrangements, the Audit Manager (Carlisle City) indicated that the Shared Internal Audit Service was constantly looking at ways to improve its audit operations and reporting methods. She set out, for Members' consideration, a number of suggested changes to the reporting arrangements at Carlisle City in 2013-14 as detailed at section 6.1 of the report.

A Member noted that, whilst all audit reports were cleared by service Managers and the relevant Directors, it had been agreed that from January 2013 all final audit reports with restricted assurance would be forwarded to the Senior Management Team to be noted. He suggested that the reports should also go forward to the Joint Management Team (which included Portfolio Holders) which may result in issues being addressed at an earlier stage.

In response, the Chairman stated that the Audit Committee received final audit reports with restricted assurances. The Committee could refer those to Portfolio Holders if that was considered to be appropriate.

A Member commented that certain Members were now using tablets within meetings (rather than hard copy documentation). He considered that the incorporation of the key

findings from each audit review within future Audit Progress Reports would be of assistance to those Members.

The Director of Governance added that the Management Summaries would still be available to Members via CMIS as background documentation.

The Audit Manager (Carlisle City) reported that there were eight audit reports for consideration by Members: Council Tax; and Treasury Management which had received substantial assurance; and Systems Administration; Bereavement Services and Car Parking Income which had a reasonable assurance. Copies were appended to the report.

The Audit Manager (Carlisle City) indicated that she would focus in the main upon the Audits of the Leisure Services Contract; Recycling; and Bring Sites which provided restricted assurance. She further explained that the restricted assurance levels highlighted a 'themed' weakness in the area of contract monitoring and performance reporting arrangements of key service contracts.

The Resources Overview and Scrutiny Panel had on 3 January 2013 undertaken a review of partnerships 2011/12.

The Panel had resolved:

"1) That the Town Clerk and Chief Executive be asked to write Carlisle Leisure Limited to inform them that the Scrutiny Panel is looking closely at the monitoring arrangements for the contract between the City Council and themselves.

2) That the concerns and comments of the Panel be passed to the Audit Committee for their consideration of the Audit report on the Carlisle Leisure Contract.

3) That representatives of Carlisle Leisure Limited be invited to attend a future meeting of the Panel.

4) That the Tullie House contract is monitored on a regular basis to ensure that the City Council is achieving value for money for the contributions made."

Copies of Minute Excerpt ROSP.09/13 had been circulated.

She added that the contract monitoring 'theme' was a corporate concern and the matters arising from those audit reports had been considered in full by the Senior Management Team. The detailed Action Plans resulting from the contract monitoring reviews would be formally followed up by Audit Services in quarter 3 2013-14 and an update on progress made would be reported to the Audit Committee in due course.

The Committee then gave in depth consideration to the following audits:

#### Audit of the Carlisle Leisure Limited (CLL) Client Contract

The Audit Manager (Carlisle City) outlined in some detail the key findings arising from the Audit of the Carlisle Leisure Limited (CLL) Client Contract. It was important to note that the audit related to a long established contract which was well in to its operative term. The current management of the area for the Council had (Community Engagement), notably made improvements in monitoring arrangements in the recent past.

The Director of Community Engagement welcomed the audit report which was helpful in terms of highlighting the areas where work was required. He stressed that certain elements were already being picked up before the commencement of the audit review.

He provided an overview of progress to date, emphasising that a number of very significant changes were being undertaken to address the audit recommendations. The Carlisle Leisure Limited contract was due to terminate in 2017 and it was therefore timely to consider how that would be handled, including risks to the authority.

The Director of Community Engagement added that certain of the recommendations had already been actioned and he was confident that all would be complete within the allotted timeframe.

The Chairman then asked the Director of Community Engagement to outline, in turn, progress on each of the recommendations set out within the Action Plan, following which Members would raise questions :

- Recommendation R1

The Director reported that regular quarterly meetings were taking place with Carlisle Leisure Limited (including the Portfolio Holder; Chief Accountant; Policy and Performance Officer; the Executive Manager and Area Manager of CLL; and himself). Detailed consideration was given to risk at every meeting. A greater emphasis would be placed on the risks to the City Council from 2013/14 and contingency plans drawn up in the event of a contract failure.

A Member stated that, in his view, this was a “devastating report”. He was particularly concerned to ensure that action was taken so that the authority would not find itself in a similar situation in five years time.

The Member further sought clarification of the difference between contract monitoring being undertaken by a specific Department as opposed to being dealt with through various Directorates.

In response, the Director of Community Engagement stated that he was now very confident that the Council understood its relationship with CLL, including their outputs and impact on the residents of Carlisle. He emphasised that this was not a failing contract, rather weaknesses had been identified within the authority in terms of monitoring said contract. The Director gave an assurance that lessons would be learnt moving forward.

The Town Clerk and Chief Executive did not consider the report to be “devastating”. He reiterated that Officers were dealing with the weaknesses in contract management, in addition to which discussions were taking place with Portfolio Holders with regard to a central corporate role on contract management which would strengthen arrangements. Creation of any new role would, however, require to be off set by savings elsewhere.

- Recommendation R2

The Chairman commented upon the need for a robust review of contract management to address the fact that currently there was no defined client lead monitoring officer.



The Director of Community Engagement replied that the issue was very significant in terms of the Directorate's budget and would be addressed as part of the Community Engagement transformation process. It was proposed that a senior management position with designated contract monitoring responsibility would be created within the Directorate. He cautioned that the Council could specify what it wanted the contractor to deliver, but not the manner by which that was done. It was important to create an environment whereby the contractor was creative and innovative.

The Chairman questioned whether a skills framework / training had been identified.

In response, the Director of Community Engagement stated that some work had already been undertaken. He recognised that there were gaps in monitoring information and that evidence required to be recorded in order than an audit trail was in place.

A Member asked when the proposed post would be in place.

The Director advised that the consultation period had closed on 5 April 2013. He was in the process of reviewing staff comments, following which a report would be submitted to the Senior Management Team for approval.

A Member referred to the third bullet point on page 90 (Contractual Agreements), expressing concern at the statement that there were omissions to insurance provisions.

In response, the Audit Manager (Carlisle City) explained that the issue related to the need to provide evidence that public liability insurance was in place. The Chief Accountant confirmed that, through CLL's financial information, payment had been made for annual insurance cover. This recommendation related to the provision of information from CLL.

- Recommendation R3

The Director of Community Engagement advised that, further to the report, an Asset Register had been provided by CLL. Spot checks were also in place.

- Recommendations R4 and R5

The Director of Community Engagement reported that CLL's lease agreements for Carlisle City Council to take ownership of all leases if necessary; and non property insurance arrangements were on the agenda for discussion at the next meeting with CLL to be held on 30 April 2013.

- Recommendation R6

The Director of Community Engagement advised that data quality arrangements would also be raised at the next meeting with CLL.

The Director further outlined the background to and progress made in relation to the evaluation of Performance Indicators (PIs).

The Chairman asked how Members of the Council / the public would feed into any new contract.

In response, the Director of Community Engagement stated that now was the time to commence consideration of a new contract. An internal Officer Group had been set up to look at performance, good practice and also community involvement / customer feedback.

A Member expressed concern that plays, including Shakespeare, were rarely put on at the Sands Centre.

Another Member noted that the CLL contract required a designated City Council Officer whose specific responsibility was to manage the operational delivery of the contract, monitor performance, provide effective challenge and liaise formally with CLL on a more constructed basis and enforce contractual provisions. She questioned whether that requirement had been in place since commencement of the contract.

The Director confirmed that he was happy with that requirement which had always been in place and that the designated Officer was the Director of Community Engagement. The issue was around having an Officer in post who could address the gaps in contract monitoring arrangements.

The Chairman asked whether ethnicity would be built into contract monitoring arrangements.

The Director confirmed that would be picked up in 2013/14.

- Recommendation R7

The Director of Community Engagement explained that Officers were working with the Portfolio Holder to address the issue of service standards / default in performance standards. He did not see the need to enforce the penalty point position on the management of this contract.

- Recommendation R8

The Chief Accountant confirmed that financial information had been received for the period until the end of December 2012. Information for the period up to the end of March 2013 would be reported in the next quarter.

- Recommendation R9

The Director of Community Engagement commented that the matter should be addressed via good quality smart Performance Indicators.

The Chairman questioned whether there was a legal requirement to ensure that contract monies paid by Carlisle City Council were not used to subsidise other communities.

In response, the Chief Accountant said that CLL operated as a company and utilised economies of scale. He added that CLL had been very transparent in terms of the financial information provided, from which it was clear that the City Council was getting good value for money from the contract.

A Member noted that a 'lessons learnt' report would be written before the retendering process took place. He asked whether that report should go to the Portfolio Holder / Joint

Management Team to ensure that it was scrutinised and Members' views were taken on board.

The Audit Manager (Carlisle City) noted progress had been made in acquiring the required financial information and the Chief Accountant had given the Committee assurance that the matter was in order.

In response to a comment by the Town Clerk and Chief Executive, the Audit Manager (Carlisle City) acknowledged that the issue was around transparency of information.

The Director of Governance pointed out that the Council was eleven years into a fifteen year contract which to date had worked well. The terms were those which the Council committed to at the time. Improvements could be made, but any changes would require to be agreed with CLL.

- **Recommendation R10**

The Director of Community Engagement advised that this recommendation reinforced messages from the other recommendations within the Action Plan.

The Town Clerk and Chief Executive reiterated that the specific requirement for a corporate role to look at contract management and the commercial activities of the Council was the way in which the recommendation could be addressed in terms of better governance of contracts.

Moving forward, a Member asked when detailed negotiations with CLL on another contract would be undertaken.

The Town Clerk and Chief Executive clarified that the Council was not negotiating an extension of the existing contract. The process of re-tendering the contract was starting now. Members would be involved in that debate moving forward.

The Chairman recognised that a separate corporate risk in relation to the monitoring of external contracts had been identified. The Committee were assured that contract monitoring would improve and requested a formal report back to the Committee outlining progress made.

A Member reiterated his previous comment that audit reports with restricted assurance levels should be circulated to Portfolio Holders in order that the issues identified were addressed and a proper audit trail was in place.

Following discussion, with input from the Town Clerk and Chief Executive, the Deputy Chief Executive and the Director of Governance, it was agreed that the Committee would receive a report outlining progress at a future meeting.

- **Audit of Recycling**

The Audit Manager (Carlisle City) outlined for Members' the key findings arising from the Audit of Recycling.

The Director of Local Environment provided an overview of the background to the matter. She welcomed the audit review which set out the current position and actions for improvement moving forward. The main issue was around weighbridge procedures.

The Director of Local Environment then explained that a great deal of work had already been completed in response to the recommendations, with changes to weighbridge operations having been undertaken within a week. The impact upon the authority would however take longer to emerge. Contractual requirements on the resale of recyclates had not yet been resolved.

The Waste Services Team was also looking at key performance aspects of the contract. A new back office system had been implemented to monitor the number of collections made, which evidenced that the quality in terms of collections was very good. In addition, health and safety was being monitored with the contractor.

In conclusion the Director of Local Environment confirmed that, although operationally she was happier, paper based aspects needed to be looked at.

In response to a question, the Director of Local Environment stated that she was satisfied with the issues around the accuracy of data and provided assurances that there were no intentional misrepresentations of tonnage calculations.

The Audit Manager (Carlisle City) added that some assurance could be derived from the fact that operational practices had been amended immediately following the Auditor's site visit.

The Chairman recognised that limited resources were available within Waste Services to implement contract management. She asked how that would be addressed in future.

The Director of Local Environment replied that resources were stretched. Consideration was being given to back office procedures with a view to ensuring that they were as lean as possible. The management restructure for Waste Services was underway, and the issues raised would be taken into consideration and used to formulate the new structure.

The Chairman asked whether specialist knowledge was required.

The Director of Local Environment advised that, in addition to specific contract management skills, it was necessary to raise awareness across the team.

- Audit of Bring Sites

The Audit Manager (Carlisle City) reported that the Audit of Bring Sites had been undertaken as an additional review to follow on from the Audit of Recycling at the request of the Director of Local Environment.

She outlined in the key findings arising from the Audit, together with the detailed Action Plan appended thereto.

The Director of Local Environment summarised the background and current position, commenting that this was a very popular and well used service. She informed Members that a report on the Bring Sites Review was scheduled to be submitted to the Executive on

31 May 2013. It should be noted, however, that could result in a reduction in the number of Bring Sites provided by the City Council.

A Member asked whether the Director was confident that sufficient resources were in place to deal with the issues raised under the review.

In response, the Director of Local Environment indicated that the shape of the Team would be different moving forward.

A Member commented upon the excellent service provided by staff at Bousteads Grassing. The service was about much more than kerbside recycling.

The Director of Local Environment emphasised the importance of being aware of the available recycling facilities to avoid duplication of service. She gave an assurance that Officers were looking at service tonnage information which was very detailed and accurate. Accordingly, the Director had confidence in terms of the tonnage and accuracy of the data.

Referring to recommendation R1 a Member questioned whether the Contract with Cumbria Waste Management for Bring Sites had been signed.

In response, the Director advised that the contract had not yet been signed.

A Member suggested that the Action Plan should include an additional column titled "Date Actioned / Begun".

In response to a question, the Director of Local Environment advised that, where appropriate, containers would be locked (recommendation R4 referred).

RESOLVED – (1) That report RD.05/13 be received and progress made against the agreed 2012/13 Audit Plan referred to in Section 2 and as illustrated in Appendix A be noted.

(2) That the changes made to the 2012/13 Audit Plan as outlined in Section 3 be noted.

(3) That the arrangements in place to revisit Customer Services, as detailed in Section 4, to deliver an up-to-date audit opinion on that service area be noted.

(4) That the revised arrangements for follow up of previous recommendations and the current status thereof, as outlined in Section 5, be noted.

(5) That the Audit Committee had considered and approved the changes to the audit reporting arrangements, as detailed in Section 6.

(6) That the Audit Committee had considered the completed audit reports referred to in Section 7 and attached as Appendices C to J of the report, and determined that:

- (i) the audits of Council Tax; Treasury Management; and Systems Administration be received;
- (ii) Members noted the Bereavement Services Action Plan

- (iii) the Car Parking Income Action Plan be received
- (iv) Carlisle Leisure Limited Client Contract:
  - Members were concerned at the restricted assurance rating; but noted the content of the robust Action Plan developed by Internal Audit and looked forward to receiving an update in six months time
  - Members were pleased to note that regular quarterly meetings with CLL and increased monitoring was taking place
  - that the Committee had been made aware of the proposal to create a senior management position with designated contract responsibility within the Community Engagement Directorate
  - that a copy of the Audit Report be forwarded to the Portfolio Holder
- (v) Audit of Recycling:
  - the Director of Local Environment had reassured the Committee that robust action was being undertaken to address the audit recommendations
  - the Committee had received assurance that the contractor had made immediate changes to weighbridge operations in response to the audit review
  - that the proposed new role within the Directorate to look at revised practices on contract management be noted
  - awareness of the issue and links with corporate arrangements within the authority as a whole remained to be determined
  - that a copy of the Audit Report be forwarded to the Portfolio Holder
  - the Committee looked forward to receiving an update at a future meeting
- (vi) Audit of Bring Sites:
  - that the Committee received the Audit Report and Action Plan; together with the assurance from the Director of Local Environment that many of the recommendations had already been addressed
  - that it be noted that the management structure for Waste Services was under review and the issues raised would be taken into consideration and used to formulate the new structure
  - that the Committee noted that security of containers would be reviewed and containers locked where appropriate
  - that the Committee looked forward to receiving a follow up report at a future meeting

(7) That the Committee noted that a separate corporate risk had been identified in terms of the management of external contracts; that the Resources Overview and Scrutiny Panel would continue to monitor contracts; and that this Committee would receive a report outlining the process to develop contract monitoring within the authority at a future meeting.

## **AUC.25/13      TREASURY MANAGEMENT OCTOBER – DECEMBER 2012**

The Chief Accountant submitted report RD.76/12 providing the regular quarterly summary of Treasury Management transactions for the third quarter of 2012/13, including the requirements of the Prudential Code.

The Chief Accountant outlined, in some detail, the outstanding investments as set out in Appendix A3 and explained the colour coding system used by Sector, the Council's Treasury Advisors. He added that investment rates had dropped significantly and were now only 1.1% which would have an impact going forward.

The Executive had on 11 February 2013 received the report (Minute EX.19/13 refers).

The Committee was invited to make any observations on the treasury matters which had taken place during that quarter, although it would be noted that it had been a relatively quiet period in treasury terms.

The Chief Accountant then responded to Members' questions.

RESOLVED – (1) That Report RD.76/12 be received and the good progress in terms of returns on monies invested be noted.

(2) That the Committee was appreciative of the good work undertaken by members of treasury management staff as reflected in the Audit of Treasury Management considered earlier on the agenda.

[The meeting ended at 12.23 pm]





## SPECIAL RESOURCES OVERVIEW AND SCRUTINY PANEL

**TUESDAY 5 MARCH 2013 AT 2:00PM**

- PRESENT:** Councillor Watson (Chairman) Councillors Betton, Bowditch, Bowman S, Craig, Forrester, Mrs Parsons and Whalen.
- ALSO PRESENT** Councillor Mrs Quilter – Culture, Health, Leisure and Young People Portfolio Holder  
Councillors Allison (as substitute for Councillor Mrs Luckley), Earp, Mrs Stevenson and Mrs Vasey (as Members of Community Overview and Scrutiny Panel)  
Martin Horne, Carlisle Leisure Limited  
Andy King, Carlisle Leisure Limited  
Tom Rice, Carlisle Leisure Limited  
David Weakley, Carlisle Leisure Limited
- OFFICERS** Town Clerk and Chief Executive  
Director of Community Engagement  
Director of Resources  
Chief Accountant  
Development and Support Manager  
Policy and Performance Officer  
Scrutiny Officer

### **ROSP.20/13      APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillors Mrs Luckley, Mrs Prest, Miss Sherriff and Dr Tickner – Finance, Governance and Resources Portfolio Holder.

### **ROSP.21/13      DECLARATIONS OF INTEREST**

There were no declarations of interest submitted.

### **ROSP.22/13      PUBLIC AND PRESS**

It was agreed that the items of business within Part B of the agenda should be dealt with in private.

### **ROSP.23/13      REVIEW OF CARLISLE LEISURE FINANCIAL PERFORMANCE** (Public and Press excluded by virtue of Paragraph 3)

Mr King presented slides to the Panel that outlined the historical context to the contract and the key issues. He reminded Members that the contract was a 15 year contract that was won in a competitive bidding process and was due to expire in December 2017. Mr King outlined the areas of leisure for which Carlisle Leisure Limited were responsible within the Carlisle area. That included St James Park which was operated on an annually renewing contract.

Mr King explained how surpluses and savings had been re-invested into facilities or held in reserves for future investment. Monitoring of the contract had been re-established in 2010

and all information requested had been provided on time. Mr King highlighted the awards that had been achieved by Carlisle Leisure Limited and advised that the Sands Centre and Carlisle Pools had been the best performing and third best performing centres in the North West and North East Sport England Regions; the Sands Centre was rated in the top 10 in the UK for customer satisfaction in 2009. All centres had been awarded Cumbria Business Environment Network (CBEN) Gold award for environmental excellence, had improved Display Energy Certificate scores and Net promoter Scores were well above the industry average.

Mr King explained the makeup of the Carlisle Leisure Limited Board, which included 2 Carlisle City Councillors, and the Carlisle Leisure Limited Senior Management team and outlined Carlisle Leisure Limited's vision for Carlisle.

Over the term of the contract both Carlisle Leisure Limited and the City Council had developed the centres and the changes were outlined by Mr King. He acknowledged that some of the facilities required increasing capital spend to keep them open and there was a "price war" as a result of increased, very low cost fitness competition in the city, many of which provided free on site parking. There were also issues with the "in limbo" position at the Sands Centre and the Pools as well as issues raised by customers regarding car parking. The poor weather had been an issue and participation in golf and swimming were declining nationally. The huge increases in utilities costs also needed to be considered.

Carlisle Leisure Limited had been successful in working with a number of partnerships providing activities to 1.1million visitors per year and had introduced several new programmes, including the Fab 'n' Fifty programme which had been acclaimed internationally by the World Health Organisation (WHO). As a result of the partnership working Carlisle Leisure Limited had been able to attract external funding and employ a number of apprentices. Carlisle Leisure Limited had also injected significant capital into new technology for both sports equipment and telephone/on-line booking equipment.

Carlisle Leisure Limited had worked with the City Council to create the Carlisle Sport and Physical Activity Alliance Foundation (SPAAF) which had accomplished a number of key programmes.

Mr Rice explained that based on the deal types that Carlisle Leisure Limited could flexibly negotiate, they were able to bring leading artists and productions to the city that other external organisation would not risk. Mr Rice presented an analysis of where ticket purchasers lived and as an example cited the recent production of Blood Brothers for which over 70% of ticket purchasers were outside the Carlisle area. Mr Rice presented testimonials from restaurant and bar owners who stated that they had seen their busiest periods during major events at the Sands Centre.

Mr King highlighted some of the future opportunities that Carlisle Leisure Limited were looking towards. Mr King summarised Carlisle Leisure Limited's current position and stated that they were happy to meet with Officers and Members to resolve any issues.

In considering the issues Members raised the following questions and comments:

*As there was competition for fitness facilities in Carlisle would Carlisle Leisure Limited consider allowing someone else to take responsibility and focus on other areas?*

Mr King acknowledged that some of the facilities were dated but they suited Carlisle Leisure Limited's customers. The Leisure Access card was available and there was a reduction in price for those on benefits. Exercise and referral schemes were available that other organisations did not have and Mr King was certain that service levels were better than those in the private sector. With the right investment into the Sands Centre, he was confident that Carlisle Leisure Limited could fight back.

*The report indicated that the running of Carlisle Leisure Limited had cost more than the Management Fee paid to it by the City Council. What were Carlisle Leisure Limited doing to balance those figures?*

Mr King explained that there were a number of reasons for the current situation and that a lot of the facilities in Carlisle were weather dependent. Mr Weakley explained that the Management Fee was retained in the Head Office costs.

*Members were anxious that the contract was monitored in a proper manner in the future.*

Mr King stated that Carlisle Leisure Limited were trying to bring costs down and the largest investment had been in new gym equipment and ground maintenance equipment which would partly explain the losses to the City Council.

*With regard to St James Park what were the main costs?*

Mr King explained that the main costs were ground maintenance and staffing. The park was part of an annual rolling contract which made it difficult to consider future investment.

*It is important that all sides work together to solve financial issues and look at ideas to provide a better service to the residents of Carlisle.*

*How would the deficit from last year be avoided this year?*

Mr King advised that last year was difficult mainly due to the poor weather. In the coming year it was anticipated that more shows would be brought to the Sands Centre. He confirmed that facilities would not be cut without Officers' knowledge and stated that he believed that Carlisle Leisure Limited could grow their way out of the difficulties.

The Chairman thanked the representatives from Carlisle Leisure Limited for their input into the meeting. The representatives left the meeting.

The Chief Executive stated that discussions in the meeting had been open and transparent and believed that Carlisle Leisure Limited were doing a good job. He advised that he had regular meetings with Mr King to catch up and discuss any problems but he was reassured by the presentation and discussions at the meeting. The Director of Resources explained that Mr King was not involved in the operational day to day running of Carlisle Leisure Limited.

Members were satisfied with the discussions that had been held and were made aware that when the contract was due to expire a further tendering exercise would be undertaken for which Carlisle Leisure Limited could apply. There was no scope to extend the term in the current contract.

The Chairman confirmed that Officers had the support of the Overview and Scrutiny Panels as well as the Council as a whole.

RESOLVED – 1) that the Panel will consider the Audit Report when it is received.

2) That the Panel welcome the suggestion of an annual review and intend to scrutinise this review and will invite representatives from Carlisle Leisure Limited.

3) That the Panel reiterated their concerns about the lack of contract monitoring in the past and looked forward to more robust monitoring in the future.

(The meeting ended at 4:20pm)

(Approved by Council 4 April 2013)

## **RESOURCES OVERVIEW AND SCRUTINY PANEL**

**THURSDAY 4 APRIL 2013 AT 10.10AM**

**PRESENT:** Councillor Watson (Chairman) Councillors Betton (until 10.55am), Bowditch, Bowman S, Craig, Forrester, Mrs Parsons and Whalen.

**ALSO PRESENT** Councillor Tickner – Finance, Governance and Resources Portfolio Holder

**OFFICERS** Town Clerk and Chief Executive  
Deputy Chief Executive  
Director of Resources  
Organisational Development Manager  
Scrutiny Officer

### **ROSP.24/13 APOLOGIES FOR ABSENCE**

There were no apologies for absence submitted.

### **ROSP.25/13 DECLARATIONS OF INTEREST**

There were no declarations of interest submitted.

### **ROSP.26/13 CALL-IN OF DECISIONS**

There were no items which had been the subject of call-in.

### **ROSP.27/13 MINUTES OF PREVIOUS MEETING**

In considering the minutes of the meeting held on 21 February, Members noted that an update on the review of the Asset Review Disposal Programme had been expected at this Panel. Members asked when a report would be submitted.

The Town Clerk and Chief Executive reminded that negotiations for the Land at Morton were still ongoing. The Finance, Governance and Resources Portfolio Holder added that the review of the strategy had caused the delay in a report being submitted at the present time.

**RESOLVED** – 1) That the minutes of the meeting held on 4 December 2012 and 3 January 2013 be agreed as a correct record of the meeting and signed by the Chairman.

2) That the minutes of the meeting held on 21 February 2013 and 5 March 2013 be noted.

### **ROSP.27/13 OVERVIEW REPORT AND WORK PROGRAMME**

The Scrutiny Officer presented report OS.08/13 which provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel's work.

The Scrutiny Officer reported:

- The Notice of Key Executive Decisions had been published on 8 March 2013 and the following issues fell within the remit of the Panel:

KD.03/13 – Vehicle and Plant replacement Provision 2013/14.

KD.05/13 – Planned Enhancements to Council Properties.

The Executive will be asked to consider both items at their meeting on 8 April 2013.

Members asked for more detail on the two Key Decision items. The Director of Resources reminded the Panel that the Council had a five year Vehicle Replacement Plan, the £259,000 that the Executive had been asked to release was for green space vehicles and he agreed to provide Members with a list of the vehicles which were being replaced alongside a copy of the mechanical sweeper work plan. He also agreed to provide a list of scheduled building enhancements.

- There were no references from the Executive.
- The Scrutiny Annual Report had been drafted and was attached to the report. Members were asked to comment on the draft report before it was formally approved by the Scrutiny Chairs Group on 18 April 2013.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel OS.05/13 be noted.

2) That the Director of Resources circulate the following information to all Members:

List of vehicles to be replaced  
Copy of the mechanical sweeper work plan  
List of scheduled building enhancements

## **ROSP.28/13      SAVING PAPER TASK GROUP**

The Scrutiny Officer submitted report OS.09/13 regarding the recommendation of the Task Group.

The Scrutiny Officer reminded the Panel that a recommendation of the Saving Paper Task Group had been to undertake a pilot of using Tablet technology in Committee meetings. Ten Members had taken part in the pilot and, on the whole, the pilot had been successful. The pilot Members had used MyCMIS, which was a web portal which provided Members customised access to the Committee Management Information System (CMIS). The MyCMIS portal allowed Members to access the Committees they were on but allowed no access to the rest of the meetings.

The Committee Section had worked hard to change the way agendas and reports were uploaded to CMIS and all documents were produced in a document pack which enabled Members to download all the necessary papers for Committee in one document.

Due to the change in the document pack Members of the pilot felt that the MyCMIS portal was not necessary and Members could access the full CMIS site from their tablets. The software providers had agreed to refund the cost of the licences that had been purchased for the pilot but would retain one 'ghost' licence for the Committee team. The 'ghost'

licence would allow the MyCMIS portal to be monitored for updates in the coming months and would give the Council the opportunity to review potential of the portal in the future.

The Lead Member of the Saving Paper Task Group concurred that the pilot had been successful and the Members who had struggled with the tablet did so because they had not spent enough time practising with it. He informed the Panel that the pilot members had met for an evaluation meeting and this had been extremely useful as an opportunity to raise issues and share ideas and information. He added that the move to tablets could enable IT to look at other possible savings regarding Members equipment. He moved that the Executive appointed someone to role the project out to Members.

The Finance, Governance and Resources Portfolio Holder reported that he had been part of the pilot and he agreed that the best way to learn how to use tablets was by practising on them. He suggested that a salary sacrifice scheme be arranged for officers to purchase tablets as well as Members. He thanked officers who had been involved in the pilot for their support and for their speed in responding to issues.

The Town Clerk and Chief Executive responded that salary sacrifice schemes for tablets were possible within the public sector. He added that he was using tablet technology for meetings and had found it to be an effective way of working.

In considering the report Members raised the following comments and questions:

- A Member felt that it would be useful to know how much the pilot had saved and felt that savings should be given to officers for additional support in moving towards paperless meetings. He also felt that there should be a clear training plan for Members who wanted to move to tablet technology.

The Panel discussed the options for training and some Members felt that more formal training would encourage Members to move towards tablet technology. Members also felt that informal training from other Members and officers, alongside regular drop in sessions would be beneficial.

- The Panel felt that it would be useful to have the document pack on screen in the committee rooms during the committee meetings.

The Chairman agreed that using the screens during committees would be beneficial to Members but would require a different way of working.

RESOLVED - 1) That due to the agreement not to make use of MyCMIS the Panel agree changes to recommendation 2 of the Task Group to:

“Should the pilot be successful then the use of tablets should be rolled out to all Members and Officers who indicate that they wish to move to paperless working. Consideration needs to be given to training and support. These Members and Officers should no longer be provided with paper Committee reports.”

2) That the Town Clerk and Chief Executive undertake to implement recommendations two and three of the Saving Paper Task Group as detailed in 2.1 of report OS.09/13.

## **ROSP.29/13      TRANSFORMATION BOARD**

The Deputy Chief Executive presented report SD.04/13 informing Members on the work of the Transformation Board.

The Deputy Chief Executive reported that the Transformation activity in 2012/13 had focused on delivering the required savings of £1.38m as set out in the Medium Term Financial Plan. The initial process had been to deliver 10% savings across all Directorates. The new Administration had made some changes to the proposals in order to minimise redundancies. The resulting programme of work was co-ordinated and monitored by the Transformation Board.

He summarised the activity of each Directorate highlighting the savings identified and outlined other transformation activities which had been closely monitored by the Transformation Board including the Automating Services project and Lean Systems Reviews which have taken place.

In considering the report members raised the following comments and questions:

- A Member said that in his opinion the report should include more information on how the savings had been achieved and what the different reviews entailed to enable further scrutiny.

The Town Clerk and Chief Executive explained that the purpose of the report was to report the savings that had been achieved so far and Members could gain more detailed information on any items they so wished.

- Did the Transformation Board report to the Executive and how often did it meet?

The Deputy Town Clerk reported that the Transformation Board feedback directly through Senior Management Team and Joint Management Team with individual Directorate saving plans being considered by Executive to fit in with the budget process. He added that the Board had a good, open and transparent process which allowed work to be done at an early stage.

The Finance, Governance and Resources Portfolio Holder added that the Board was made up of people in the authority who could make changes happen and retain the quality in service. The policies and strategies come from the Executive, for example the policy to minimise the number of redundancies within the authority. It was difficult to make the savings required and it could only be achieved by the Executive working with officers and involving staff.

- A Member raised concerns that the Lean System Review of Development Control could impact on the service that was being provided.

The Deputy Chief Executive responded that Lean System Reviews would not compromise change in legislation or capacity in Development Control. The Review would identify potential savings and ensure that there was the capacity to adapt to changes in legislation. The focus of Lean Systems was to check if the systems in place were still the correct and most efficient ways of working.



- Would the reduction in the training budget effect the proposed savings from the use of tablet technology?

The Town Clerk and Chief Executive explained that if training allowed for savings to be made by using tablet technology then it would be money well spent.

The Finance, Governance and Resources Portfolio Holder stated that the training budget had been reduced but the Council was using the reminding budget more smartly by sharing training and by producing trainers within the authority.

- Did the £592,000 savings identified have to be found in 2013/14 and was there a plan to achieve the savings?

The Director of Resources confirmed that the savings had to be found in 2013/14 and it was hoped that this would be achieved by September/October.

The Deputy Town Clerk added that the Joint Management Team would meet to review the savings and to set in motion a timetable for the savings in partnership with the Transformation Board. He agreed to report back to a future meeting with the details of the proposed savings. He acknowledged that officers did need to pay attention to the stress and disruption of staff during the process.

- Had any further work been undertaken on closing floors within the Civic Centre?

The Finance, Governance and Resources Portfolio Holder confirmed that officers were monitoring office space usage within the Civic Centre with the view of letting out spare capacity when opportunity arose.

- Was the use of consultants being monitored?

The Finance, Governance and Resources Portfolio Holder explained that the use of consultants had to be agreed by the relevant Portfolio Holder and, although they had to be used on occasion, the Portfolio Holder monitored why they were required and the overall use.

RESOLVED – That the update on the Transformation Board be welcomed.

## **ROSP.30/13      EMPLOYEE OPINION SURVEY 2013**

The Organisational Development Manager presented report CE.04/13 summarising the results from the 2013 Employee Opinion Survey.

The Organisational Development Manager informed the Panel that the 2013 Survey had been sent to staff in January 2013. 254 surveys had been completed giving a response rate of 42.1% compared with 54.7% in 2012. A copy of the survey had been included in the report.

One of the key issues arising from the 2012 survey had been that only 46% of staff had felt valued at work. In 2013 53% of staff said that they felt valued as an employee, this was a positive result but there was more to do on this issue. The most popular reason for staff not feeling valued had been that they felt nothing had changed in the last year.

The Organisational Development Manager gave an overview of the key findings from the survey and explained that there had not been a key issue which all staff were concerned about although there were some issues specific to directorates which would be considered by the Directors with support from the Organisational Development Team.

She added that further work would take place to continue to improve internal communication and Health and Wellbeing initiatives would continue to take place.

In considering the Survey results Members raised the following comments and questions:

- The report stated that 89.4% of staff felt that the City Council was good employer yet only 53% of staff felt valued.

The Town Clerk and Chief Executive reminded the Panel that staff feeling valued had been a very big issue in 2012 and he had followed up the results of the survey by identifying the reasons that staff did not feel valued. Some of the issues had been straight forward to resolve and some issues had been out of the control of the Council. Overall there had been an increase in staff feeling valued.

- The report stated that 11.4% of staff were subjected to bullying at work; how would the Council address this very serious issue?

The Town Clerk and Chief Executive responded that, although the number was relatively low, it was a cause for concern that there was a number at all. Follow up work was required to determine what was generally unacceptable behaviour, what was awkward management and what was a feeling of bullying when it was actually a reasonable expectation of performance.

- A Member highlighted that 60% of staff had not completed the survey.

The Town Clerk and Chief Executive responded that work was being undertaken to determine why staff were not participating in the survey and how to encourage staff to complete it.

The Deputy Chief Executive explained that the results of the survey had been broken down to each Directorate so each Director could respond to issues in their own area.

RESOLVED – That the results of the Employee Opinion Survey 2013 be welcomed.

## **ROSP.31/13      CORPORATE RISK MANAGEMENT**

The Deputy Chief Executive submitted report SD.03/13 giving an update on the Corporate Risk Register.

The Deputy Chief Executive reported that the Senior Management Team and Corporate Risk Management Group had drafted a new Corporate Risk Register which included significant risks to achieving the City Council's objectives for 2013/14. The actions required to mitigate the risks had been developed with an indication as to when the risk would reduce, by identification of a 'target risk'. The City Council was unable to eliminate risk completely by carrying out mitigation action and would be left with a residual risk. Such risk could be deleted from the Corporate Risk Register once mitigating action had

reduced the risk to target levels but they would continue to be monitored at service level via operational risk registers.

In considering the Corporate Risk Management report Members raised the following comments and questions:

- Members felt that the Asset Disposal Plan was an important risk that had not been included in the register.

The Town Clerk and Chief Executive explained that Asset Management had previously been included in the risk register because there was no plan to manage the assets. The Council had a robust Plan to manage the Council's assets and as a result the risk was reduced and was no longer a corporate risk.

The Director of Resources added that the Plan remained in the Operational Risk Register and was monitored by officers. If the risk rose it would move from the Operational Risk Register to the Corporate Risk Register.

- A Member felt strongly that the biggest risk for the Council at the present time was the Welfare Reform and was concerned that the Council could not deal with the impact.

The Deputy Chief Executive agreed that the Welfare Reform was a significant risk and that is why it had been included in the Corporate Risk Register. He added that the Welfare Reform Board had been set up to deal with the co-ordination of the move to Universal Credit.

The Director of Resources added that the Welfare Reform fell under the remit of the Community Overview and Scrutiny Panel and they had received several reports on the issue.

A Member asked for more information on the impact of the benefits advice service including how much was spent on the service and how much benefits it brought it.

The Director of Resources agreed that a report to a future meeting on the benefits advice centre and monitoring information.

A Member commented that he was disappointed that the media had not attended the meeting to hear about the hard work that the Council was undertaking especially with regard to Welfare Reform.

RESOLVED – 1) That the update on the Corporate Risk Register be welcomed;

2) That a report on the effect of the Welfare Reform on the Benefits Advice Service be submitted to the Resources Overview and Scrutiny Panel as well as the Community Overview and Scrutiny Panel.

(The meeting ended at 12.00pm)

## **RESOURCES OVERVIEW AND SCRUTINY PANEL**

**THURSDAY 6 JUNE 2013 AT 10.00AM**

**PRESENT:** Councillor Watson (Chairman) Councillors Betton, S Bowman, Mrs Bradley, Craig, Forrester (as substitute for Councillor McDevitt) Layden and Miss Sherriff (until 11.00am as substitute for Councillor Mrs Atkinson).

**ALSO PRESENT** Councillor Allison - Observer

**OFFICERS** Town Clerk and Chief Executive  
Director of Resources  
Director of Community Engagement  
Director of Governance  
Policy and Performance Officer  
Housing Development Officer  
Scrutiny Officer

### **ROSP.32/13 APOLOGIES FOR ABSENCE**

Apologies for absence were submitted on behalf of Councillor Mrs Atkinson, Councillor McDevitt and Councillor Tickner – Finance, Governance and Resources Portfolio Holder.

### **ROSP.33/13 DECLARATIONS OF INTEREST**

Councillor Miss Sherriff declared a registrable interest in accordance with the Council's Code of Conduct in respect of agenda item A.3 Audit report on Carlisle Leisure Limited Contract Monitoring. The interest related to the fact that she was one of the City Council's representatives on the Carlisle Leisure Board.

Councillor Layden declared a registrable interest in accordance with the Council's Code of Conduct in respect of agenda item A.7 Corporate Programme Board. The interest related to the fact that he was one of the City Council's representatives on the Riverside Carlisle Board.

### **ROSP.34/13 CALL-IN OF DECISIONS**

There were no items which had been the subject of call-in.

### **ROSP.35/13 MINUTES OF PREVIOUS MEETING**

**RESOLVED** – That the minutes of the meetings held on 21 February and 5 March 2013 be agreed as a correct record of the meeting and signed by the Chairman.

### **ROSP.36/13 OVERVIEW REPORT AND WORK PROGRAMME**

The Scrutiny Officer presented report OS.14/13 which provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel's work.

The Scrutiny Officer reported:

- The Notice of Key Executive Decisions had been published on 1 May 2013 and the following issues fell within the remit of the Panel:

KD.010/13 – Medium Term Financial Plan (including the Corporate Charging Policy) and the Capital Strategy 2014/15 to 2019/20

KD.012/13 – Asset Management Plan 2013 to 2018

Both items would be available for scrutiny on 29 August 2013.

Members did not raise any questions or comments on the items contained within the Notice of Key Decisions.

- Reference EX.33/13 – Draft Carlisle Plan 2013-2016 from the Executive on 8 April 2013 was included in the report.

- The Panel were asked to consider matters to be included in the 2013/14 work programme along with potential Task and Finish Group subjects. The Panel were reminded that the Benefits Advice Service had been included on the Work Programme at the request of the previous meeting. It was agreed that a report on the Service would be included in the Welfare Reform reports being considered by the Community Overview and Scrutiny Panel, a copy of which would be circulated to the Resources Panel.

A Member asked when the Asset Management Business Plan would be available for scrutiny. The Town Clerk and Chief Executive reminded the Panel that the Executive were reviewing the Business Plan and it would be available for scrutiny when they had finished.

A Member requested that extra thought be given to the 2013/14 Employee Opinion Survey as he felt that the response rate had been low. The Town Clerk and Chief Executive disagreed that the response rate had been low. Over half the staff had responded and officers had gathered useful data from the survey.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel OS.14/13 be noted.

2) That the following Key Decisions considered by the Panel at their meeting on 29 August 2013:

KD.010/13 – Medium Term Financial Plan (including the Corporate Charging Policy) and the Capital Strategy 2014/15 to 2019/20

KD.012/13 – Asset Management Plan 2013 to 2018

3) That Minute Excerpt EX.33/13 Draft Carlisle Plan 2013-2016 be noted.

## **ROSP.37/13      AUDIT REPORT ON CARLISLE LEISURE LIMITED (CLL) CONTRACT MONITORING**

The Director of Resources submitted report RD.17/13 which provided the audit report on Carlisle Leisure Limited (CLL) Contract monitoring.

The Director of Resources outlined the key findings arising from the Audit of the Carlisle Leisure Limited (CLL) Client Contract.

The Director of Community Engagement provided an overview of progress on the action plan to date, emphasising that a number of very significant changes were being undertaken to address the audit recommendations. The Carlisle Leisure Limited contract was due to terminate in 2017 and it was therefore timely to consider how that would be handled, including risks to the authority.

He added that certain of the recommendations had already been actioned and he was confident that all would be complete within the allotted timeframe.

In considering the Audit Report Members raised the following comments and questions:

- Was the 'Date Actioned by' column in the Summary of Recommendations and Action Plan an actual timescale for the actions to be completed by or an aspirational timescale?

The Director of Community Engagement responded that the timescales were not aspirational and he assured the Panel that the completion dates for the actions were on target with the exception of R2. Interviews had taken place for the contract monitoring position but an appointment had not been made. The position would be advertised and would not cause any delay in the monitoring of the contract.

- What was the required criteria for the contact monitoring role?

The Town Clerk and Chief Executive explained that the lack of corporate contract monitoring expertise within the authority was a weakness. There was a role in the Community Engagement Directorate for someone with leisure experience alongside that there was also a requirement for someone with more commercial experience. Discussion had been undertaken with the Executive and Audit to consider whether the authority should have a corporate monitoring role or if it should be accessed through shared working with other authorities. There had been initial discussions with Cumbria County Council who already provided contract monitoring for other district councils.

A Member had concerns that the City Council would lose control when commissioning services if another authority managed the contract. The City Council had considerations other than financial and they may not be included in standard contracts.

The Town Clerk and Chief Executive responded that the County Council would be working to specifications set by the City Council and they would be working on a consultant basis.

The Town Clerk and Chief Executive highlighted R9 of the action plan. He agreed that a 'lessons learnt' report was valuable but disagreed that contracts should specify how monies should be spent. He felt that contracts should specify the amount of money to be used and what the expected outcome was, the added value to the contract was that the supplier worked in a different way to the authority. He asked the Panel to give some consideration to the recommendation and how it could be moved forward in the future.

A Member commented that the recommendation may have come from the information in the body of the report which raised issues with CLL's expansion into West Cumbria and ensuring that the City Council's monies were used in Carlisle.

- The Panel sought assurance that CLL were providing the required financial information for performance monitoring.

The Director of Resources confirmed that CLL had provided the required information and added that the Chief Accountant now attended the quarterly meetings.

RESOLVED – That the Audit Report on Carlisle Leisure Limited Contract Monitoring (RD.17/13) be noted.

### **ROSP.38/13 TREASURY MANAGEMENT COUNTERPARTIES**

The Director of Resources submitted report RD.08/13 concerning Treasury Management Counterparties.

The Director reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Director of Resources outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

A further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs.

The Executive had on 7 May 2013 (EX.43/13) considered the report and decided:

“That the Executive:

1. Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
2. Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.”

RESOLVED – That the Treasury Management Counterparties report (RD.08/13) be noted.

### **ROSP.39/13 PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13**

The Director of Resources presented report RD.12/13 summarising the provisional outturn for the 2012/13 General Fund Revenue Budget. He informed Members that the outturn position showed that the net underspend for Council services as at 31 March 2013, once committed expenditure totalling £696,400 and £312,697 transfers to / from earmarked reserves were taken into account, was £75,247.

The table at Section 2.1 of the report showed that the Council's revised budget for 2012/13 was a total of £14,577,700. A summary of the expenditure for individual Directorates and an explanation of the major variances in those budgets were provided. Also itemised were the budget headings which had achieved savings and provided increased income.

Turning to the key issues, the Director of Resources reported that the Government's Welfare Reform Agenda, once fully implemented would have a major impact on the benefit system, including a household benefit cap and the introduction of the Universal Credit system which would subsume housing benefit (by 2017). In the medium to longer term the Council would have to significantly reduce staff resources working on benefits administration. Whilst staff redeployment policies would reduce the impact of the changes, there were likely to be voluntary / compulsory redundancies in the Section. He proposed therefore that a Welfare Reform Reserve be established and the unused balance of £200,000 (accrued from underspends on staffing and other savings) be transferred to the Reserve to fund such costs. It was further recommended that management of the Reserve should rest with the Director of Community Engagement with the use of the Reserve requiring Executive approval. The Executive had been asked to make a number of recommendations to Council as set out in the report.

The Director of Resources circulated details of the carry forward requests which had been submitted by Directorates, he advised that, due to the level of underspend identified within the report after all carry forward requests were approved and transfers to / from earmarked reserves, approximately £75,200 would be returned to the General Fund Reserve. That would replenish the usable revenue balances by 31 March 2015 to the minimum required.

In accordance with revised Capital Finance Regulations, costs associated with asset disposal totalling £62,994 which were included in the revenue outturn, could be funded from the capital receipt generated. That would result in an increase to revenue balances at 31 March 2013.

The Director of Resources pointed out that the information contained within the report was provisional and subject to the formal audit process.

The Executive had on 31 May 2013 (EX.48/13) considered the report and decided:

“That the Executive:

- (i) Noted the net underspend as at 31 March 2013 of £75,247 after carry forwards as in (ii) below, and net transfers to/from earmarked reserves as noted in (iii), (iv), (v) and (vi) below;
- (ii) Noted the committed expenditure totalling £696,400 to be met in 2013/14 which had been approved by the Director of Resources and under delegated powers, and the release of £677,400 in 2013/14 and £19,000 in 2014/15 from the General Fund Reserve, for recommendation to Council;
- (iii) Recommended that the City Council release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve, as detailed in paragraph 4.1,
- (iv) Recommended that the City Council release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve, as detailed in paragraph 4.2;
- (v) Recommended that the City Council write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances as outlined in paragraph 4.3;



- (vi) Recommended that the City Council top up the Transformation Reserve with £200,000 from the underspend position, as set out in paragraph 4.4;
- (vii) Recommended that the City Council approve the establishment of the Municipal Mutual Insurance provision for £175,000 as outlined in paragraph 4.5; and
- (viii) Recommended that the City Council approve the establishment of the Welfare Reform Reserve, as detailed in paragraph 4.6, noting that £200,000 would be transferred to the reserve as part of the year end process."

In considering the report Member raised the following comments and concerns:

- A Member asked for an explanation of the expected sum of £3.5m next to Education in the Commuted Sums 2012/13 table.

The Director of Resources agreed to submit a written response to the Panel.

- Would Allerdale and Copeland Borough Councils be contributing to the Welfare Reform Reserve?

The Director of Resources confirmed that both Councils would share the cost of redundancies due to welfare reform.

- Why was the outstanding balance on the On Street Parking account being written off?

The Director of Resources explained that the deficit belonged to the City Council and the County Council was not obliged to pay it, as a result it would be written off.

RESOLVED - That the recommendations as set out in the Provisional General Fund Revenue Outturn 2012/13 Report (RD12/13) be agreed.

#### **ROSP.40/13 PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL PROGRAMME 2013/14**

The Director of Resources presented report RD.11/13 summarising the Provisional Outturn for the Council's Capital Budget, together with details of the revised Capital Programme for 2013/14. He informed Members that the outturn showed that the net underspend for Council services as at 31 March 2013 once committed expenditure totalling £1,822,500 was taken into account was £1,596,953. He added that requests had been made for carry forwards for new items of expenditure totalling £6,200, and also the removal of the Asset Management Plan expenditure budgets of £1,546,800 from the capital programme, which would result in a net underspend of £43,953.

The Director of Resources set out the position with regard to carry forward requests on the Capital Programme. He also identified for Members the resources which had been used to fund the 2012/13 Capital Programme and detailed the 5 year Capital Programme for the period 2013/14 to 2017/18. He reported that the programme for 2013/14 totalled £4,760,200 based upon the programme agreed by Council in February 2013 of £9,280,000; the commitments brought forward from 2012/13 of £1,822,500; an additional budget of £6,200 for continuing / new schemes subject to approval by Council, less budget provided of £76,000 in ICT Shared Service for Enterprise Licences, and less land and property acquisitions within the Asset Management Plan to be held in reserves until suitable revenue generating acquisitions became available (£6,272,500).

The 2013/14 programme would be continually reviewed to ensure the Council had the capacity to deliver that level of programme. The main challenge for future years related to the vehicle replacement programme (currently planned to be funded by internal borrowing).

The proposed funding arrangements for the revised 2013/14 programme were also outlined within the report.

The Executive had on 31 May 2013 (EX.49/13) considered the report and decided:

That the Executive:

- (i) Noted that, subject to all recommendations below being approved, the net underspend would be £43,953.
- (ii) Noted the net underspend as at 31 March 2013 of £1,596,953 included committed expenditure to be met totalling £1,822,500 in 2013/14, which had been approved under delegated powers by the Director of Resources;
- (iii) Recommended that the City Council on 16 July 2013 approves the carry forward requests of £6,200 for new items of expenditure for furniture and equipment at Play Areas as detailed in paragraph 2.5;
- (iv) Recommended that the City Council on 16 July 2013 approves the removal of the Asset Management Plan expenditure budgets from the Council's capital programme (£1,546,800 from 2012/13, £6,272,500 from 2013/14, £1,035,800 from 2014/15 and £4,045,500 from 2015/16) to be released back from reserves on approval by the Executive when revenue generating opportunities for land and property acquisitions became available.
- (v) Noted the use of the Conservation Fund to fund expenditure on Central Plaza and the Asset Management Reserve to fund expenditure on Industrial Estates, Asset Management Plan and Community Resource and Training Centre in 2012/13;
- (vi) Had considered the revised programme for 2013/14 together with the proposed methods of financing, as detailed at paragraph 5.2 and Appendix B, for recommendation to Council on 16 July 2013.

In response to a question the Director of Resources confirmed that the Town Hall project was on target.

RESOLVED – That the Provisional Capital Outturn 2012/13 and Revised Capital Programme 2013/14 (RD.11/13) be noted.

### **ROSP.41/13 TREASURY MANAGEMENT OUTTURN 2012/13**

The Director of Resources presented report RD.13/13 providing the annual report on Treasury Management, as required under both the Financial Procedure Rules and the CIPFA Code of Practice on Treasury Management. He also submitted the regular report on Treasury Transactions for the period 1 January 2013 to 31 March 2013. Members' attention was further drawn to developments in the Money Markets over the previous twelve months and their effect on the Council's investments, together with the various performance statistics included within the report.

He added that although investment conditions were, in one sense, as exceptional in 2012/13 as had been the case during the previous year, they were very different as investors coped with some of the lowest interest rates ever seen in the world economy.

Although the effect on the City Council's investment interest was slightly down on the previous year, the performance achieved was significantly better than bank base rate levels. For this authority, as indeed for most others, the reduction in investment income posed a very significant financial challenge.

Although the outlook for interest rates in the UK remained uncertain, there was a general expectation that rates would not start to rise again until well into 2015.

The Executive had on 31 May 2013 (EX.50/13) received the report and recommended it to the City Council for approval.

The Director of Resources explained that the Council made short term investments as longer term investments would tie money up for 4 years and the Council planned to use some money for the capital programme within that time.

RESOLVED – That the Treasury Management Outturn 2012/13 report (RD.13/13) be noted.

### **ROSP.42/13 PROVISIONAL OUTTURN FOR COUNCIL TAX AND NATIONAL NON DOMESTIC RATES 2012/13**

The Director of Resources presented report RD.14/13 setting out the 2012/13 provisional outturn and performance position for Council Tax and National Non Domestic Rates.

He informed Members that the estimated outturn of 97.8% suggested that overall liability raised and Council Tax collected would again exceed the budgeted projections of 98.5% (if the collection pattern for recovering 2012/13 arrears followed that of previous years). The impact of increased collection performance was an overall surplus on collection fund of £492,315, the City Council's share of the surplus being £64,929.

The Director of Resources pointed out that the Council had maintained collection performance so that for the third year running Carlisle was in the 3rd quartile when compared to districts nationally. Whilst that was the Council's best ever performance, the Council would never be in a position to move into the higher collection quartiles for the reasons set out at Section 3.1 of the report.

He added that year-end arrears of £934,895 equating to 1.42% of the 'in year' debit collectable was an improved performance when compared to 2011/12 of £1,410,689.95 (2.2%).

In accordance with the Director of Resources' delegated authority for the write-off of outstanding debts (without limit), the Executive was asked to note that debts totalling £174,115.19 had been written off for the period 1 January 2013 to 31 March 2013. The total amount written off in 2012/13 of £527,001 compared to total write-offs in 2011/12 of £422,616.

The Executive had on 31 May 2013 (EX.51/13) considered the report and decided:

“That the provisional outturn position at 31 March 2013 for Council Tax (which evidenced the best ever collection performance since Council Tax was introduced) and National Non Domestic Rates; together with the position with regard to write offs and bad debt trends be noted.”

The Panel expressed well deserved thanks to the Officers involved in the excellent collection performance.

RESOLVED – That the Provisional Outturn for Council Tax and National Domestic Rates 2012/13 report (RD.14/13) be noted.

#### **ROSP.43/13 ELECTED MEMBERS' ALLOWANCES – PROVISIONAL OUTTURN REPORT FOR 2012/13**

The Director of Resources presented report RD.15/13 setting out the amount of allowances paid to Members as part of the Elected Members' Allowances Scheme for 2012/13. He informed Members that £343,088 had been paid in allowances to individual Members which represented an underspend of £24,012.

The Executive had on 31 May 2013 (EX.52/13) considered the report noted the Elected Members' Allowances for 2012/13.

RESOLVED – That the Elected Members' Allowances – Provisional Outturn Report for 2012/13 be noted.

#### **ROSP.44/13 2012/13 END OF YEAR PERFORMANCE REPORT**

The Policy and Performance Officer presented report PC.12/13 setting out the end of year performance against the 2012/13 Service Standards.

The Policy and Performance Officer reminded the Panel of the introduction of the Service Standards which were based on timeliness, accuracy and appropriateness of the service the Council provided in key areas.

The table attached to report PC.12/13 showed that the majority of standards demonstrated consistently good performance throughout the year, and in the case of 'Processing New Benefit Claims', significant improvement month on month. One standard which had appeared to show deterioration in performance was the 'Percentage of Waste Sent for Recycling'. This had been due to very little garden waste collected in the winter months. This was a cyclical pattern that occurred every year.

The Panel asked for the reasons behind the missed waste collections in January and if the proposed changes to the waste service would impact the figures.

The Policy and Performance Officer reported that there had been 26 missed collections, mainly due to severe weather. The number of missed collections was lower than the Industry Standard of 40 per 100,000. The proposed changes to the waste service would make a minor improvement on the performance figures.

The Town Clerk and Chief Executive highlighted the service standard for processing new benefit claims in less than 28 days. In the past the performance in the service had been poor. This could affect the most vulnerable people and he felt that the improvement in the standard was a real success story. The Policy and Performance Officer added that the majority of the claims which had not been processed within 28 days was due mainly to the Council waiting on information from claimants and other organisations.

RESOLVED – That the 2012/13 End of Year Performance report (PC.12/13) be noted.

## **ROSP.45/13 CORPORATE PROGRAMME BOARD**

The Town Clerk and Chief Executive presented report CE.05/13 providing the most recent update of projects being undertaken.

The Town Clerk and Chief Executive reported that the City Council was implementing Microsoft Project as the software system used for project management and the use of the Covalent system for project management would be phased out. Project plans would be developed for all Council projects and would include officer time allocated to project tasks. The resource would be taken from a central resource pool and would highlight over allocation of resources. Many of the Council projects shared resources and some projects were linked to other projects which allowed for better co-ordination and scheduling of reports.

The Corporate Programme Board would make decisions regarding the rescheduling/prioritising of projects where bottlenecks were evident and be able to model the impact of new projects on the programme of work.

In considering the dossier of projects Members raised the following comments and questions:

- Was the delay to the Dalton Avenue project due to the partnership between Lovell and a Registered Provider?

The Director of Community Engagement confirmed that there had been some delay due to the search for a partner for the project. The City Council would help ensure the relationship between Lovell and the Registered Provider worked. It had been important to give Lovell and the Registered Providers the freedom to understand the market. The HCA had fortified the project and wanted it to work.

The Housing Development Officer explained that the land was part of a wider Lovell partnership. Lovell had placed a bid with HCA and that funding sat with Lovell. The Council had been an equal partner when choosing the houses in the scheme with Lovell and the HCA, but it was critical that a registered provider was satisfied with a final scheme mix too. There would be 37 affordable homes for rent within the scheme.

- A Member commented that he would like to see an increase in the number of successful prosecutions for littering, fly tipping and dog fouling.
- A Member highlighted and made comments and raised questions on the following projects:  
*Sports and Leisure Needs Assessment* – Who would pay for the proposed developments? Would there be any borrowing for the developments or would the money come from the sale of the Morton land? Was there a breakdown of costs? The Member felt that there was enough competitive places for health and fitness, the money be better spent on social housing. How could the Council afford to do the project when the sports development posts had been reduced to one person? Would there be consultation with users and members of the public on existing facilities?

The Town Clerk and Chief Executive clarified that the project in the dossier was to deliver an assessment of sports and leisure needs. There had always been questions regarding the location of the pool, whether it should remain where it was and undertake the work required to update it or move it to one site with leisure facilities which could reduce overheads and possibly service charges. Currently the project was solely about the need of the City and to produce the information Members would require to make a decision. The study itself was paid for by the Council and its partners which included the County Council and the University of Cumbria. The report of the Steering Group was scheduled to be considered by the Community Overview and Scrutiny Panel.

He added that there would be no borrowing at the present time. The feasibility study would provide advice for Members to consider and discuss through Executive and Overview and Scrutiny. Those proposals may involve borrowing or utilising capital or partnership working but it would all depend on the business cases.

The Director of Community Engagement informed the Panel that there had been considerable consultation with key user groups for the assessment. The authority had also been able to draw on the detailed research of Sport England. He added that there was work required on people who did not participate and how they could be encouraged to. The consultation had not finished as the Council wanted to get the assessment right.

*Harraby Campus Development* – Where did the £1.6m contribution from the City Council come from? In the present climate of austerity how would the project be funded? What consultation would take place? Was there an ongoing revenue cost on completion?

The Town Clerk and Chief Executive responded that the £1.6m had been agreed by full Council as part the budget from capital reserves. The City Council was currently in negotiations with Cumbria County Council regarding the funding agreement. Key features were that the City paid no more than £1.6m, that a backstop date be agreed so that the Council would get the money back if the project did not go ahead and agreement that the space allocated to the community centre would be equal or greater than the existing space.

The project would be delivered by the County Council, the only input from the City would be the funding agreement. He added that the authorities had worked effectively together and would be a good facility for the south of Carlisle.

The Director of Resources added that there would be no additional revenue costs.

*Local Plan* – The Member was disappointed that he had received no feedback after inputting greatly. He asked if the sale of green spaces had been omitted in the Local Plan as he felt there was too much building on green land. Was the Council looking at brownfield sites?

The Town Clerk and Chief Executive reminded the Member that the role of the Panel was to scrutinise the overall dossier of projects to ensure they were progressing as scheduled. Specific questions on the Local Plan were not the remit of this Panel and the Local Plan would be scrutinised by the Environment and Economy Overview and Scrutiny Panel.

*Housing Strategy – Delivery of the Affordable Housing Programme* – The development at Borland Avenue, Botcherby saw 16 one bedroom flats being pulled down, why had this not been looked at properly? Demand for one bedroom properties was high as people had to leave there 2/3 bedroom properties because they could not afford them. The Member had approached the Council for help and he felt he was not helped and the project should never have been allowed to happen. He felt this was not partnership working.

The Director of Community Engagement explained that Riverside Carlisle carried out the development and they made plans on a 15/20 year cycle. The Council had representatives on the Riverside Carlisle Board.

A City Council representative on the Riverside Carlisle Board reminded the Member that the development was the decision of Riverside Carlisle who were aware of the need for one bedroom properties. They were also aware that a number of the existing one bedroom properties were no longer fit for purpose and they were enhancing those areas through their development project.

RESOLVED – That the Corporate Programme Board report (CE.05/13) be noted.

(The meeting ended at 11.45am)





# The Audit Plan for Carlisle City Council

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**Year ended 31 March 2013**

June 2013

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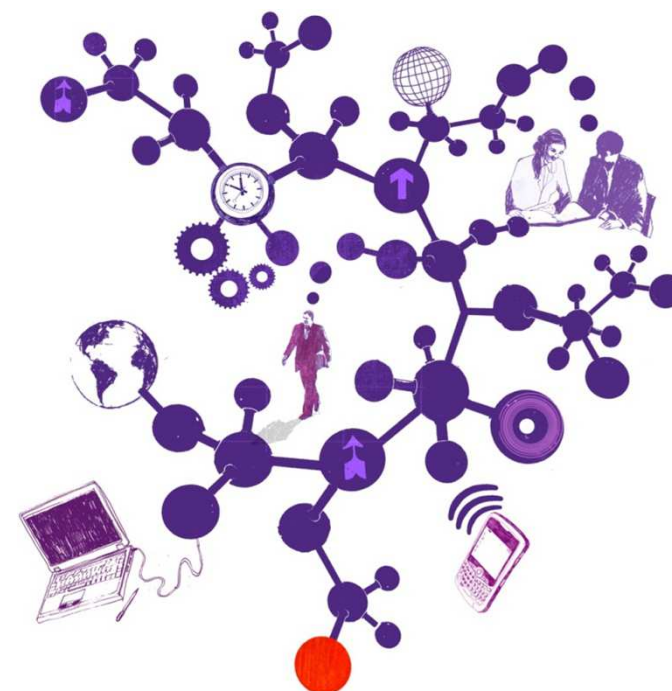
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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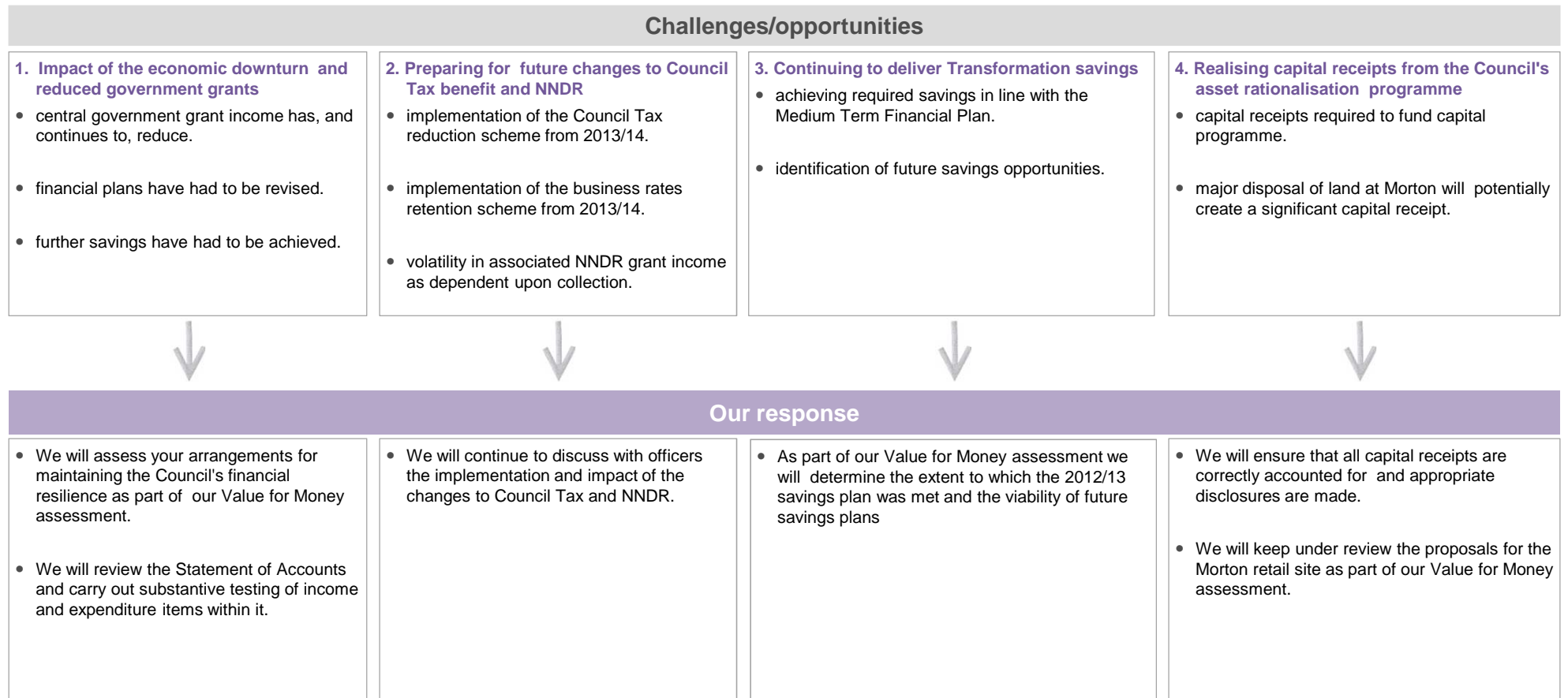
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



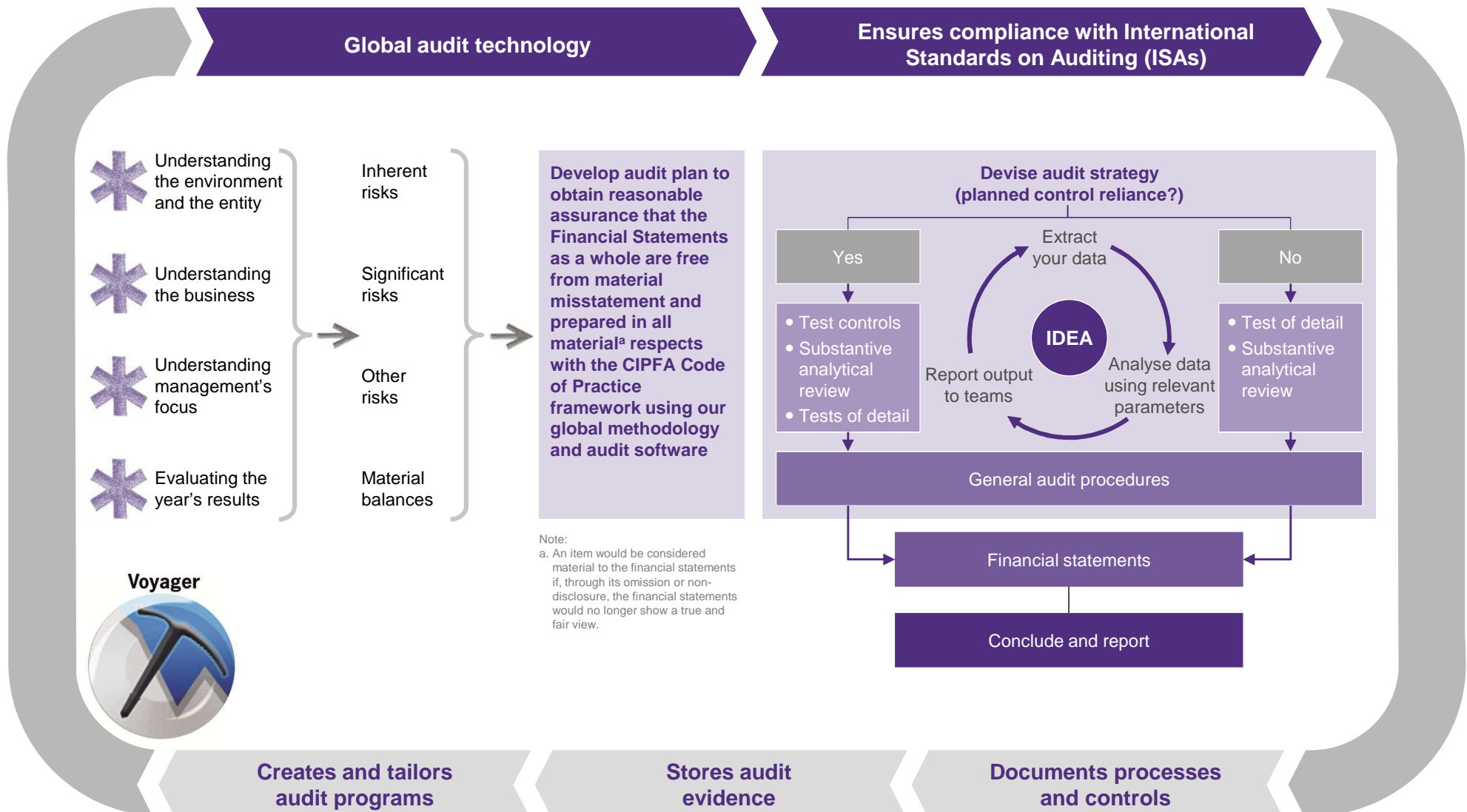
# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice.</li> <li>Recognition of grant conditions and income.</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement 2012/13.</li> <li>Welfare reform Act 2012.</li> <li>Changes to Council tax and National Non-Domestic Rates.</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS).</li> <li>Explanatory foreword.</li> </ul>	<b>4. Pensions</b> <ul style="list-style-type: none"> <li>Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS).</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource.</li> <li>Progress against savings plans.</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion.</li> <li>The Council completes grant claims and returns on which audit certification is required.</li> </ul>

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing.</li> <li>grant income is recognised in line with the correct accounting standard.</li> <li>we continue to meet regularly with officers to discuss technical issues.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS.</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan.</li> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements.</li> <li>We will certify grant claims and returns in accordance with Audit Commission requirements.</li> </ul>

# Our audit approach



# An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated or not recorded in the correct period	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓



## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	No	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

# Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Substantive testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Preliminary testing of journal entries</li><li>• Review of unusual significant transactions</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Further testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses / Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> <li>Documentation of processes and controls.</li> <li>Evaluation and walkthrough of controls.</li> <li>Preliminary testing of key controls.</li> </ul>	<ul style="list-style-type: none"> <li>Complete testing of key controls</li> <li>Selection of a sample of expenditure items and year end creditor balances for substantive testing.</li> <li>Review for unrecorded liabilities.</li> <li>Cut-off testing of the expenditure stream.</li> </ul>
Employee remuneration	Remuneration expenses not correct.	<ul style="list-style-type: none"> <li>Documentation of processes and controls.</li> <li>Evaluation and walkthrough of controls.</li> <li>Preliminary testing of key controls</li> </ul>	<ul style="list-style-type: none"> <li>Complete testing of key controls.</li> <li>Perform year end attribute testing to payroll records.</li> <li>Substantive testing of payroll creditor balances</li> <li>Agreement of employee remuneration disclosure notes.</li> </ul>
Welfare Expenditure	Welfare benefits improperly computed.	<ul style="list-style-type: none"> <li>Documentation of processes and controls.</li> <li>Evaluation and walkthrough of controls.</li> </ul>	<ul style="list-style-type: none"> <li>Programme of work as part of the certification of the housing and council tax benefit claim / specific substantive testing.</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct.	<ul style="list-style-type: none"> <li>Documentation of processes and controls but more efficient to complete walkthrough at final accounts visit.</li> </ul>	<ul style="list-style-type: none"> <li>Documentation of processes and controls.</li> <li>Evaluation and walkthrough of controls.</li> <li>Substantive testing of movements on PPE including revaluation.</li> </ul>

# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed Internal Audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken some testing on journal transactions recorded for the first eleven months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.</p>	We will complete our journals testing at the final accounts visit. We have no issues to report at this time.

## Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
<b>Review of information technology (IT) controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that have been raised in the previous year. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>	<p>No significant issues were noted. IT controls were observed to have been implemented in accordance with our documented understanding.</p> <p>Areas for improvement have been separately communicated to the Digital Information Service (DIS). These were:</p> <ul style="list-style-type: none"><li>▪ Requirement to review and update IT security policies.</li><li>▪ Formal recording of all database edits.</li><li>▪ Periodic check of assigned privileges.</li><li>▪ Standardised recording of application system changes</li></ul>

# Value for Money

## Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

## 2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. In addition a financial resilience report for your Council will be produced as a key output from our VfM work.

We will agree any additional reporting to the Council on a review-by-review basis.

## Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

## Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- update our knowledge using existing available information and knowledge
- carry out a document review of key documentation from the Council's schedule of meetings
- discuss with key officers and request further information
- engage with those charged with governance during the year
- report key messages in the Audit Findings Report
- produce a financial resilience report for your Council.

# Logistics and our team

## The audit cycle



## Our team

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#### Manager

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#### Executive

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### Pete Lancaster

#### IT Consultant

T +44 (0)161 214 6308

E pete.lancaster@uk.gt.com

Date	Activity
December 2012 to March 2013	Planning meeting
February to May 2013	Interim site work
July 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter



# Fees and independence

## Fees

	£
Council audit	70,153
Grant certification	22,150
<b>Total</b>	<b>92,303</b>

## Fees for other services

Service	Fees £
None	Nil

### Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

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

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

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



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# Grant Thornton

An instinct for growth™

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15 April 2013

Dear Jason

## **Planned audit fee for 2013/14**

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

## **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2013/14 has been set by the Audit Commission at £70,153, the same as the audit fee for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at [www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme](http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme).

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

## **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Chartered Accountants

Member firm within Grant Thornton International Ltd

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A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

### **Value for Money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

### **Certification of grant claims and returns**

The Council's composite indicative grant certification fee has been set by the Audit Commission at £17,200.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2013	17,538.25
December 2013	17,538.25
March 2014	17,538.25
June 2014	17,538.25
<b>Grant Certification</b>	
June 2014	17,200.00
<b>Total</b>	<b>87,353.00</b>

### **Outline audit timetable**

We will undertake our audit planning and interim audit procedures between November 2013 and February 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in September 2014 and work on the whole of government accounts return in September 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2013 to February 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to September 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to September 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	January to September 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

### Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Jackie Bellard	0161 234 6394 / 07880 456195	<a href="mailto:Jackie.Bellard@uk.gt.com">Jackie.Bellard@uk.gt.com</a>
Engagement Manager	Richard McGahon	0141 223 0889 / 07880 456156	<a href="mailto:Richard.A.McGahon@uk.gt.com">Richard.A.McGahon@uk.gt.com</a>
Audit Executive	John Cangle	0141 223 0893	<a href="mailto:John.D.Cangle@uk.gt.com">John.D.Cangle@uk.gt.com</a>

### Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Head of Public Sector Assurance [Sarah.Howard@uk.gt.com](mailto:Sarah.Howard@uk.gt.com)

Yours sincerely

A handwritten signature in dark ink that reads "Jackie Bellard". The script is cursive and fluid.

Jackie Bellard  
For Grant Thornton UK LLP

cc Peter Mason, Director of Resources, Carlisle City Council



# Grant certification work plan for Carlisle City Council

---

**Year ended 31 March 2013**

July 2013

**Jackie Bellard**

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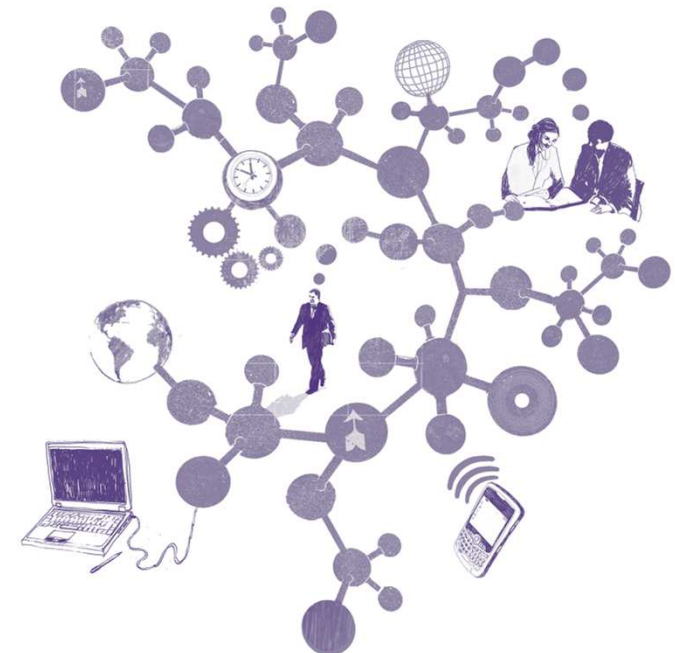
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Appendix A Summary of expected claims and returns for the year ended 31 March 2013	7

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# Our approach to grant certification work

## Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

## Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012-13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

## Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Financial Services Manager is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Director of Resources or an officer authorised by written delegated powers
- the Council should monitor arrangements with any third parties involved in the certification process.

---

## Claims history

The most significant claims and returns in 2011-12 were:

- housing and council tax benefit claim
- national non-domestic rates return

## Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

## Certification work fees

The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each Council. The indicative scale fee for the Council is £22,150. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

---

## Administration

When each expected claim or return is completed, a copy of the signed claim, bearing the original signature, should be sent to Richard McGahon (Manager) at the following address:

**Grant Thornton UK LLP**  
**C/o Cumbria County Council**  
**Kraemer Building**  
**The Courts**  
**Carlisle**  
**Cumbria**  
**CA3 8NA**

- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

## Managing the certification process – our role

- We intend to certify all claims and returns in accordance with the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by 30 November 2013 and will then issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

---

## Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Housing and council tax benefits scheme (BEN01)	30/04/2013	30/11/2013	Yes	Claim qualified but not amended
National non-domestic rates return (LA01)	28/06/2013	27/09/2013	Yes	Unqualified and no amendments



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# Report to Audit Committee

Agenda  
Item:

**A.5**

Meeting Date: 22 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Not Applicable:  
Within Policy and  
Budget Framework YES  
Public / Private Public

Title: ANNUAL GOVERNANCE STATEMENT 2012/13  
Report of: Director of Resources  
Report Number: RD22/13

## Purpose / Summary:

The Annual Governance Statement (subject to Audit) for 2012/13 has been certified by the Council's S151 Officer, Chief Executive and Leader, in accordance with statutory requirements, by 30<sup>th</sup> June, and is attached at appendix A. This will be formally approved following the completion of the audit process at the end of September.

There is only one area of significant weakness in the Council's governance arrangements which need to be brought to the attention of Members and this is included within the statement.

There are no other areas of weakness which need to be brought to Members attention at this time.

## Recommendations:

Members are requested to note the contents of the 2012/13 Annual Governance Statement, noting that this statement will accompany the annual Statement of Accounts.

## Tracking

Audit Committee:	<b>22 July 2013</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **1. BACKGROUND**

- 1.1 The CIPFA/SOLACE Framework document “Delivering Good Governance in Local Government” (and subsequent application note/addendum) requires the Council to revise and update its Code of Corporate Governance and to produce an Annual Governance Statement signed by the S151 Officer, Leader and Chief Executive.
- 1.2 The Framework also requires the Council to draw up an Action Plan in order to address weaknesses and to ensure that continuous improvement of the system of control is in place.
- 1.3 CIPFA has issued two statements relating to the role of the Chief Financial Officer in Local Government and the role of the Head of Internal Audit, which the Council must have regard to when preparing its Annual Governance Statement and when ensuring compliance with the principles contained within the Good Governance Framework.

## **2. ANNUAL GOVERNANCE STATEMENT**

- 2.1 The Annual Governance Statement for 2012/13 is attached at **Appendix A** which has been prepared in accordance with the CIPFA/SOLACE framework.
- 2.2 There is only area of significant weakness in the Council’s Governance arrangements which has previously been reported to Members and is therefore included within the 2012/13 statement.
- 2.3 The Council’s Code of Corporate Governance has been reviewed by officers and there are no changes required to the Code previously approved in 2008.

## **3. ACTION PLAN**

- 3.1 In accordance with established practice, an Action Plan will be prepared and monitored with an updated status report provided to Members of this Committee on a quarterly basis. The specific issue will also be subject to a formal follow up audit by the Internal Audit team which again will be reported through the Audit Committee.

- 3.3 There are no new areas of risk arising from the Audit reviews or from the Risk Registers that need to be drawn to Members' attention.

#### **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Members are requested to note the contents of the 2012/13 Annual Governance Statement.

#### **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 5.1 To ensure that the Council has sound systems of internal control and that the governance arrangements in place comply with statutory requirements.

**Contact Officer: Alison Taylor**

**Ext: 7290**

**Appendices Appendix A – Annual Governance Statement 2012/13  
attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

#### **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – not applicable**

**Community Engagement – not applicable**

**Economic Development – not applicable**

**Governance** – The Audit Committee's terms of reference require it to oversee and approve the authority's Annual Governance Statement.

**Local Environment – not applicable**

**Resources – included in the main body of the report**



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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/Solace Framework '*Delivering Good Governance in Local Government*'. A copy of the code can be obtained from the Director of Resources. The Council has also recognised the requirements of the 2010 CIPFA application note '*Statement on the Role of the Chief Financial Officer in Local Government*' and the CIPFA Statement on the '*Role of the Head of Internal Audit (2010)*'.

This statement explains how the Council has complied with the code and application note and also meets the requirements of regulation 4 (3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control – the Annual Governance Statement.

## The Purpose of the Governance Framework

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

The system of internal control is a significant part of the Council's framework and is designed to enable it to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- to evaluate the likelihood of those risks being realised and, if so realised, their impact; and,
- to manage the identified risks efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts for 2012/13.

## The Governance Framework

The following are the key elements of the systems and processes that comprise the Council's governance arrangements:

## **The Council's vision of its purpose and intended outcomes**

The Council's vision is proposed by the Executive as part of the draft Carlisle Plan which is debated and agreed by full Council. This vision is then communicated through the Carlisle Plan itself, which is a working document for staff and members. An annual report will communicate the outcomes and performance of the plan to residents with the end of year performance presenting the key outcomes to the Executive and Overview & Scrutiny Panels.

## **The Council's vision – implications for governance arrangements**

The Carlisle Plan is annually reviewed with Members to ensure that the vision and priorities are still relevant and constant with Members' aspirations. Arrangements for Overview and Scrutiny are reviewed every year as part of the annual report - thus ensuring consistency with council priorities. Portfolios on the Executive are reviewed every year by the Leader of the Council.

## **Measuring the quality of service for users**

The Council's Service Standards ensures that elected Members and officers monitor performance in key service areas on a regular basis. User satisfaction is measured through a variety of channels and media such as the Carlisle Focus surveys (user and resident). The Council has reached the 'achieving' level of the Equality Framework for Local Government. This external assessment has provided the Council with a detailed report identifying good practice and areas for further improvement and these recommendations have been incorporated into our equality objectives. The impact of key decisions are recorded in each of the Executive papers ensuring that impact assessments form part of all of the Council's key decisions.

Performance in services for customers was monitored through management information indicators, highlighting the short and medium term trends which are reported corporately to the Senior Management Team<sup>1</sup>. Progress against Carlisle Plan priorities and key actions is reviewed quarterly and reported through the Executive and relevant Overview & Scrutiny Panels.

During 2009/10 and 2010/11 the Council entered into shared service arrangements in respect of ICT, Revenue and Benefits and Internal Audit. These arrangements sought to deliver financial savings to the Council whilst also improving the resilience in the services being provided and improving and maintaining services to the public. All of the Shared Services are underpinned by sound, documented governance arrangements which encapsulate the agreements between the participating Councils.

## **Roles and Responsibilities**

The City Council comprises 52 elected Members and holds elections by thirds in three years out of every four. The Council operates executive arrangements under the Local Government Act 2000 and has done so since September 2001. The Council operates the "strong Leader" model whereby the Council appoints the Leader for a four year period, who then nominates his/her Executive Portfolio Holders and decides the scope of their briefs and the extent of delegated powers to each.

Currently, the Executive comprises the Leader and five Executive Members, one of whom the Leader is required to nominate as Deputy Leader. The operation of the Executive itself is prescribed by the Executive Procedure Rules set out in the Council's Constitution. It meets normally on a four-weekly cycle, with the Leader having oversight over both the agenda and the Notice of Key Decisions to be considered by the Executive over the coming month.

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<sup>1</sup> The Chief Executive, Deputy CEO, s151 Officer, Monitoring Officer and Directors of Local Environment; Economic Development; and, Community Engagement.

The Leader has set out the powers and responsibilities that he has delegated to both Portfolio Holders and Officers in an extensive Scheme of Delegation, incorporated into the Constitution, that he/she reviews at least annually but usually more frequently in practice. Any amended Scheme of Delegation is held within the Governance Directorate and all Members of the Council receive a copy. The document is available to all on the Council's website. All decisions made by the Executive, whether collectively or individually, are properly recorded and subject to call in and scrutiny by the Council's Overview and Scrutiny Panels, subject, of course, to the provisions applying to matters deemed urgent.

Under the Executive arrangements, the full Council is responsible for setting the Council's budget and policy framework within which the Executive must operate. The Council has also established a series of Overview and Scrutiny Panels of which, currently, there are three (Community, Environment & Economy and Resources). These Panels undertake the statutory scrutiny role set out in the Act and assist with examining and commenting on those policies proposed by the Executive for adoption as part of the policy framework. The three Panels are supported by a dedicated Scrutiny Officer who services solely the scrutiny function of the Council to ensure transparency in the process. Each Panel also has a nominated member of the Council's Senior Management Team to support it in its scrutiny function. The operation of the scrutiny function is set out in the Overview and Scrutiny Procedure Rules in the Council's Constitution.

Importantly, during 2010/11, the Council reviewed its Budget and Policy Framework. Previously, the Council had over 80 'policies' reserved to it (i.e. the Council had to make any decision relating thereto). The review reduced this number to 11 policies being reserved to Council. The change means that decisions are able to be taken in a more clear and transparent manner and, from a corporate governance perspective, it is a great deal more certain where responsibility for decision making rests, i.e. with the Council or the Executive. This change has proven to be beneficial in the working period since the change was effected.

The executive/scrutiny functions of the Council are supplemented by a number of regulatory Committees, established to deal with development control, licensing and certain non-executive employment matters. Their powers and Terms of Reference are set out in the Constitution, together with the extensive delegated powers given by the Council to both the Committees and officers in respect of the various matters falling within the responsibility of the Committees. These powers are reviewed and approved by the Council annually.

The Council has an officer structure which changed substantially in 2009/10 as part of the transformation process, with other changes made following the retirement of the Chief Executive in 2011/12, and which now comprise a Chief Executive, a Deputy Chief Executive and five Directors.

The Chief Executive, Deputy Chief Executive and all Directors comprise the Senior Management Team (SMT) which meets on a fortnightly basis, to discuss corporate issues.

## **Codes of Conduct and Standards**

The Council has formally adopted a Code of Conduct for its elected Members together with approved arrangements for dealing with standards matters. These form part of the Council's suite of constitutional documents and all Members undertake to adhere to its provisions (standards of behaviour, declarations of interest, register of gifts/hospitality etc) as part of their Declaration of Acceptance of Office when elected. The new code of conduct arrangements have been standardised across Cumbria as far as possible.

Oversight of the Members' Code of Conduct, to ensure both compliance and the proper training of Members, rests with the Council's Standards Committee, which comprises of 7 Members of the City Council who are advised by an Independent Person (appointment of 2 Independent Persons to be ratified by Council on 16<sup>th</sup> July 2013). A Parish Member would be invited to

attend the Committee if any complaint or matter related to a Parish Member. Training on both the Code itself and the ethical principles behind it is provided to all newly elected Members of the Council as part of the standardised induction process and it will also be available to all members of the Council to participate in. Further training for Members on particular relevant Standards issues is provided by way of follow-up sessions as issues arise.

The Members' Code of Conduct is supplemented by a protocol governing Member and Officer working which was adopted by the Council as an additional guide to the Council's expectations and its cultural approach to the day-to-day working relations between Members and Officers. Training on this, is again, provided as part of the Member Induction Programme. Other supplemental guidance documents, adopted by the Council to assist with probity and best practice, include the Planning Code of Conduct for those Members serving on the Development Control Committee and the Members' Protocol on the Use of IT provided by the Council. Training is again provided in the Member Induction Programme. In-year training is also given to Members of the Development Control and Licensing Committees on the specialist issues and considerations that arise because of the particular work of those Committees.

The Council has its own Code of Officer Conduct. The code was formally approved by Members in September 2010 and now forms part of the Constitution. There is also a formal Induction procedure for all new staff, supplemented by other information e.g. the Constitution, disciplinary procedures, etc.

During the year, the Council continued to develop and deliver its training schedule for both Members and officers to raise awareness of ethical governance issues across the Council, such as Counter Fraud measures, Money Laundering, Whistleblowing, Procurement & Contracts and Budgetary Control issues. This forms part of the Council's training programme which is considered and agreed by the Members' Learning and Development Group. Currently being planned are several e-learning packages so that appropriate training can be targeted at relevant officers.

## **Standing Orders/Financial Procedure Rules**

The Council's Contracts Procedure Rules and Financial Procedure Rules, together with the extent of delegation to officers in these areas, are set out extensively in the Council's Constitution. They define the overarching rules governing procurement by the Council and the powers and constraints on Members and officers in respect of the exercise of financial powers. The core documents, including authorised levels of spend and virement and "key decision" financial limits, are reviewed at least annually (and more frequently if circumstances arise) and updated by the Council. The Contract Procedure Rules were significantly changed during 2010/11 to reflect changes in procurement regulations and particularly electronic procurement and the use of framework agreements. These changes were adopted in October 2010, and as a result the Procurement and Commissioning Strategy was amended in early 2011.

In terms of risk assessment, this is overseen in the Council by a formal Risk Management Group made up of relevant officers and the Portfolio Holder for Finance, Governance and Resources. A representative from Marsh Ltd – the Council's Insurance Brokers/Advisers – is invited to attend on an ad-hoc basis. The Group oversees the compilation and updating of both the corporate and operational risk registers maintained by the Council, where the main corporate and directorate-specific risks faced by the Council are scored against an agreed matrix and appropriate steps identified to mitigate such risks as far as possible. All risks are monitored through the management monitoring function of Covalent, the Council's performance management system.



## **Financial Management Arrangements**

The Council has a duty to comply the key principles contained within the revised CIPFA statement of the *'Role of the Chief Financial Officer in Local Government'* and during 2012/13 the Council continued to comply with 5 key principles of the CIPFA statement.

The Director of Resources is the Council's Chief Financial Officer; is an experienced, qualified accountant and is a key member of both Senior Management Team (SMT) and Joint Management Team (JMT) and as such, has direct access to the Chief Executive. He leads and directs an adequately resourced, fit for purpose, finance function, comprising of 17 officers, who support him in the proper administration of the Council's financial affairs, including leading the promotion and delivery of good financial management to safeguard public money at all times; to ensure the effective, efficient and economic use of resources; and to ensure the short and long term implications of all material business decisions are fully considered and aligned to the Council's Medium Term Financial Plan.

The main controls for financial management are set out in the Constitution – these are the Budget and Policy Framework and the Financial Procedure Rules. These cover the arrangements for Financial Management, Financial Planning, Risk Management and Control of Resources, Financial Systems and Procedures and External arrangements. The Council also complies with the Prudential Framework for Local Authority Finance.

The Council has a Medium Term Financial Planning process (MTFP) which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the JMT which consists of the Executive Members and SMT. The MTFP for 2014/15 to 2018/19 will be presented to Executive, Resources Overview and Scrutiny Panel (ROSP) and Council between July and September 2013.

Regular meetings are held with identified budget managers from which budget-monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and ROSP. The Council is committed to improving the effectiveness of its budget monitoring arrangements and in strengthening the links between budget and performance monitoring.

The annual Statement of Accounts has been produced to statutory deadlines and year-end actual results are reported against budgets. The summary revenue position is shown within the explanatory foreword, comparing actual results against revised budgets. Out-turn reports produced for revenue and capital expenditure are presented to the Audit Committee and are considered by Executive, ROSP and Council. The Council is committed to making continuous improvements to comply with the Local Authority Code of Practice and International Financial Reporting Standards.

## **Audit Committee**

As a means of ensuring best practice, the Council has established an Audit Committee to oversee the workings of the corporate governance arrangements of the Council and to report to Council on these and related financial probity issues. The Audit Committee operates in accordance with CIPFA's *"Audit Committees – Practical Guidance for Local Authorities"*. This is supplemented by the Council's Standards Committee, established under the Act to be responsible for conduct issues relating to elected Members.

The Council has a duty to comply the key principles contained within the 2010 CIPFA statement of the *'Role of the Head of Internal Audit'* and during 2012/13 the Council continued to comply with 5 key principles of the CIPFA statement.

The Head of Internal Audit for the Internal Audit Shared Service is the Group Audit Manager but the Head of Internal Audit role at participant organisations within the Internal Audit Shared Service is carried out by the relevant Audit Manager.

The scope of internal audit work covers all aspects of the organisation's risk management, internal control and governance frameworks and the Internal Audit annual report feeds in to the preparation of the Council's Annual Governance Statement. Where appropriate, Internal Audit advises the organisation on emerging risks and may undertake 'hot assurance' work on new projects and developments as they take place.

An annual audit opinion is provided to the Audit Committee based on the work undertaken by Internal Audit during the year based on the agreed risk based audit plan which includes a wide range of council operations along with risk management, internal control and governance considerations.

The Audit Manager reports to the Council's section 151 officer through the deputy section 151 officer and has access to the Senior Management Team (SMT) and Chief Executive as required. The Audit Manager attends all Audit Committee meetings and has the opportunity for private dialogue with the Chair as appropriate.

The resources available within the Internal Audit Shared Service have been assessed as fit for purpose. This will be subject to regular review going forward by the new Group Audit Manager. The audit team has a range of skills and qualifications including AAT, IIA and CCAB.

The Group Audit Manager is CIPFA qualified and has 15 years' experience in Local Government Internal Auditing, nine of these in a management capacity. The Audit Manager is MIIA qualified and has 17 years experience in local government internal auditing, approaching 3 years at team manager level.

## **Ensuring Compliance with Relevant Laws**

Systems are in place to ensure that appropriate legal and financial advice is provided at relevant points in the decision-making process to ensure the vires of decisions made by the Council. All reports to Members requiring a decision incorporate an addendum from both the Directors of Governance and Resources who are the Monitoring Officer and Chief Finance Officer respectively. This ensures that checks are made on the legal and financial consequences of any course of action prior to a decision being made. Both statutory officers are also members of the Joint Management Team and the Senior Management Team to ensure that financial and legal advice is available at the inception of any particular matter and when any issues relating to the Council's powers and duties are under consideration.

Similar representation by legal and financial officers is provided for on Officer Working Groups dealing with relevant policy issues so that a check is maintained on vires and financial issues at that level. Legal representation and advice is also provided as a matter of course at the Development Control and Licensing Committees to ensure that the quasi-judicial functions carried out by those Committees are undertaken lawfully.

The Council has a variety of methods of receiving updates in legislative changes. In addition to the departmental roles in keeping up to date with legislative, regulatory and guidance changes, the Council subscribes to a corporate legal updating service which provides for daily updates directly to officers. The usual method of direct notification of legislative changes by Central Government also occurs on an ongoing basis.

## **Complaints and Whistle blowing**

The Council operates a formal Corporate Complaints System in accordance with best practice recommended by the Local Government Ombudsman, giving members of the public capacity to

complain about aspects of the Council's services with which they may be dissatisfied. The objective of the complaints process is to endeavour to resolve the complaint satisfactorily at local level, rather than it being referred to the Ombudsman, although this, of course, is always an entitlement of the complainant if they remain dissatisfied with the Council's handling of the matter.

The basis of the corporate complaints process is that the relevant Directorate deals with the complaint initially but, in the event of the complainant still being dissatisfied, the process provides an internal Right of Appeal to a small panel of three elected Members who review the position. This includes a formal hearing at which the complainant may attend, in an endeavour to resolve the matter. Members of the Council's Appeal Panels receive training on the type of matters that they may consider in that role.

The Council has a Confidential Reporting Policy that is available to all members of staff on the Intranet.

### **Identifying the development needs of Members and senior officers**

The Council has a formal team appraisal scheme, which is mandatory for all officers, including all senior managers. It is carried out each year and forms part of the review of the Carlisle Plan. Team appraisals are recorded in the performance management system and the number of completed appraisals is reported as management information. There is routine monitoring of compliance by SMT along with an annual report to Members of the Resources Overview and Scrutiny Panel which includes the key findings of the annual Employee Opinion Survey.

During 2011/12 a revised framework for Member Learning and Development was introduced following approval of the framework by Council in April 2011. This includes provision for a Member/Leader Annual Review. An analysis of all Members' roles including those of a strategic nature has been undertaken and is used to identify training needs for Members holding or aspiring to strategic office. The framework was fully implemented in 2012/13 and proved to be successful with 40 Members taking part. A report on the training needs identified was produced by Organisational Development and taken to the Member Learning & Development Working Group for discussion and implementation. The success of the scheme also supported the council's application to retain the North West Charter for Members Development, for which we need proof that at least 75% of our Members had completed a Member/Leader Review.

### **Clear channels of communication**

The City Council's Communication Policy and Consultation Policy clearly set out its commitment to high quality, timely, relevant communications and consultation that encourage feedback from all sections of its local communities. These policies underpin the Council's developing Community Empowerment and Engagement Policies that will ensure local peoples' involvement in the design and delivery of more responsive local services. The Council works closely with local groups representing those that are in a minority in our local communities, including those with a disability and ethnic minorities, to ensure that their communications and consultation needs are met.

### **Good governance in respect of Partnerships**

The Council's key governance arrangements and procedures ensure that partnerships are entered into for the right reasons, all factors/ implications are fully considered as part of the set-up process, the Council's role is clearly defined, expected outputs and outcomes are identified and the appropriate monitoring arrangements are in place. In all, the Council has robust managing arrangements in place and a clear framework in which to operate. It is important to note that whilst these central control mechanisms exist, the actual appliance of and delivery of partnerships is the responsibility of individual service areas. Key control measures are outlined below:

The Council has a robust Partnership Policy in place that provides guidance on the nature and risks of partnerships. This Policy includes a clear definition of a partnership and, more specifically, what constitutes a significant partnership. Responsibilities for setting up, delivering and monitoring partnerships are clearly defined both in the Policy and in general working practices.

The Corporate Partnerships Register, maintained by Financial Services, is the central monitoring tool used to track all partnerships in progress. Consideration is given towards Exit / Succession strategies (if appropriate) at the initial set up and as part of the Annual Review.

A Business Case model, based around good practice measures, is used for all new proposed partnerships. These are considered by SMT. Proposed significant partnerships are also reported to the Executive.

Appendix E of the Council's Financial Procedure Rules contains specific guidance on officers' duties and responsibilities regarding partnerships. A flowchart provides an aid for officers to guide them through the partnership process. Supplementary guidance notes are also in place as well as the availability of one to one training and support to guide officers setting up new partnerships, through to annual reviews.

Operationally, risk assessments are maintained and shared with partners throughout the life of the partnership. Emerging significant risks are brought to the attention of the Council's Risk Management Group. Strategically, the Council manages the potential risk of new and existing partnerships through the Corporate Risk Register. The Corporate Risk Register is reviewed quarterly by the Risk Management Group and reported to Resources Overview and Scrutiny Panel and the Audit Committee.

Significant partnerships are subject to a robust set of measures. Annual reviews are undertaken for all significant partnerships, which has been extended to include all Shared Service arrangements, the results of which form part of the proposed annual summary reporting on partnership working arrangements. This reporting is co-ordinated by Financial Services and is considered by SMT and Executive.

## **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and by comments made by the External Auditors and other reviewing agencies and inspectorates.

The following processes have been applied in maintaining and reviewing the effectiveness of the governance framework:

An effective Governance Framework is maintained by ensuring that the Council's Constitution is reviewed and up-dated on a regular basis. This includes both the Council's and the Leader's Schemes of Delegation for Directors and Chief Officers, and encompasses and defines the roles of the Council, the Executive and the standing Committees including Overview and Scrutiny, Standards Committee and the Audit Committee.

Regular meetings of the Council and its Committees are held during each year and all reports to the Executive include comments from the Director of Resources (the Council's Chief Financial Officer) and the Director of Governance – the latter also being the Council's Monitoring Officer. The aforementioned Directors also oversee the reports considered by the Council's Regulatory and Audit Committees.

The Council also undertakes a continuous review of its risk-management responsibilities by ensuring that each Directorate maintains an up-to-date Operational Risk Register. Any risks that are considered to affect the Council as a whole are incorporated into the Corporate Risk Register (CRR). This is reviewed and updated by the Corporate Risk Management Group that meets on a regular basis. Progress on the CRR is reported quarterly to Members.

In accordance with the requirements of the CIPFA Code of Practice for Internal Audit, the Audit Manager reports to the Audit Committee on a regular basis, to appraise Members of any emerging control/governance/risk issues. The Audit Manager also presents an annual report that includes a statement of assurance relating to the Council's overall standard of internal control.

A full review of the Council's Code of Corporate Governance has been undertaken and all of the requirements outlined in the CIPFA/SOLACE document "Delivering Good Governance in Local Government" have been assessed. Where necessary any areas where action is required to ensure that the Council meets all of the defined requirements are identified on the Action Plan that forms part of this Statement.

During 2012/13 an internal review of key service contracts highlighted a themed weakness with regard to the robustness of internal contract monitoring procedures and processes and recommendations were made to address these. Action plans have been prepared to consider, address and implement the internal control recommendations, and will be subject to a formal follow up audit by the Internal Audit Team during 2013/14.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that they continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## Significant Governance Issues

Issue Identified	Target Date
During 2012/13 and as part of the delivery of the annual audit plan, internal reviews identified a significant weakness with regard to the internal monitoring of Council key contracts with recommendations being made to improve internal procedures and processes. Action plans to address these weaknesses have been developed and further consideration of the issues have been debated by the Council's Corporate Risk Management Group. Relevant Directors will have regard to the issues raised when implementing any revised staffing structures. Completion of the action plans will be subject to a formal audit follow up during 2013/14 and be reported to and closely monitored by the Audit Committee.	January 2014

We propose, over the coming year, to address these issues and to monitor and implement improvements to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.



# Report to Audit Committee

Agenda  
Item:

**A.6**

Meeting Date: 22 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework YES  
Public / Private Public

Title: STATEMENT OF ACCOUNTS 2012/13  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD23/13

## Purpose / Summary:

The Council's Statement of Accounts 2012/13 (subject to Audit) have been certified by the S.151 Officer in accordance with Statutory requirements by 30 June 2013. They will now be subject to audit, which must be concluded by the statutory deadline of 30 September 2013. Key issues included within the 2012/13 Statements are highlighted within the report for Members attention.

## Recommendations:

- (i) The Committee is asked to note the 2012/13 Statement of Accounts have been certified as giving a true and fair view by the Director of Resources and that they will now be subject to audit.
- (ii) That the Annual Governance Statement be considered and approved separately from the Statement of Accounts as specified in the Accounts and Audit Regulations 2011.

## Tracking

Audit Committee:	<b>22 July 2013</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **STATEMENT OF ACCOUNTS 2012/13**

### **1. BACKGROUND INFORMATION AND OPTIONS**

- 1.1 The Accounts and Audit Regulations 2011 require that the City Council's Statement of Accounts for 2012/13 be certified by the Council's S.151 Officer by 30 June 2013.
- 1.2 The Statements reflect the summarised financial out-turn information which was recently considered by the Executive and Resources Overview and Scrutiny Panel. To a large extent the format of the Statement of Accounts is prescribed and is therefore presented in a different format from the internal out-turn reports.
- 1.3 The Statements presented are subject to the formal audit process, which will commence on 1 July, and must be completed by 30 September. The auditors will identify any material changes required to the Statements and they will also produce an ISA+260 Statement (Annual Governance Report) which details any unadjusted misstatements found during the course of the audit. Both of these need to be considered by 'those charged with governance', which in respect of the Statements, is the Audit Committee.
- 1.4 Internal Audit carries out annual audits of the authority's business critical systems. This provides the assurances that the information used to prepare the Statement of Accounts is accurate and relevant.

### **2. OUT-TURN REPORTS**

The Revenue and Capital Provisional Out-turn reports have recently been considered by the Executive and Resources Overview and Scrutiny Panel.

As mentioned above, the Statement of Accounts are based upon these final out-turn figures. However, because of the different way in which the Accounts must be produced, it is very difficult to see the out-turn figures within the Income and Expenditure Account. A reconciliation between the out-turn figures and the net operating expenditure on the Income and Expenditure Account has been prepared and is attached at **Appendix 1** for information.

### **3. CHANGES ARISING FROM THE 2012 CODE OF PRACTICE**

- 3.1 At the Audit Committee meetings of the 14 January 2013 and 15 April 2013 the Director of Resources reported that no significant changes would be required to the accounts for 2012/13.



#### **4. KEY ISSUES**

4.1 As part of the Council's training programme, a training session was scheduled for 15 July to Members, and substitutes, of the Audit Committee on the Role of the Audit Committee and scrutiny of the Statement of Accounts process. Key issues and the practical implications for scrutinising the Statement of Accounts were provided, i.e. what the main statements show, and the kinds of questions Members may wish to consider.

4.2 The Annual Governance Statement will accompany the Annual Statement of Accounts following the audit process and is considered elsewhere on the agenda for approval. It is a requirement of the 2012 Code that the Annual Governance Statement be considered and approved separately. The Statement of Accounts 2012/13 (subject to audit) have been attached at **Appendix 2**.

#### **4.3 Significant issues**

Key issues within the Statement of Accounts to which Members attention is drawn are as follows:

##### **4.3.1 Comprehensive Income & Expenditure Statement (CIES)**

These statements summarise the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day to day expenses and related income on an accruals basis. The main items of note are as follows:

**Cost of Services** – an increase of £6.236m over the previous year. The majority can be explained as a result of downward revaluations being charged to the CIES services (£10.114million). Financing and Investment Income and Expenditure has swung from a £1.892million deficit to a £1.270million surplus ( a movement of £3.162million) again as a result of lower downward revaluations than in the previous year (£903,000 2012/13 and £3.295million in 2011/12) for investment property assets. All these factors have meant that the Surplus or Deficit on Provision of Services has moved from a £8.520million deficit in 2011/12 to a £12.761million deficit in 2012/13.

This is not a cause for concern as the revaluation losses are a notional charge to the CIES and are reversed out in the Movement of Reserves Statement and are shown in the Balance sheet in either the Revaluation Reserve or the Capital Adjustment Account, both of which are technical accounting reserves and not cash-backed reserves.

#### 4.3.2 Balance Sheet

The balance sheet records all of the Council's assets and liabilities as at 31 March 2013. Overall, the Council's Net Worth on its Balance Sheet has decreased from £129million in 2011/12 to £108.5million in 2012/13. However, this can be explained by the movement (£8.8million) on the Pension Fund valuation which is a notional entry and is held both as a liability and a reserve. The downward revaluation of assets of £11.198million has also impacted on the Council's net worth.

Revenue reserves have only decreased slightly, however this was budgeted for. The provisional outturn presented to Executive on 31 May highlighted an under spend of £75,247. Carry forward requests into 2013/14 and future years total £696,400. Details of the final outturn and the adjustments made to arrive at the Deficit on provision of services in the Comprehensive Income and Expenditure Statement can be found in Appendix 1.

**Long Term Assets** – these are assets owned by the authority which are used either in direct service provision or held for investment purposes. The value as at 31 March 2013 is £153m (March 2012 £167m).

**Current Assets** – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2013 and short-term investments. Investments have increased by £2m over the year and the Council currently has £17.1m invested in a variety of banks and building societies. The Council also holds Cash and Cash Equivalents £2.1million (2011/12 £1.8million), and is not in an overdraft position as at 31 March 2013 (2011/12 £884,000 overdrawn).

**Current liabilities** – this is the amount of money owed by the Council to its suppliers and contractors which totalled £4.2million as at 31 March 2013 (£4.9million as at 31 March 2012).

**Long term liabilities** – this section is made up of several different items. Long term borrowing and the value of the pension liability makes up approximately 73% of the total. Long term borrowing (£15m) remains fairly static over the year as the Council has no need to undertake any prudential borrowing due to the level of capital receipts generated. The Pension Liability amounts to £44.445million as at March 2013 (£35.678million March 2012). This is the value placed on the Council liability by the Pension Fund Actuary and is offset in the balance sheet by a corresponding credit on the Pension Reserve.

**Financed by** – the total of all the items within this section is the value of the net worth of the Council. It shows the reserves and balances held as at 31 March 2013.

## **5. CONSULTATION**

- 5.1** The draft Statement of Accounts will be available to view by any interested party from 1 July to 28 July under the regulations laid down in the Audit Commission Act 1998, Section 15-16, and the Accounts and Audit Regulations 2011, regulations 9,10,21,22 & 24.

## **6. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- i) The Committee is asked to note the 2012/13 Statement of Accounts have been certified as giving a true and fair view by the Director of Resources and that they will now be subject to audit.
- (ii) That the Annual Governance Statement be considered and approved separately from the Statement of Accounts as specified in the Accounts and Audit Regulations 2011.

## **7. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 7.1** The Statement of Accounts provide the financial performance of the Council for the year 2012/13 in delivering its priorities.

**Contact Officer:** Steven Tickner **Ext:** 7280

**Appendices attached to report:** Appendix 1 – Reconciliation of Provisional Outturn to Comprehensive Income and Expenditure Statement  
Appendix 2 – Statement of Accounts 2012/13 (subject to audit)

**Note:** in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

**CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – not applicable**

**Community Engagement – not applicable**

**Economic Development – not applicable**

**Governance – It is the responsibility of the Audit Committee to review the annual Statement of Accounts and make recommendations to Council in respect of the approval of the Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council**

**Local Environment – not applicable**

**Resources – Contained within the report**

# APPENDIX 1

Item	£	£
<b>Draft Outturn presented to Executive 31 May 2013</b>		<b>13,556,359</b>
Adjustments to Outturn:		
Minor commitments	(523)	
Costs on Disposal	(62,994)	
Transfer to Transformation Reserve	200,000	136,483
<b>Provisional Out-turn</b>		<b>13,692,842</b>
Capital Receipts generated on the disposal of assets		(5,014,992)
Costs of Disposal Credited back to General Fund		62,994
Net book value of disposals written out of balance sheet		4,019,868
Parish Precepts		444,825
Actuary Reports on Pension Costs (FRS17)		
- Expected return on pension assets	(5,174,000)	
- Interest Costs	6,431,000	1,257,000
Net changes re FRS17 current and past service costs		(622,067)
Depreciation and Impairment Charges		12,942,866
Change in Fair Value of Investment Properties		902,631
Capital Expenditure on revenue expenditure funded from capital under statute (assets not owned by the Council) chargeable to the I&E account less grants and contributions received towards these costs		245,745
Minimum Revenue Provision		(304,385)
Direct Revenue Financing		(617,909)
Movement on Employee Benefit Reserve		11,434
Capital Government Grants and Contributions, credited to the I&E account		(201,326)
Transfers to earmarked reserves shown elsewhere		
- Lanes Capital Fund	(14,900)	
- Transformation Reserve	(200,000)	
- Welfare Reform Reserve	(200,000)	
- Cremator Reserve	(73,400)	(488,300)
Housing Planning Delivery Grant, Ctax Freeze Grant, New Homes Bonus (shown as a funding source)		1,031,030
Financing from RSG/Council Tax/NNDR		(14,601,030)
Roundings		
<b>Surplus/Deficit on Provision of Services on the CIES</b>		<b>12,761,226</b>



**SINGLE ENTITY**

**UNAUDITED STATEMENT OF ACCOUNTS**

**2012/13**

# STATEMENT OF ACCOUNTS

2012/13

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## SECTION 1 – FOREWORD

### 1.1 Introduction

The City Council must prepare and publish a Statement of Accounts annually. Its purpose is to give electors, local taxpayers, Council Members, employees and other interested parties clear information about the Council's finances. The accounts presented are of a Single Entity as the Council has no relationships that require it to prepare Group Accounts.

The aim is to provide information on:

- the cost of providing Council services in 2012/13;
- how these services were paid for;
- what assets the Council owned at the end of the financial year; and
- what was owed, to and by, the Council at the end of the financial year.

This foreword gives a guide to the most important matters included in the Statement of Accounts. The Statement for the year ended 31 March 2013 has been produced by the Director of Resources and consists of the following: -

**(i) The Statement of Responsibilities for the Statement of Accounts**

This sets out the respective responsibilities of the Council and the Director of Resources for preparing the Statement of Accounts.

**(ii) The 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 other reserves. The "Surplus or (deficit) on the provision of services" line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The "Net increase/decrease before transfers to earmarked reserves" line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**(iii) The 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. In accordance with changes to the Service Reporting Code of Practice, the line for Cultural, Environmental Regulatory and Planning Services has now been split into three separate lines headed Cultural and Related Services, Environmental and Regulatory Services and Planning Services. Previous year comparative figures have been restated into these three headings.

**(iv) The Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of 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 (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences



shown in the Movement in Reserves Statement line “adjustments between accounting basis and funding basis under regulations”.

**(v) The Cash Flow Statement**

The Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

**(vi) Notes to the Financial Statements**

These explain in more detail a number of entries in the core financial statements and include details of the Accounting Policies used in the preparation of the accounts.

**(vii) The Collection Fund**

This shows the total income received by the Council from council tax and business rates and how this has been distributed to all the authorities it is collected for, including the Council.

**(viii) The Annual Governance Statement**

This explains the framework within which internal control has been managed and reviewed by the Council during the year of account.

## 1.2 Revenue Expenditure and Financing

Revenue expenditure generally relates to resources which are used within a year and which are paid for from council tax, non-domestic rates, government grants, fees and charges for services and other income received by the Council.

### Summary Service Expenditure Comparison of Budget to Actual

The table below shows a comparison of the Council’s revised budget with its performance for 2012/13. More detailed information is shown in the Comprehensive Income and Expenditure Statement on page 10.

2012/13 Revenue Budget	£000
Approved Budget (Council Resolution - February 2012)	13,987
Carry Forward requests (2011/12 Outturn)	358
<b>Revised Budget 2012/13 as at February 2013</b>	<b>14,345</b>
Non-Recurring Expenditure	
Transformation Savings	(219)
Transformation Costs (Transformation Reserve)	432
Clean Up Carlisle	20
<b>Revised Budget 2012/13</b>	<b>14,578</b>

	Revised Budget £000	Actual £000	Variance £000
Local Environment	5,712	5,710	(2)
Community Engagement	8,003	7,889	(114)
Economic Development	1,930	1,823	(107)
Chief Executives	106	110	4
Resources	(3,001)	(3,583)	(582)
Governance	1,828	1,743	(85)
<b>Service Expenditure</b>	<b>14,578</b>	<b>13,692</b>	<b>(886)</b>
Parish Precepts	445	445	0
<b>Total</b>	<b>15,023</b>	<b>14,137</b>	<b>(886)</b>
<b>Transfers from Reserves</b>			
Residents Parking Reserve	0	192	192
Building Control Reserve	0	10	10
EEAC Reserve	(40)	(38)	2
JE Reserve	(25)	(37)	(12)
Transformation Reserve	(432)	(432)	0
General Fund Balance	(991)	(297)	694
<b>Total Transfer from Reserves</b>	<b>(1,488)</b>	<b>(602)</b>	<b>886</b>
Financed by:			
Precept from Collection Fund	(7,181)	(7,181)	0
National Non Domestic Rate Pool	(6,230)	(6,230)	0
Revenue Support Grant	(124)	(124)	0
<b>Total Grants</b>	<b>(13,535)</b>	<b>(13,535)</b>	<b>0</b>
<b>Total</b>	<b>(15,023)</b>	<b>(14,137)</b>	<b>886</b>
<b>Contribution to General Fund Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>

The Council has total usable reserves of £5.184million, of which the total earmarked reserves held by the Council are £2.419million as at 31 March 2013 (£2.247 million at 31 March 2012). Further details can be found at note 4.5. The Council was under spent by £886,000 against the revised budget. This resulted in a lower use of reserves in 2012/13 than expected. However, of the under spend, £696,400 is earmarked for carry forward into future years.

The Council has other unusable reserves totalling £103.316million at 31 March 2013 (£123.947million at 31 March 2012). Certain reserves are kept to manage the accounting processes for assets and retirement benefits and do not represent usable resources for the Council.

For a more detailed analysis of the breakdown of income and expenditure and explanation of variances from the budget a revenue outturn report for 2012/13 has been prepared which

provides additional information on the year end position. This is available upon request from the Director of Resources.

### 1.3 Capital Expenditure and Financing

Capital expenditure relates to spending on the acquisition, creation and enhancement of fixed assets that generally have a life in excess of one year. This spending is usually paid for from borrowing, the sale of assets, specific government and other grants, capital balances and occasionally from revenue balances. Spending on assistance to the private sector for renovation grants, disabled facilities grants and other housing improvement schemes is also classed as capital expenditure and is known as Revenue Expenditure funded from capital under statute, because the spending does not generate an asset to the Council.

#### (i) Capital Expenditure

The Council's revised capital programme for 2012/13 was approved at £7.979 million. Overall capital spending for 2012/13, however, totalled £4.560 million, resulting in an underspend of £3.419million of which £1.829million has been reprofiled to future years and £1.547m has been returned to reserves. Expenditure on Highways Claimed Rights capital work of £238,300 was also incurred which was fully funded by £238,300 of income from the County Council. This revises the total expenditure for 2012/13 to £4.798 million. The Council also undertook an exchange of assets with the County Council during the year and acquired assets to the value of £535,000. The overall programme can be summarised as follows:

	£000	£000
<b>Revenue Expenditure funded from Capital Under Statute</b>		
Disabled Facilities Grants	868	
Highways Claimed Rights	238	
Central Plaza Conservation	9	
Environmental Improvements	28	
Other Schemes	6	
		1,149
<b>Capital Investment on Assets</b>		
Old Town Hall	198	
Planned Major Repairs	331	
Industrial Estates	285	
Equipment, Vehicles & Plant	862	
City Council Buildings (including Community Centres)	81	
IT Projects	156	
Families Accommodation Replacement	1,008	
Historic Quarter	82	
Talkin Tarn	86	
Clean Up Carlisle	5	
Play & Multi-Use Games Areas	68	
Resource Centre	261	
Strategic Property Purchases	163	
Other Schemes	63	
		3,649
		<b>4,798</b>
<b>Assets acquired via asset exchange</b>	535	
		535
		<b>5,333</b>

The programme has been financed as follows:

	£000
Capital Receipts	2,554
Specified Capital Grant	663
Other Capital Grants and Contributions	356
Direct Revenue Financing	618
Reserves	9
Unfinanced Capital Expenditure (See para 1.5(ii))	598
Assets acquired via asset exchange	535
	<b>5,333</b>

#### (i) Borrowing

The Council has powers to borrow money for capital purposes under Section 1 of the Local Government Act 2003. The Council currently has a stock issue of £15 million as its external borrowing liabilities. The Council has not yet taken advantage of the Prudential Borrowing regime introduced in April 2004, although this position is regularly reviewed in the light of total available capital resources.

#### (ii) Capital Receipts

The Council is dependent on capital receipts generated from the sale of its assets to pay for a significant proportion of its capital spending. This includes capital receipts arising from the sale of former council houses now owned by Riverside as part of the housing stock transfer agreed in 2002.

### 1.4 Pension Liability

The full implementation IAS 19 Employee Benefits has led to a Pensions Liability being recognised in the balance sheet. This liability stands at £44.445m at 31 March 2013.

The liability shows the underlying long-term commitments that the Council has to pay in respect of retirement benefits. The total liability of £44.445m million has had a significant effect on the net worth of the Council as shown in the balance sheet, but statutory arrangements to deal with the funding deficit mean that the financial position of the Council remains healthy. The deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, following an assessment by the scheme's actuary.

### 1.5 Significant Issues

#### (i) Significant Charges to Comprehensive Income and Expenditure Account

Included in the Comprehensive Income and Expenditure Statement within Services are downward Revaluations totalling £10.295million. There is a significant revaluation for Tullie House of £8.8million due to the revised valuation being based upon the peppercorn lease granted for occupation of the building by the trust (as required under the terms of the grant agreement).

Investment properties have also been revalued in line with the Code and this has seen a net reduction in value of £0.903million, primarily due to the revaluation of the Lanes which has resulted from falling rentals.

**(ii) Usable Capital Receipts Set Aside**

In previous years, £14.5million of unapplied usable capital receipts was transferred into the Capital Adjustment Account. The effect of this transfer reduced the Council's Capital Financing Requirement which in turn reduced the Council's Minimum Revenue Provision (MRP) liability. During 2012/13 £597,766 of cash from these receipts was used for capital expenditure, and this has reduced the available cash balance of these transferred receipts as at 31 March 2013 to £5,601,084. During 2012/13, surplus capital receipts were generated that were not used to finance capital expenditure and these too have been transferred into the Capital Adjustment Account. The receipts transferred in 2012/13 totalled £1,862,714, meaning the total balance held in the Capital Adjustment Account is £7,463,798.

The cash from these receipts is held within investments on the balance sheet and is available to fund capital expenditure in 2013/14 and future years.

**(iii) Economic Climate**

The effect of the economic downturn continued in 2012/13 as budget expectations took into account the expected effects of lower interest rates and other falls in income. However, further reductions in government grant funding, together with further reductions in income impacted on the Council's finances and action was required to deal with the impact of these on the revenue budget in order to achieve a balanced outturn position. The outcome of this can be seen in Note 4.12, where income has reduced from £11.440million in 2011/12 to £10.026million in 2012/13. However, the continued transformation programme has seen expenditure reductions, with employee expenses reducing from £19.567million in 2011/12 to £18.914million in 2012/13. Other expenditure has also reduced from £57.891million in 2011/12 to £56,854million in 2012/13.

**1.6 Major Influences on the Authority**

During 2012/13 the Council has continued with its programme of transformational change in order to make savings and efficiency savings in light of reducing funding levels.

**1.7 Accounting Policy Information**

The accounts of the Council comply with the relevant accounting practices laid down by the Accounting Standards authorities and the 2012/13 Code.

**1.8 Further Information**

As part of the Council's policy of providing full information about the Council's affairs, further information regarding the accounts is available on request from the Director of Resources, Civic Centre, Rickergate, Carlisle. In addition, members of the public have a statutory right to inspect the accounts before the audit and to have a copy of the Statement of Accounts after the audit has been completed.

## SECTION 2 - STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 2.1 The Responsibilities of the Council

The Council is required to:

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

### 2.2 The Responsibilities of the Director of Resources

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

In preparing this statement of accounts, the Director of Resources has:

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

The Director of Resources has also:

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

The Director of Resources is required to give a true and fair view of the financial position of the Council at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Signed:



Date:

28 June 2013

Director of Resources

## SECTION 3 – FINANCIAL STATEMENTS

## 3.1 Movement in Reserves Statement

2011/12	Note	General Fund Balance £000	Earmarked GF Reserves £000	Capital Receipts Reserve £000	Deferred Capital Receipts £000	Capital Grant Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2012</b>		2,839	2,247	0	20	118	5,224	123,947	129,171
<b>Movement in reserves during 2012/13</b>									
Surplus/(deficit) on provision of services (accounting basis)		(12,761)	0	0	0	0	(12,761)	0	(12,761)
Other Comprehensive Income and expenditure		0	0	0	0	0	0	(7,910)	(7,910)
<b>Total Comprehensive Income and Expenditure</b>		(12,761)	0	0	0	0	(12,761)	(7,910)	(20,671)
Adjustments between accounting basis and funding basis under regulations	4.4	12,636	0	0	0	85	12,721	(12,721)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		(125)	0	0	0	85	(40)	(20,631)	(20,671)
Transfers to/(from) Earmarked Reserves	4.5	(172)	172	0	0	0	0	0	0
<b>Increase/Decrease in Year</b>		(297)	172	0	0	85	(40)	(20,631)	(20,671)
<b>Balance at 31 March 2013</b>		2,542	2,419	0	20	203	5,184	103,316	108,500

2011/12 Comparative Figures	Note	General Fund Balance £000	Earmarked GF Reserves £000	Capital Receipts Reserve £000	Deferred Capital Receipts £000	Capital Grant Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Restated Balance at 31 March 2011</b>		<b>3,721</b>	<b>2,741</b>	<b>0</b>	<b>20</b>	<b>137</b>	<b>6,619</b>	<b>135,814</b>	<b>142,433</b>
<b>Movement in reserves during 2011/12</b>									
Surplus/(deficit) on provision of services (accounting basis)		(8,520)	0	0	0	0	(8,520)	0	(8,520)
Other Comprehensive Income and expenditure		0	0	0	0	0	0	(4,742)	(4,742)
<b>Total Comprehensive Income and Expenditure</b>		<b>(8,520)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,520)</b>	<b>(4,742)</b>	<b>(13,262)</b>
Adjustments between accounting basis and funding basis under regulations	4.4	7,144	0	0	0	(19)	7,125	(7,125)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>		<b>(1,376)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(19)</b>	<b>(1,395)</b>	<b>(11,867)</b>	<b>(13,262)</b>
Transfers to/(from) Earmarked Reserves	4.5	494	(494)	0	0	0	0	0	0
<b>Increase/Decrease in Year</b>		<b>(882)</b>	<b>(494)</b>	<b>0</b>	<b>0</b>	<b>(19)</b>	<b>(1,395)</b>	<b>(11,867)</b>	<b>(13,262)</b>
<b>Balance at 31 March 2012</b>		<b>2,839</b>	<b>2,247</b>	<b>0</b>	<b>20</b>	<b>118</b>	<b>5,224</b>	<b>123,947</b>	<b>129,171</b>



### 3.2 Comprehensive Income and Expenditure Statement

2011/12				Note	2012/13		
Expenditure £000	Income £000	Net £000			Expenditure £000	Income £000	Net £000
12,875	(11,474)	1,401	Central Services		13,632	(11,875)	1,757
8,262	(1,089)	7,173	Cultural & Related Services		7,356	(780)	6,576
8,358	(3,533)	4,825	Environmental & Regulatory Services		7,627	(3,061)	4,566
3,497	(1,027)	2,470	Planning Services		3,101	(1,190)	1,911
3,706	(3,834)	(128)	Highways & Transport Services		3,437	(3,436)	1
36,507	(32,361)	4,146	Housing Services		34,792	(33,160)	1,632
3,103	(767)	2,336	Corporate & Democratic Core		2,180	(65)	2,115
177	0	177	Non Distributed Costs		(36)	0	(36)
0	0	0	Exceptional Items (Downward Revaluations)	4.7 / 4.27	10,114	0	10,114
<b>76,485</b>	<b>(54,085)</b>	<b>22,400</b>	<b>Cost of Services</b>	<b>4.12(b)</b>	<b>82,203</b>	<b>(53,567)</b>	<b>28,636</b>
590	(834)	(244)	Other Operating Expenditure	4.8	1,072	(449)	623
17,248	(15,356)	1,892	Financing and Investment Income and Expenditure	4.9	17,463	(18,733)	(1,270)
0	(5)	(5)	Surplus or Deficit of Discontinued Operations	4.26	0	0	0
0	(15,523)	(15,523)	Taxation and Non-Specific Grant Income	4.10	0	(15,228)	(15,228)
<b>94,323</b>	<b>(85,803)</b>	<b>8,520</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>4.12(b)</b>	<b>100,738</b>	<b>(87,977)</b>	<b>12,761</b>
		(603)	Surplus or Deficit on Revaluation of Non Current Assets	4.44a			(223)
		5,345	Actuarial (Gains)/Losses on Pension Assets/Liabilities	4.44c			8,133
		<b>4,742</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>7,910</b>
		<b>13,262</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>20,671</b>

### 3.3 Balance Sheet

31 March 2012 £000		Note	31 March 2013	
			£000	£000
	Property, Plant and Equipment	4.29		
	Operational Assets			
186	Dwellings			181
38,175	Other Land & Building			27,335
3,442	Infrastructure Assets			3,497
3,770	Community Assets			3,832
5,803	Vehicles & Plant			5,254
	Non Operational Assets			
582	Surplus			582
221	Assets Under Construction			1,319
52,179	Total Property, Plant and Equipment			42,000
98,271	Investment Property	4.31		94,863
206	Intangible Assets	4.32		142
16,108	Heritage Assets	4.33		16,109
0	Long Term Investments	4.36b		0
	Long Term Debtors	4.36b		
229	Transferred Debt - Cumbria County Council			206
63	Other Long Term Debtors			54
114,877				111,374
<b>167,056</b>	<b>Total Long Term Assets</b>			<b>153,374</b>
	Current Assets			
15,063	Short Term Investments	4.36b	17,110	
250	Assets Held for Sale	4.41	470	
118	Inventories	4.37	60	
5,085	Short Term Debtors	4.39	3,173	
432	Payments in Advance		457	
1,792	Cash and Cash Equivalents	4.40	2,110	
<b>22,740</b>	<b>Total Current Assets</b>			<b>23,380</b>
	Current Liabilities			
(884)	Cash and Cash Equivalents	4.40	0	
(483)	Short Term Borrowing	4.36a	(483)	
(443)	Provisions	4.43	(683)	
(4,939)	Short Term Creditors	4.42	(4,276)	
(15)	Capital Grants Receipts in Advance	4.46	0	
(1,815)	Receipts in Advance		(1,914)	
<b>(8,579)</b>	<b>Total Current Liabilities</b>			<b>(7,356)</b>
	Long Term Liabilities			
(1,154)	Long Term Creditors	4.42	(1,166)	
(15,000)	Long Term Borrowing	4.36a	(15,000)	
(214)	Provisions	4.43	(287)	
(35,678)	Other Long Term Liabilities (Pensions)	4.48d	(44,445)	
<b>(52,046)</b>	<b>Total Long Term Liabilities</b>			<b>(60,898)</b>
<b>129,171</b>	<b>Net Assets</b>			<b>108,500</b>

31 March 2012 £000	Balance Sheet (Cont.)	Note	31 March 2013	
			£000	£000
	<b>Usable Reserves</b>	4.5		
20	Deferred Credits		20	
0	Usable Capital receipts		0	
2,839	General Fund Reserve Balance		2,542	
2,247	Earmarked Reserves	4.5	2,419	
118	Capital Grants Unapplied Account		203	
5,224				5,184
	<b>Unusable reserves</b>	4.44		
(35,678)	Pension Reserve		(44,445)	
(69)	Employee Benefit Reserve		(80)	
139,210	Capital Adjustment Account		127,281	
58	Collection Fund Adjustment Account		65	
20,426	Revaluation Reserve		20,495	
123,947				103,316
<b>129,171</b>	<b>Total Reserves</b>			<b>108,500</b>

Certified that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Signed:



Date:

28 June 2013

Director of Resources

### 3.4 Cash Flow Statement

2011/12 £000		Note	2012/13 £000
8,520	<b>Net surplus or deficit on the provision of services</b>		12,761
(6,463)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	4.54	(20,540)
2,850	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	4.54	5,102
<b>4,907</b>	<b>Net cash flows from Operating Activities</b>		<b>(2,677)</b>
(3,190)	Net cash flows from Investing Activities	4.55	1,054
(1,319)	Net cash flows from Financing Activities	4.55	421
<b>398</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>(1,202)</b>
1,306	Cash and cash equivalents at the beginning of the reporting period		908
<b>908</b>	Cash and cash equivalents at the end of the reporting period		<b>2,110</b>

## SECTION 4 – NOTES TO THE ACCOUNTS

### 4.0 Accounting Policies

#### 4.0.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

#### 4.0.2 Accruals of Income and Expenditure

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

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

#### 4.0.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### 4.0.4 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the

accounts, depending on how significant the items are to an understanding of the Council's financial performance.

#### **4.0.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

#### **4.0.6 Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its overall borrowing requirement. This is known as the Minimum Revenue Provision and is calculated as 4% of the Council's capital financing requirement at the start of the financial year. Depreciation, impairment losses, revaluation losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

#### **4.0.7 Employee Benefits**

##### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

### **Post Employment Benefits**

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a defined benefit scheme it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.
- Liabilities are discounted to their value at current prices using a real discount rate of 4.2%.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

Around 87% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into seven components and recognised in the Statements as follows:
  - **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.
  - **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.
  - **Interest cost** – the expected increase in the value of liabilities during the year as they move one year closer to being paid is charged to Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.
  - **Expected return on assets** – the annual investment return on fund assets attributable to the Council, based on an average of the expected long-term return is credited to Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

- **Gains and losses on settlements and curtailments** – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are charged to Non-Distributed Costs within Net Operating costs in the Comprehensive Income and Expenditure Statement.
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions are charged to other income and expenditure in the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 4.48 to the Accounts.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision and accounted for using the same policies as are applied to the LGPS.

### **4.0.8 Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **4.0.9 Financial Instruments**

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2012/13 Code.

### **Financial Liabilities**

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and



Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

**(i) Borrowing**

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12 month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

**(ii) Creditors**

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

**Financial Assets**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**(i) Loans and Receivables**

Investments

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all the investments that the Council has made, this means that the amount shown in the balance sheet is the amount of principal due to be repaid to the Council and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable by the Council under the loan agreement.

Debtors (including mortgages)

Debtors are recognised when a contractual arrangement is entered into between the council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the balance sheet represents the current value of the outstanding debts owed to the Council at 31 March as a proxy for amortised cost.

### Car Loans

Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2012/13 Code. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note 4.36 to the Financial Statements.

### **4.0.10 Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **4.0.11 Heritage Assets**

#### **Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

#### ***Museum Collection***

The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current

market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2010-2015 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

### ***Statues, Monuments and other historical buildings***

The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost. This will be re-evaluated so that the most appropriate valuation basis is used, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

### **Heritage Assets – General**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.18 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

### **4.0.12 Intangible Asset**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on

the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **4.0.13 Inventories and Long Term Contracts**

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction.

#### **4.0.14 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **4.0.15 Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations 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 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.

#### **4.0.16 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **The Council as Lessee**

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### **The Council as Lessor**

#### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **4.0.17 Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### **4.0.18 Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Deminimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant and equipment;
- £20,000 for expenditure on land, buildings and other structures.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

Asset Category	Rate	Basis
Dwellings & Other Buildings	Useful Life	Straight Line
Infrastructure Assets	Useful Life	Straight Line
Vehicles, Plant, furniture & Equipment	Useful Life	Straight Line
Intangible Assets	Useful Life	Straight Line

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

### Componentisation

The Council has a policy on componentisation where any asset with a Gross Book Value of more than £1million and is subject to depreciation will be considered for componentisation where a component is deemed to be more than 5% of the assets value. This will primarily apply to buildings and the major components to be considered will be:

Component
Heating and Ventilation System
Windows
Electrical
Water Systems
Roofing
Lifts

**Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**4.0.19 Provisions, Contingent Liabilities and Contingent Assets****Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.



Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**4.0.20 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

**4.0.21 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

**4.0.22 VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **4.1 Accounting Standards that have been issued but have not yet been adopted**

### **IAS 19 Employee Benefits (June 2011 amendments)**

The adoption of the 2011 amendments to IAS19 Employee Benefits by the Code will result in a change in accounting policy that requires disclosure. The change in accounting policy will come into effect on 1 April 2013.

Under IAS19 the expected return on assets is replaced with “Interest on Assets”. This is the interest on assets held at the start of the period and cashflows occurring during the period, calculated using the discount rate at the start of the year. The pension cost recognised in the CIES under IAS19 will see the interest cost and expected return on assets replaced with the “net interest cost”. This will be calculated as interest on pension liabilities (substantially the old interest cost) less the interest on assets.

The new IAS19 requires that all actuarial gains and losses be recognised in the year of occurrence via the Comprehensive Income and Expenditure Statement. Also, actuarial gains and losses on liabilities due to changes in actuarial assumptions need to be split between the effect of changes in financial assumptions and changes in demographic assumptions.

A separate item of Administration expenses will also be recognised within pension costs (note 4.22).

A restatement of the 2012/13 figures will be included in the 2013/14 Statement of Accounts and will result in an increase in the total pension cost recognised in the CIES and balance sheet from £3.438m to £3.956m, and a reduction in the actuarial losses from £8.133m to £7.615m.

### **IAS1 Presentation of Financial Statements – Other Comprehensive Income (June 2011 amendments)**

Due to the changes outlined above, there will be presentational changes required to the Comprehensive Income and Expenditure Statement.

### **IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Liabilities)**

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the code in 2012/13 will result in a change of accounting policy that requires disclosure in the 2012/13 Statement of Accounts. The changes to the standard are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council’s financial position. However, the transfers described by the standard are not undertaken by Carlisle City Council, therefore no additional disclosures will be required.

## **4.2 Critical Judgements in applying Accounting Policies**

In applying the accounting policies set out in Note 4.0, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property Plant and Equipment (£42million at 31.03.13)	Assets are depreciated over useful lives that are dependent upon assumption about the level of repairs and maintenance that will be incurred in relation to individual assets. The current capital programme for major repairs has been reduced due to the Council directing its limited capital resources more strategically.	If the useful lives of assets are reduced, depreciation will increase and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings, vehicles and plant would increase by £197,000 for every year that useful lives had to be reduced.
Debtors & Creditors (£3.173 million and £4.276million at 31.03.13)	Debtors and creditor accruals are prepared on known invoices received/due, or are based on estimates of grant claims, accounting adjustments calculated from systems, e.g. Collection Fund.	Any creditors or debtors that are paid in 2013/14 that differ from the accrual made will result in the difference being funded from the 2013/14 budget.
Pension Liability (£45.445million at 31.03.13)	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 actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.506million

### 4.3 Material Items of Income and Expense

The Council had the following items of material income and expenditure in 2012/13:

- Income relating to the administration and payments of Benefits was received from Central Government totalling £38,877,595 (2011/12 £37,636,000) with corresponding payments of benefits totalling £39,099,416 (2011/12 £36,850,064).
- Council tax income of £7,187,000 (2011/12 £7,181,000) was credited to the Comprehensive Income and Expenditure Statement
- Redistributed NNDR of £6,230,000 (2011/12 £5,369,000) was received from Central Government.
- The continued Transformation programme of the Council resulted in Termination payments of £382,189 (2011/12 £618,678) being made in the year. These were charged to services and included redundancy pay and pension costs. These items were funded from the Transformation Reserve and salary savings.
- Downward revaluations of Property Plant and Equipment of £10.295million (2011/12 £2.750million).
- Downward revaluations of Investment Property of £0.903million (2011/12 £3.295million).
- Rental income from investment property of £4.673million (2011/12 £4,454,000).

## **Movement in Reserves Statement**

### **4.4 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 the proper accounting practice to the resources that are specified by statutory provision as being available to the Council to meet future capital and revenue expenditure.

	General Fund balance	earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable reserves	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Short Term Compensated Absences	Total Authority Reserves
2012/13	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>												
<b>(Amounts included in I&amp;E to be removed for determining movement in general fund)</b>												
Depreciation / Amortisation	2,647				2,647	(2,647)			(2,647)			0
Impairment/revaluation losses (charged to CIES)	10,266				10,266	(10,266)			(10,266)			0
Capital grant and contributions applied charged to CIES	(92)				(92)	92			92			0
Revenue Expenditure Funded from Capital under Statute (England and Wales)	246			(5)	241	(241)			(241)			0
Movement in market value of investment property	903				903	(903)			(903)			0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	4,020				4,020	(4,020)			(4,020)			0
Capital grant and contributions unapplied credited to CIES	(109)			109	0	0			0			0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(5,015)		4,480		(535)	535			535			0
Costs of Disposal funded from Capital Receipts	63		(63)		0	0			0			0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	3,438				3,438	(3,438)		(3,438)				0
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)	(7)				(7)	7				7		0
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	11				11	(11)					(11)	0
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b>												
<b>(Amounts excluded in I&amp;E to be included for determining movement in general fund)</b>												
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(304)				(304)	304			304			0
Statutory Repayment of Debt (Finance Lease Liabilities)	0				0	0			0			0
Revenue contribution to finance capital	(627)				(627)	627			627			0
Employers contributions to pension schemes	(2,804)				(2,804)	2,804		2,804				0
<b>Other adjustments include</b>												
Use of capital grants and contributions to finance capital expenditure	0			(19)	(19)	19			19			0
Use of capital receipts reserve to finance capital expenditure	0		(4,417)		(4,417)	4,417			4,417			0
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost.					0	0	(154)		154			0
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>12,636</b>	<b>0</b>	<b>0</b>	<b>85</b>	<b>12,721</b>	<b>(12,721)</b>	<b>(154)</b>	<b>(634)</b>	<b>(11,929)</b>	<b>7</b>	<b>(11)</b>	<b>0</b>

	General Fund balance	earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable reserves	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Short Term Compensated Absences	Total Authority Reserves
2011/12 Comparative Figures	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b> <b>(Amounts included in I&amp;E to be removed for determining movement in general fund)</b>												
Depreciation / Amortisation	2,767				2,767	(2,767)			(2,767)			0
Impairment/revaluation losses (charged to CIES)	2,735				2,735	(2,735)			(2,735)			0
Capital grant and contributions applied charged to CIES	(853)				(853)	853			853			0
Revenue Expenditure Funded from Capital under Statute (England and Wales)	171			(9)	162	(162)			(162)			0
Movement in market value of investment property	3,295				3,295	(3,295)			(3,295)			0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,430				1,430	(1,430)			(1,430)			0
Capital grant and contributions unapplied credited to CIES	0				0	0			0			0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(2,005)		2,005		0	0			0			0
Costs of Disposal funded from Capital Receipts	17		(17)		0	0			0			0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	3,229				3,229	(3,229)		(3,229)				0
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)	(15)				(15)	15				15		0
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6				6	(6)					(6)	0
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</b> <b>(Amounts excluded in I&amp;E to be included for determining movement in general fund)</b>												
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(278)				(278)	278			278			0
Statutory Repayment of Debt (Finance Lease Liabilities)	0				0	0			0			0
Revenue contribution to finance capital	(454)				(454)	454			454			0
Employers contributions to pension schemes	(2,901)				(2,901)	2,901		2,901				0
<b>Other adjustments include</b>					0							0
Use of capital grants and contributions to finance capital expenditure	0			(10)	(10)	10			10			0
Use of capital receipts reserve to finance capital expenditure	0		(1,988)		(1,988)	1,988			1,988			0
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost.					0	0	(101)		101			0
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>7,144</b>	<b>0</b>	<b>0</b>	<b>(19)</b>	<b>7,125</b>	<b>(7,125)</b>	<b>(101)</b>	<b>(328)</b>	<b>(6,705)</b>	<b>15</b>	<b>(6)</b>	<b>0</b>

## 4.5 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance 1 April 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance 31 March 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance 31 March 2013
<b>Capital:</b>							
Lanes Capital Fund	326	0	14	340	0	14	354
CLL Reserve	522	0	0	522	0	0	522
Asset Investment Reserve	48	0	0	48	0	0	48
<b>Total Capital Reserves</b>	<b>896</b>	<b>0</b>	<b>14</b>	<b>910</b>	<b>0</b>	<b>14</b>	<b>924</b>
<b>Revenue</b>							
Projects Reserve	0	0	0	0	0	0	0
EEAC Reserve	192	(98)	0	94	(38)	0	56
Transformation Reserve	884	(407)	250	727	(432)	200	495
Welfare Reform Reserve	0	0	0	0	0	200	200
Job Evaluation Reserve	118	(81)	0	37	(37)	0	0
Residents Parking Reserve	(99)	(93)	0	(192)	0	192	0
Licensing Reserve	14	0	0	14	0	0	14
Building Control Reserve	(27)	0	0	(27)	0	10	(17)
Routledge Reserve	42	(42)	0	0	0	0	0
Sheepmount Reserve	42	(40)	0	2	(2)	0	0
Cremator Replacement Reserve	0	0	69	69	0	74	143
Conservation Fund	191	(66)	0	125	(9)	0	116
LSVT Warranties	488	0	0	488	0	0	488
<b>Total Revenue Reserves</b>	<b>1,845</b>	<b>(827)</b>	<b>319</b>	<b>1,337</b>	<b>(518)</b>	<b>676</b>	<b>1,495</b>
<b>Total Earmarked Reserves</b>	<b>2,741</b>	<b>(827)</b>	<b>333</b>	<b>2,247</b>	<b>(518)</b>	<b>690</b>	<b>2,419</b>
<b>Other Usable Reserves</b>							
Deferred Credits	20	0	0	20	0	0	20
General Fund Balance	3,721	(2,065)	1,183	2,839	(1,368)	1,071	2,542
Capital Grant Unapplied	137	(19)	0	118	(24)	109	203
<b>Total Usable Reserves</b>	<b>6,619</b>	<b>(2,911)</b>	<b>1,516</b>	<b>5,224</b>	<b>(1,910)</b>	<b>1,870</b>	<b>5,184</b>

## 4.6 Nature and Purpose of Reserves

The Council is required to maintain a number of reserves under the provisions of the Code. The reserves and their broad functions are as follows.

### (a) Earmarked Reserves

This balance represents monies available to support revenue spending but which the Council have earmarked for specific purposes. Further details on individual earmarked reserves are contained within the Council's Medium Term Financial Plan, available upon request from the Director of Resources.

- (b) **Deferred Credits** This represents the balance of capital debtors recognised within long term debtors in respect of Housing Act Mortgage Debtors which remain outstanding at the year end and, therefore, cannot be counted within the useable capital receipts reserve.
- (c) **General Fund Balances**  
This balance represents the cumulative surplus available to the Council to support revenue spending and which has not been earmarked for a specific purpose.
- (d) **Capital Grants Unapplied**  
This represents capital grants that have been received and recognised in the Comprehensive Income and Expenditure Statement but which have yet to be applied to finance capital expenditure.
- (e) **Useable Capital Receipts Reserve**  
Capital reserves are not allowed to be used for revenue purposes and in certain cases can only be used for specific statutory purposes. The Useable Capital Receipts Reserve is a reserve established for specific statutory purposes.
- (f) **Capital Adjustment Account**  
This account exists to capture those elements of capital accounting required by the Code other than those taken through the revaluation reserve.
- (g) **Pension Reserve**  
This reserve captures those charges and movements required to be recognised under IAS 19 when calculating total gains and losses for the year but which are required to be excluded from the movement on general fund balances.
- (h) **Revaluation Reserve**  
This reserve captures the cumulative surplus recognised (but not realised) on the revaluation of fixed assets held by the Council.
- (i) **Collection Fund Adjustment Account**  
This account exists to capture the difference between the amount of income recognised in the Comprehensive Income and Expenditure Statement relating to the collection of Council Tax and that required by Statute to be charged to the General Fund.
- (j) **Employee Benefit Reserve**  
This reserve exists to capture the difference between the amount of expenditure recognised in the Comprehensive Income and Expenditure Statement relating to accrued holiday pay and flexi time and that required by Statute to be charged to the General Fund.



## Comprehensive Income and Expenditure

### 4.7 Exceptional Items

Due to the revaluation of assets undertaken during 2012/13, there have been some significant downward revaluations charged to the Comprehensive Income and Expenditure Statement. Further details of where these revaluations would normally be shown in the CIES can be found at Note 4.27. The major revaluation change relates to Tullie House, where the granting of a peppercorn lease to the Tullie House Trust for 30 years has resulted in a significant downward revaluation of £8.8million. There was also a significant reduction in the valuation for Low Harker Dene Travellers site by £1.2million, again due to the granting of a peppercorn lease.

### 4.8 Other Operating Expenditure

2011/12 £000		2012/13 £000
438	Parish Council Precepts	445
(682)	Gains/Losses on disposal of non-current assets	178
<b>(244)</b>	<b>Total</b>	<b>623</b>

### 4.9 Financing and Investment Income and Expenditure

2011/12 £000		Note	2012/13 £000
1,312	Interest payable and similar charges		1,298
1,079	Pensions interest cost and expected return on pension assets	4.22	1,257
(377)	Interest receivable and similar income		(393)
(355)	Income and expenditure in relation to investment properties and changes in their fair value	4.11	(3,520)
233	Surplus/Deficit on Trading Undertakings	4.13	88
<b>1,892</b>	<b>Total</b>		<b>(1,270)</b>

### 4.10 Taxation and Non Specific Grant Income

2011/12 £000		2012/13 £000
(7,181)	Council Tax Income	(7,187)
(5,369)	Non-Domestic Rates	(6,230)
(2,120)	Non-Ring-fenced Government Grants	(1,184)
(853)	Recognised Capital Grants & Contributions	(92)
0	Recognised contribution - exchanged asset	(535)
<b>(15,523)</b>	<b>Total</b>	<b>(15,228)</b>

## 4.11 Investment Properties

Amounts that have been recognised in the Comprehensive Income and Expenditure Statement relating to investment property are:

2011/12 £000		2012/13 £000
(4,454)	Rental Income from investment property	(4,673)
678	Direct operating expenses arising from investment property that generated rental income during the period	874
3,295	Change in Fair Value of Investment Properties	903
126	(Gains)/Losses on Disposal of Investment Properties	(624)
<b>(355)</b>	<b>Net (Gain)/Loss</b>	<b>(3,520)</b>

## 4.12 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* (SeRCOP). However, decisions about resource allocation are taken by the Council's Executive 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 employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Expenditure on some support services is budgeted for centrally and not charged to directorates.

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

**(a) Service Expenditure**

<b>Directorate Income and Expenditure 2012/13</b>	<b>Chief Executive £000</b>	<b>Governance £000</b>	<b>Resources £000</b>	<b>Community Engagement £000</b>	<b>Economic Development £000</b>	<b>Local Environment £000</b>	<b>Total £000</b>
Fees, charges and other service income	(32)	(457)	(5,121)	(1,132)	(1,099)	(2,185)	<b>(10,026)</b>
Interest and Other investment Income	0	0	(393)	0	0	0	<b>(393)</b>
Government Grants and contributions	(2)	(200)	(39,987)	(3,677)	(123)	(2,667)	<b>(46,656)</b>
Recharges / Support Services Recharges	0	0	(479)	0	0	(2,331)	<b>(2,810)</b>
<b>Total Income</b>	<b>(34)</b>	<b>(657)</b>	<b>(45,980)</b>	<b>(4,809)</b>	<b>(1,222)</b>	<b>(7,183)</b>	<b>(59,885)</b>
Employee Expenses	801	1,124	4,106	5,801	1,607	5,475	<b>18,914</b>
Other service charges	204	737	42,756	5,253	970	6,934	<b>56,854</b>
Recharges / Support Service Recharges	(861)	539	(4,465)	1,644	468	484	<b>(2,191)</b>
<b>Total Expenditure</b>	<b>144</b>	<b>2,400</b>	<b>42,397</b>	<b>12,698</b>	<b>3,045</b>	<b>12,893</b>	<b>73,577</b>
<b>Net Expenditure</b>	<b>110</b>	<b>1,743</b>	<b>(3,583)</b>	<b>7,889</b>	<b>1,823</b>	<b>5,710</b>	<b>13,692</b>

Directorate Income and Expenditure 2011/12 Comparative Figures	Chief Executive £000	Governance £000	Resources £000	Community Engagement £000	Economic Development £000	Local Environment £000	Total £000
Fees, charges and other service income	(7)	(608)	(4,885)	(936)	(919)	(4,085)	(11,440)
Interest and Other investment Income	0	0	(377)	0	(2)	0	(379)
Government Grants and contributions	(15)	(127)	(38,138)	(4,126)	(204)	(3,104)	(45,714)
Recharges / Support Services Recharges	0	0	(1,907)	0	0	(2,038)	(3,945)
<b>Total Income</b>	<b>(22)</b>	<b>(735)</b>	<b>(45,307)</b>	<b>(5,062)</b>	<b>(1,125)</b>	<b>(9,227)</b>	<b>(61,478)</b>
Employee Expenses	942	1,130	4,130	5,891	1,620	5,854	19,567
Other service charges	208	811	42,155	5,562	1,171	7,984	57,891
Recharges / Support Service Recharges	(102)	0	(613)	0	0	(9)	(724)
<b>Total Expenditure</b>	<b>1,048</b>	<b>1,941</b>	<b>45,672</b>	<b>11,453</b>	<b>2,791</b>	<b>13,829</b>	<b>76,734</b>
<b>Net Expenditure</b>	<b>1,026</b>	<b>1,206</b>	<b>365</b>	<b>6,391</b>	<b>1,666</b>	<b>4,602</b>	<b>15,256</b>

**(b) Reconciliation to Subjective Analysis**

This reconciliation shows how 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	Service and Support Services Not in Analysis £000	Amounts not reported to Management for Decision Making £000	Amounts not included in CIES £000	Allocation of Recharges £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(10,026)	0	(73)	7,249	0	(2,850)	(9,074)	<b>(11,924)</b>
Interest and Investment Income	(393)	0	0	393	0	0	(5,567)	<b>(5,567)</b>
Income from Council Tax	0	0	0	0	0	0	(7,187)	<b>(7,187)</b>
Government Grants and Contributions	(46,656)	0	(774)	1,031	0	(46,399)	(8,041)	<b>(54,440)</b>
Recharges	(2,810)	0	0	0	(1,508)	(4,318)	0	<b>(4,318)</b>
Gain or Loss on Disposal of Non-Current Assets & Investment Property	0	0	0	0	0	0	(4,541)	<b>(4,541)</b>
Change in Fair Value of Investment Property	0	0	0	0	0	0	0	<b>0</b>
<b>Total Income</b>	<b>(59,885)</b>	<b>0</b>	<b>(847)</b>	<b>8,673</b>	<b>(1,508)</b>	<b>(53,567)</b>	<b>(34,410)</b>	<b>(87,977)</b>
Employee Expenses	18,914	0	2,069	(2,680)	0	18,303	6,431	<b>24,734</b>
Other service expenses	56,854	0	911	(6,174)	0	51,591	5,363	<b>56,954</b>
Non-Support & Support Service Recharges	(2,191)	0	0	0	1,508	(683)	0	<b>(683)</b>
Depreciation, amortisation and impairment	0	0	12,943	0	0	12,943	0	<b>12,943</b>
Interest Payments	0	0	0	0	0	0	1,298	<b>1,298</b>
Precepts and Levies	0	0	0	0	0	0	445	<b>445</b>
Gain or Loss on Disposal of Non-Current Assets & Investment Property	0	0	49	0	0	49	4,095	<b>4,144</b>
Change in Fair Value of Investment Property	0	0	0	0	0	0	903	<b>903</b>
<b>Total Expenditure</b>	<b>73,577</b>	<b>0</b>	<b>15,972</b>	<b>(8,854)</b>	<b>1,508</b>	<b>82,203</b>	<b>18,535</b>	<b>100,738</b>
<b>Surplus/Deficit on Provision of Services</b>	<b>13,692</b>	<b>0</b>	<b>15,125</b>	<b>(181)</b>	<b>0</b>	<b>28,636</b>	<b>(15,875)</b>	<b>12,761</b>

2011/12 Comparative Figures	Directorate Analysis £000	Service and Support Services Not in Analysis £000	Amounts not reported to Management for Decision Making £000	Amounts not included in CIES £000	Allocation of Recharges £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(11,440)	0	(1,103)	7,673	0	(4,870)	(8,166)	(13,036)
Interest and Investment Income	(379)	0	0	377	0	(2)	(6,043)	(6,045)
Income from Council Tax	0	0	0	0	0	0	(7,181)	(7,181)
Government Grants and Contributions	(45,714)	0	0	446	0	(45,268)	(8,342)	(53,610)
Recharges	(3,945)	0	0	0	0	(3,945)	0	(3,945)
Gain or Loss on Disposal of Non-Current Assets & Investment Property	0	0	0	0	0	0	(1,986)	(1,986)
Change in Fair Value of Investment Property	0	0	0	0	0	0	0	0
<b>Total Income</b>	<b>(61,478)</b>	<b>0</b>	<b>(1,103)</b>	<b>8,496</b>	<b>0</b>	<b>(54,085)</b>	<b>(31,718)</b>	<b>(85,803)</b>
Employee Expenses	19,567	0	1,952	(2,696)	0	18,823	6,745	25,568
Other service expenses	57,891	0	1,204	(4,912)	0	54,183	4,618	58,801
Non-Support & Support Service Recharges	(724)	0	0	0	0	(724)	0	(724)
Depreciation, amortisation and impairment	0	0	5,517	0	0	5,517	0	5,517
Interest Payments	0	0	0	(1,312)	0	(1,312)	1,312	0
Precepts and Levies	0	0	0	0	0	0	438	438
Gain or Loss on Disposal of Non-Current Assets & Investment Property	0	0	(2)	0	0	(2)	1,430	1,428
Change in Fair Value of Investment Property	0	0	0	0	0	0	3,295	3,295
<b>Total Expenditure</b>	<b>76,734</b>	<b>0</b>	<b>8,671</b>	<b>(8,920)</b>	<b>0</b>	<b>76,485</b>	<b>17,838</b>	<b>94,323</b>
<b>Surplus/Deficit on Provision of Services</b>	<b>15,256</b>	<b>0</b>	<b>7,568</b>	<b>(424)</b>	<b>0</b>	<b>22,400</b>	<b>(13,880)</b>	<b>8,520</b>

**(c) 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
15,256	<b>Net expenditure in the directorate analysis</b>	13,692
0	Add Services not included in the main analysis	0
7,568	Add amounts not reported to Management	15,125
(424)	Remove amounts reported to management not included in the Comprehensive Income and Expenditure Statement	(181)
22,400	<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	28,636

### 4.13 Trading Operations

A number of Council Services are operated on a commercial basis. The turnover and (surplus)/deficit of these services are shown below.

(Surplus)/ Deficit 2011/12 £000	Activity	Gross Income 2012/13 £000	Gross Expenditure 2012/13 £000	(Surplus) / Deficit 2012/13 £000
242	Building Cleaning & Maintenance	755	(744)	11
12	Highways	2,781	(2,770)	11
0	Transport	352	(352)	0
(21)	Parking Patrols	335	(337)	(2)
0	Grounds	198	(198)	0
0	Other	68	0	68
233	<b>Total Internal Trading</b>	<b>4,489</b>	<b>(4,401)</b>	<b>88</b>
233	<b>Total</b>	<b>4,489</b>	<b>(4,401)</b>	<b>88</b>

### 4.14 Pooled Budgets

During 2002/03, the Council agreed with Eden District Council to form the Carlisle and Eden Crime and Disorder Reduction Partnership. The partnership was instigated under the Council's duties to reduce crime and disorder. The Council made no contribution in 2012/13 (2011/12: £30,000) to a pooled budget in this scheme, which is included in Cultural, Environmental, Regulatory and Planning Services in the Comprehensive Income and Expenditure Statement.

## 4.15 Agency Income and Expenditure

In the Council's capacity as Billing Authority it acts as an agent in collecting and distributing Council Tax income on behalf of the major preceptors and itself. Only the Council's share of income and expenditure is shown in the Comprehensive Income and Expenditure Statement (£7.187million).

The Council also acts as an agent in collecting National Non-Domestic Rates (NNDR) on behalf of the Government. Only the income received in NNDR redistribution (£6.230million) is recognised in the Comprehensive Income and Expenditure Statement.

The Council is required to maintain a separate fund for the collection and distribution of amounts due in respect of Council tax and NNDR. The Collection Fund is included as a supplementary statement.

## 4.16 Members Allowances

The Code of Practice on Local Authority Accounting requires that Local Authorities disclose details of allowances paid to elected members during the year. Details of allowances paid in 2012/13 are as follows:

2011/12 £000		2012/13 £000
245	Type of Allowance Basic Allowance	245
85	Special Responsibility Allowance	82
23	Conference/Other Allowances	16
<b>353</b>	<b>Total</b>	<b>343</b>

## 4.17 Officers' Remuneration

The Accounts and Audit Regulations 2011 require that local authorities disclose details of the number of employees whose remuneration exceeds £50,000 in bands of £5,000. The table below includes senior employees who are also subject to additional disclosure below.

**Remuneration includes any payments made on termination of employment, but does not include pension contributions.**

The Accounts and Audit Regulations 2011 also now requires that local authorities disclose the individual remuneration details of senior employees by job title for a number of categories if their annual salary is above £50,000. For the purpose of disclosure, senior employees are defined by the Council as Director Level and above.



Remuneration Banding (incl Termination Payments)	Number of Employees			
	2012/13	Left During Year	2011/12	Left During Year
Between £50,000 and £54,999	2	0	4	1
Between £55,000 and £59,999	0	0	1	0
Between £60,000 and £64,999	5	0	4	0
Between £65,000 and £69,999	0	0	0	0
Between £70,000 and £74,999	1	1	0	0
Between £75,000 and £79,999	1	1	1	0
Between £80,000 and £84,999	1	0	0	0
Between £85,000 and £89,999	0	0	0	0
Between £90,000 and £94,999	1	1	1	0
Between £95,000 and £99,999	1	1	0	0
Between £100,000 and £104,999	1	0	0	0
<b>Total Number of Employees (Including Senior Employees)</b>	<b>13</b>	<b>4</b>	<b>11</b>	<b>1</b>

Post	Salaries, fees & allowances	Expenses allowance	Compensation for loss of employment	Benefits in Kind (e.g car allowance)	Total Remuneration excluding pension £000	Pension Contribution £000	Total Remuneration £000
2012/13	£000	£000	£000	£000	£000	£000	£000
Chief Executive	97	0	0	8	105	11	116
Deputy Chief Executive	75	0	0	7	82	9	91
Director of Governance	58	0	0	4	62	7	69
Director of Economic Development	58	0	0	5	63	7	70
Director of Local Environment	58	0	0	5	63	7	70
Director of Community Engagement	58	0	0	5	63	7	70
Director of Resources	58	0	0	4	62	7	69
<b>Total</b>	<b>462</b>	<b>0</b>	<b>0</b>	<b>38</b>	<b>500</b>	<b>55</b>	<b>555</b>

Post	Salaries, fees & allowances	Expenses allowance	Compensation for loss of employment	Benefits in Kind (e.g car allowance)	Total Remuneration excluding pension £000	Pension Contribution £000	Total Remuneration £000
2011/12 Comparative Figures	£000	£000	£000	£000	£000	£000	£000
Chief Executive (previously Strategic Director - Deputy Chief Exec)	92	0	0	8	100	11	111
Chief Executive (left 30/08/11)	43	0	0	4	47	5	52
Deputy Chief Executive (Previously Strategic Director)	73	0	0	6	79	9	88
Director of Governance (Previously Assistant Director)	58	0	0	5	63	7	70
Director of Economic Development (Previously Assistant Director)	58	0	0	5	63	7	70
Director of Local Environment (Previously Assistant Director)	58	0	0	5	63	7	70
Director of Community Engagement (Previously Assistant Director)	58	0	0	5	63	7	70
Director of Resources (Previously Assistant Director)	58	0	0	5	63	7	70
<b>Total</b>	<b>498</b>	<b>0</b>	<b>0</b>	<b>43</b>	<b>541</b>	<b>60</b>	<b>601</b>

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

	Number of Compulsory Redundancies		Number of other Agreed Departures		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 £000	2012/13 £000
£0 - £20,000	8	9	11	3	19	12	153	104
£20,001 - £40,000	5	1	4	0	9	1	226	26
£40,001 - £60,000	1	0	4	3	5	3	240	138
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	1	0	1	0	114
<b>Total</b>	<b>14</b>	<b>10</b>	<b>19</b>	<b>7</b>	<b>33</b>	<b>17</b>	<b>619</b>	<b>382</b>

## 4.18 External Audit Costs

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

2011/12 £000		2012/13 £000
117	Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor	70
44	Fees payable to the Grant Thornton for the certification of grant claims and returns	22
12	Additional audit fee in respect of the 2010/11 audit but paid in 2011/12.	0
1	Fees payable in respect of other services provided by the appointed auditor	1
76	Fees payable in respect of objections to 2009/10 accounts	0
<b>250</b>	<b>Total</b>	<b>93</b>

## 4.19 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
	<b>Credited to Taxation and Non Specific Grant Income</b>	
82	Play Areas Grant	60
7	Chances Park Multi Use Games Area Grant	0
174	Resource Centre Grant	0
24	Chances Park Grant	0
234	Roman Gateway Grant	0
63	City Play Trail Grant	0
58	Play Areas Contribution	0
100	Vehicle replacement Contribution	0
6	Chances Park Multi Use Games Area Contribution	(19)
2	Roman Gateway Contribution	0
103	Trinity Church Multi Use Games Area Contribution	0
0	Old Town Hall	22
0	Castle Way Cycle Ramp (S106)	23
0	Centotaph Improvements	6
<b>853</b>	<b>Total</b>	<b>92</b>
	<b>Credited to Services</b>	
64	Economic Regeneration	85
78	Supporting Vulnerable People	74
30,165	Housing Benefit Subsidy	31,328
7,471	Council Tax Benefit	7,549
30	Benefits	73
94	Other Grants	24
1,594	Revenue Expenditure funded by Capital	903
<b>39,496</b>	<b>Total</b>	<b>40,036</b>

## 4.20 Related Parties

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

### Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 4.12 on reporting for resource allocation decisions. Grant receipts receivable at 31 March 2013 are shown in Note 4.19. As at 31 March 2013, the balance of Creditors owing to Central Government departments

was £0.892million. The balance of debtors owed from Central Government departments was £0.154million.

### Members

Members of the Council have direct control over the council's financial and operating policies. The total of members allowances paid in 2012/13 is shown in Note 4.16. All elected members of the Council were asked to declare any direct financial relationship through outside bodies or companies with the Council for the financial year 2012/13.

Eighteen Members declared an interest in Community Centres around the Carlisle area. The Council paid £302,500 to Community Centres during 2012/13.

2011/12 £000		2012/13 £000
19	Belah Community Centre	16
25	Botcherby Community Centre	22
38	Brampton Community Centre	42
38	Currock Community Centre	31
23	Denton Holme Community Centre	18
17	Greystone Community Centre	14
46	Harraby Community Centre	36
57	Longtown Community Centre	45
60	Morton Community Centre	48
20	Petteril Bank Community Centre	18
3	Raffles Community Centre	0
16	Yewdale Community Centre	12
<b>362</b>	<b>Grants paid to Community Centres</b>	<b>302</b>

### Officers

During 2012/13 16 officers who are considered to be key management personnel were asked to declare any direct financial relationship through outside bodies or companies with the Council for the financial year 2012/13. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Council during 2012/13.

### Other Public Bodies

The Council has a pooled budget arrangement with Eden District Council for the Crime and Disorder Reduction Partnership. Details of contributions made can be found in Note 4.14.

Other related party transactions are as follows:

- the City Council's transactions with the Cumbria County Council Pension Fund, which are shown in Note 4.22 to the Financial Statements. The balance owed to the Pension fund at 31 March, and shown as a creditor in the balance sheet was £230,218.

## **4.21 Termination Benefits**

The Council terminated the contracts of a number of employees during 2012/13, incurring liabilities of £382,189 (£618,678 in 2011/12). This total is payable to 17 officers from the Council who were made redundant as part of the Council's Transformation process.

## 4.22 Pension Costs

In 2012/13, the City Council paid an employer's contribution of £1,499,629 into the Cumbria County Council Pension Fund, representing 11.8% plus £1,051,000 deficit funding (2011/12: £1,406,024 representing 11.8% and £1,003,000 deficit funding) of pensionable pay. The contribution rate is based on the triennial actuarial valuation carried out at 31 March 2011 by the Fund's Actuary. This contribution rate is effective for the three-year period commencing 1 April 2011. The Council is also responsible for all pension payments relating to unfunded added years benefits awarded to its employees together with any related increases. In 2012/13 the value of these benefits amounted to £132,654 representing 1.1% of pensionable pay (2011/12 £149,352 and 1.3% respectively). The pension costs charged to the Comprehensive Income and Expenditure Statement in accordance with IAS 19 are as follows:

2011/12 £000		2012/13 £000
1,922	Current Service Cost	2,059
8	Past Service Cost / (Gain)	60
220	Curtailment Cost	62
(5,666)	Expected Return on Pension Assets	(5,174)
6,745	Pension Interest Costs	6,431
<b>3,229</b>	<b>Total</b>	<b>3,438</b>
(2,901)	Contributions paid to Pension Scheme	(2,804)
<b>328</b>	<b>Contributions (to) / from Pension Reserve</b>	<b>634</b>

## 4.23 Gains/Losses on Sale of Property, Plant and Equipment

The Comprehensive Income and Expenditure Statement includes gains and losses from the sale of Council assets. The value of the gains and losses for the year 2012/13 is as follows: -

2011/12 £000		2012/13 £000
(257)	Preserved Right To Buy Sales	(267)
(425)	Other	445
<b>(682)</b>	<b>Total</b>	<b>178</b>

## 4.24 Building Control

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities.

The following statement shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities:

2011/12				2012/13		
Charge-able £000	Non Charge-able £000	Total £000		Charge-able £000	Non Charge-able £000	Total £000
185	111	296	<b>Expenditure</b>	180	107	287
0	1	1	Employee Costs	0	1	1
13	8	21	Premises Expenses	12	9	21
5	14	19	Transport Expenses	8	17	25
1	1	2	Supplies & Services	3	1	4
59	54	113	Agency & Contracted Services	65	35	100
			Central & Support Services			
<b>263</b>	<b>189</b>	<b>452</b>	<b>Total Expenditure</b>	<b>268</b>	<b>170</b>	<b>438</b>
			<b>Income</b>			
(252)	0	(252)	Building Regulation Charges	(264)	0	(264)
(11)	0	(11)	Other Income	(14)	0	(14)
<b>(263)</b>	<b>0</b>	<b>(263)</b>	<b>Total Income</b>	<b>(278)</b>	<b>0</b>	<b>(278)</b>
<b>0</b>	<b>189</b>	<b>189</b>	<b>(Surplus)/Deficit for the Year</b>	<b>(10)</b>	<b>170</b>	<b>160</b>

#### 4.25 Revenue Expenditure Funded from Capital Under Statute

Items of revenue expenditure funded from capital under statute, which are not financed by government grants, are written off to the Comprehensive Income and Expenditure Statement during the year. The value for 2012/13 is as follows: -

2011/12				2012/13		
Expend-iture £000	Grants Utilised £000	Amounts Written Off £000		Expend-iture £000	Grants Utilised £000	Amounts Written Off £000
1,032	(1,029)	(3)	Disabled Facilities Grants	868	(668)	(200)
561	(561)	0	Highways Claimed Rights	238	(238)	0
0	0	0	Capitalised Redundancy Costs	0	0	0
87	(12)	(75)	Improvement Grants	0	0	0
85	(1)	(84)	Other	43	(2)	(41)
<b>1,765</b>	<b>(1,603)</b>	<b>(162)</b>	<b>Total</b>	<b>1,149</b>	<b>(908)</b>	<b>(241)</b>

#### 4.26 Discontinued Operations

The Housing Revenue Account was formally closed on 1 April 2005. All transactions relating to the former HRA are shown within the Comprehensive Income and Expenditure Statement as discontinued operations.



## 4.27 Downward Revaluations

During 2012/13 the value of Non-Current Assets that were revalued downward and charged to the surplus/deficit on Provision of Services within the Comprehensive Income and Expenditure Statement were £11.198million (2011/12 £6.045million). This was split between investment properties £0.903million (2011/12 £3.295million) and other items of Property, Plant and Equipment and surplus assets £10.295m (2011/12 £2.750million). Change in fair value of Investment Properties were charged to the Comprehensive Income and Expenditure Statement under Financing and Investment Income as per Note 4.9. Movements in other Property, Plant and Equipment were charged to Cost of Services in the Comprehensive Income and Expenditure Statement and are shown below.

2011/12 £000		2012/13 £000
2	Central Services to the Public	(7)
73	Cultural & Related Services	8,868
(31)	Environmental & Regulatory Services	0
118	Planning Services	0
4	Highways and Transport Services	0
2,415	Other Housing Services	1,253
24	Corporate & Democratic Core	0
<b>2,605</b>	<b>Total Included in Net Cost of Services</b>	<b>10,114</b>
145	Surplus/Deficit on Trading Undertakings	181
<b>2,750</b>	<b>Total</b>	<b>10,295</b>

## 4.28 Shared Services

During 2012/13 the Council continued to share services for ICT, Revenues and Benefits and Internal Audit. ICT is shared with Allerdale Borough Council who act as the host authority. Revenues and Benefits is hosted by Carlisle City Council and the partners are Copeland Borough Council and Allerdale Borough Council. The County Council is the host for the Internal Audit shared service with partners, Carlisle City Council and Copeland Borough Council. The costs and income associated with all shared services are shown in the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

The Revenues and Benefits shared service is primarily a sharing of staff and IT systems. All other costs associated with the running of the services are held by each individual authority. Therefore, the total cost of the Shared Service for 2012/13 was £3,352,361 (2011/12 £3,331,948) and contributions were received from Copeland totalling £935,685 (2011/12 £928,723) and Allerdale totalling £1,168,281 (2011/12 £1,160,904).

For the ICT shared service, the Council made contributions to Allerdale totalling £1,214,712 (2011/12 £1,203,724) with expenditure incurred directly by Carlisle totalling £140,238 (2011/12 £91,421).

For all shared services, each Authority has accounted for its contracted share of Income and expenditure and its share of any debtors and creditors on the balance sheet.

**Balance Sheet****4.29 Property Plant and Equipment**

Movements in 2012/13	OPERATIONAL					NON OPERATIONAL		Total £000
	Council Dwelling £000	Other Land & Buildings £000	Vehicles Equip & Plant £000	Infra- structure £000	Community Assets £000	Assets under Constr £000	Surplus assets £000	
<b>Cost or Valuation</b>								
Valuation as at 1 April 2012	201	39,054	15,043	3,849	3,770	221	582	62,720
Additions/Enhancements	0	947	1,041	114	62	1,008	0	3,172
Disposals	0	(491)	(730)	0	0	0	0	(1,221)
Reclassifications	0	(220)	0	0	0	90	0	(130)
Revaluations Taken to Revaluation Reserve	0	(1,290)	0	0	0	0	0	(1,290)
Revaluations Charged to Surplus/Deficit on Provision of Services 2012/13	0	(10,529)	0	0	0	0	0	(10,529)
Reverse Downward Revaluations Previously Charged to Surplus/Deficit on Provision of Service	0	127	0	0	0	0	0	127
Valuation as at 31 March 2013	201	27,598	15,354	3,963	3,832	1,319	582	52,849
<b>Depreciation</b>								
Accumulated Dep'n at 1 April 2012	(15)	(879)	(9,104)	(407)	0	0	0	(10,405)
Depreciation Charge to CIES 2012/13	(5)	(1,071)	(1,448)	(59)	0	0	0	(2,583)
Depreciation on Disposals	0	5	588	0	0	0	0	593
Depreciation w/out to Revaluation Reserve	0	1,513	0	0	0	0	0	1,513
Depreciation w/out to Surplus/Deficit on Provision of Services	0	169	0	0	0	0	0	169
Accumulated Dep'n at 31 March 2013	(20)	(263)	(9,964)	(466)	0	0	0	(10,713)
<b>Impairments</b>								
Accumulated Impairment 1 April 2012	0	0	(136)	0	0	0	0	(136)
Impairments Charge to Surplus/Deficit on Provision of Service 2012/13	0	0	0	0	0	0	0	0
Impairments (W/Out Dep'n)	0	0	0	0	0	0	0	0
Accumulated Impairments at 31 March 2013	0	0	(136)	0	0	0	0	(136)
<b>Net Book Value at 31 March 2013</b>	<b>181</b>	<b>27,335</b>	<b>5,254</b>	<b>3,497</b>	<b>3,832</b>	<b>1,319</b>	<b>582</b>	<b>42,000</b>
<b>Net Book Value at 31 March 2012</b>	<b>186</b>	<b>38,175</b>	<b>5,803</b>	<b>3,442</b>	<b>3,770</b>	<b>221</b>	<b>582</b>	<b>52,179</b>
<b>Revaluation Summary</b>								
Reval'n Gains / Losses	0	(1,290)	0	0	0	0	0	(1,290)
<b>Total Revaluation</b>	<b>0</b>	<b>(1,290)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,290)</b>
<b>Nature of Asset holding</b>								
Owned	181	27,335	5,254	3,497	3,832	1,319	582	42,000
Finance Lease	0	0	0	0	0	0	0	0
PFI	0	0	0	0	0	0	0	0
	<b>181</b>	<b>27,335</b>	<b>5,254</b>	<b>3,497</b>	<b>3,832</b>	<b>1,319</b>	<b>582</b>	<b>42,000</b>
<b>Historic Cost Valuation</b>								
Net Book Value 31 March 2013	176	32,281	5,254	3,498	3,832	1,319	582	46,942
Net Book Value 31 March 2012	181	33,151	5,803	3,442	3,770	2,840	685	49,872

Movements in 2011/12	OPERATIONAL					NON OPERATIONAL		Total £000
	Council Dwelling £000	Other Land & Buildings £000	Vehicles Equip & Plant £000	Infra- structure £000	Community Assets £000	Assets under Constr £000	Surplus assets £000	
<b>Cost or Valuation</b>								
Valuation as at 1 April 2011	201	38,155	14,743	2,957	3,445	2,840	685	63,026
Additions/Enhancements	0	1,016	306	30	212	1,953	0	3,517
Disposals	0	(152)	(6)	0	0	0	0	(158)
Reclassifications	0	2,786	0	862	113	(4,572)	0	(811)
Revaluations Taken to Revaluation Reserve	0	(59)	0	0	0	0	0	(59)
Revaluations Charged to Surplus/Deficit on Provision of Services 2011/12	0	(2,692)	0	0	0	0	(103)	(2,795)
Reverse Downward Revaluations Previously Charged to Surplus/Deficit on Provision of Service	0	0	0	0	0	0	0	0
Valuation as at 31 March 2012	201	39,054	15,043	3,849	3,770	221	582	62,720
<b>Depreciation</b>								
Accumulated Dep'n at 1 April 2011	(10)	(790)	(7,404)	(348)	0	0	0	(8,552)
Depreciation Charge to CIES 2011/12	(5)	(939)	(1,706)	(59)	0	0	0	(2,709)
Depreciation on Disposals	0	0	6	0	0	0	0	6
Depreciation w/out to Revaluation Reserve	0	662	0	0	0	0	0	662
Depreciation w/out to Surplus/Deficit on Provision of Services	0	188	0	0	0	0	0	188
Accumulated Dep'n at 31 March 2012	(15)	(879)	(9,104)	(407)	0	0	0	(10,405)
<b>Impairments</b>								
Accumulated Impairment 1 April 2011	0	0	(136)	0	0	0	0	(136)
Impairments Charge to Surplus/Deficit on Provision of Service 2011/12	0	0	0	0	0	0	0	0
Impairments (W/Out Dep'n)	0	0	0	0	0	0	0	0
Accumulated Impairments at 31 March 2012	0	0	(136)	0	0	0	0	(136)
<b>Net Book Value at 31 March 2012</b>	<b>186</b>	<b>38,175</b>	<b>5,803</b>	<b>3,442</b>	<b>3,770</b>	<b>221</b>	<b>582</b>	<b>52,179</b>
<b>Net Book Value at 31 March 2011</b>	<b>191</b>	<b>37,365</b>	<b>7,203</b>	<b>2,609</b>	<b>3,445</b>	<b>2,840</b>	<b>685</b>	<b>54,338</b>
<b>Revaluation Summary</b>								
Reval'n Gains	0	(59)	0	0	0	0	0	(59)
<b>Total Revaluation</b>	<b>0</b>	<b>(59)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(59)</b>
<b>Nature of Asset holding</b>								
Owned	186	38,175	5,803	3,442	3,770	221	582	52,179
Finance Lease	0	0	0	0	0	0	0	0
PFI	0	0	0	0	0	0	0	0
	<b>186</b>	<b>38,175</b>	<b>5,803</b>	<b>3,442</b>	<b>3,770</b>	<b>221</b>	<b>582</b>	<b>52,179</b>
<b>Historic Cost Valuation</b>								
Net Book Value 31 March 2012	181	33,151	5,803	3,442	3,770	2,840	685	49,872
Net Book Value 31 March 2011	185	32,414	7,203	2,609	3,445	2,840	685	49,381

**(a) Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Asset Category	Rate	Basis
Dwellings & Other Buildings	10 – 50 Years	Straight Line
Infrastructure Assets	40 – 50 Years	Straight Line
Vehicles, Plant, furniture & Equipment	3 – 20 Years	Straight Line
Intangible Assets	3 – 5 Years	Straight Line

**(b) Capital Commitments**

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 budgeted to cost £744,000. Similar commitments at 31 March 2012 were £944,000. The major commitments are:

	£000
Improvement Grant Commitments	159
Vehicle Replacement	246
Other Capital Commitments	339
	<b>744</b>

**(c) Effects of Changes in Estimates**

In 2012/13, the Council made no material changes to its processes and techniques for making accounting estimates for Property, Plant and Equipment.

**4.30 Bases of Valuation**

From 1 April 1994 all of the City Council's property, plant and equipment have been valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Details of the valuation bases applied are set out in Note 4.0 (Statement of Accounting Policies).

Valuations are carried out via a rolling five-year revaluation programme with all assets being re-valued at intervals of not more than five years. Valuations for 2012/13 were carried out by R Simmons (Property Services Manager) ARICS and T Hargreaves (Hyde Harrington) BSc FRICS, RICS.

The following table shows the progress of the Council's rolling programme for the revaluation of fixed assets: -

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Equip & Plant* £000	Surplus £000
Valued at Historic Cost	0	25	0	0
Valued at Current Value in:				
2012/13	0	18,498	310	0
2011/12	0	75	299	472
2010/11	0	750	879	0
2009/10	201	100	2,469	0
2008/09	0	8,150	1,127	110
2007/08 and prior years	0	0	10,269	0
<b>Total</b>	<b>201</b>	<b>27,598</b>	<b>15,353</b>	<b>582</b>

\* Vehicles and moveable plant are valued at historic cost as a proxy for current value. These items are shown at the cost paid for the assets in the relevant financial year. This means that there are some items with a valuation greater than five years old in the above table.

Community Assets and infrastructure valued at historic cost are excluded from the above analysis.

The table below shows the number and types of asset the Council reports on its balance sheet

31 March 2012		31 March 2012
1	Civic Centre	1
15	Depots and Workshops	11
14	Off Street Car Parks	12
1	Leisure Centres	1
1	Swimming Pool	1
2	Museums	2
250ha	Parks & Recreation Grounds	250ha
1	Market Hall	1
3	Cemeteries	3
4	Hostels/Homeshares	4
1	Crematorium	1
97	Industrial Units	75
12	Community Centres	12
7	Industrial Estates	7

#### 4.31 Investment Properties

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

The Council does not classify any property interests held under operating leases as Investment Properties.

The fair value of Investment property held on the Balance Sheet is based on the valuations which are reviewed annually. Valuations for 2012/13 were carried out by R Simmons (Property Services Manager) ARICS and T Hargreaves (Hyde Harrington) BSc FRICS, RICS.

These valuations were based on market conditions and known factors currently affecting specific assets, e.g. assets in the process of being marketed to sale.

2011/12 £000		2012/13 £000
102,033	Opening Balance at 1 April 2012 of Investment Property	98,271
324	Additions due to acquisitions	147
212	Additions to existing assets	295
0	Additions through Exchange of Assets	535
(748)	Disposals	(3,392)
(255)	Reclassifications	(90)
(3,295)	Net gains or losses from fair value adjustments	(903)
<b>98,271</b>	<b>Closing Balance at 31 March 2013 of Investment Property</b>	<b>94,863</b>

## 4.32 Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. All intangibles are amortised over a useful life of 5 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £63,400 charged to revenue in 2012/13 was charged to the relevant service heading.

2011/12 £000		2012/13 £000
	<b>Cost or Valuation</b>	
287	Valuation at 1 April	332
45	Additions acquired separately	0
332	Valuation at 31 March	332
	<b>Amortisation</b>	
(68)	Accumulated amortisation at 1 April	(126)
(58)	Amortisation Charge for year	(64)
(126)	Accumulated amortisation at 31 March	(190)
	<b>Impairments</b>	
0	Accumulated Impairment at 31 March	0
206	<b>Net Book Closing Value (31 March)</b>	142
161	<b>Net Book Opening Value (1 April)</b>	206

## 4.33 Heritage Assets

### Reconciliation of the Carrying Value of Heritage Assets held by the Authority

	Statues, Monuments & historic Land- marks £000	Pictures, Prints & Sculpture £000	China, Glass & Porcelain £000	Archaeol- ogy £000	Natural History £000	Other Museum Collection £000	Civic Regalia £000	Total £000
<b>Cost or Valuation</b>								
Valuation as at 1 April 2011	114	11,500	1,260	600	600	1,149	183	15,406
Additions	15	15	0	0	0	0	0	30
Disposals	0	0	0	0	0	0	0	0
Reclassifications	816	0	0	0	0	0	0	816
Revaluations	(129)	(15)	0	0	0	0	0	(144)
<b>Valuation as at 31 March 2012</b>	<b>816</b>	<b>11,500</b>	<b>1,260</b>	<b>600</b>	<b>600</b>	<b>1,149</b>	<b>183</b>	<b>16,108</b>
<b>Cost or Valuation</b>								
Valuation as at 1 April 2012	816	11,500	1,260	600	600	1,149	183	16,108
Additions	36	29	0	0	0	0	0	65
Disposals	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0
Revaluations	(35)	(29)	0	0	0	0	0	(64)
<b>Valuation as at 31 March 2013</b>	<b>817</b>	<b>11,500</b>	<b>1,260</b>	<b>600</b>	<b>600</b>	<b>1,149</b>	<b>183</b>	<b>16,109</b>

#### a) Statues, Monuments and Historic Landmarks

The Council's collection of statues, monuments and historic landmarks are carried at Historic cost where known. This is primarily assets that have been previously been classified as Community assets and includes, Dixons Chimney, West Walls, Castle Banks and the Public Realm works for the Roman Frontier.

Other statues and monuments are not recorded on the balance sheet as valuation is not considered to be possible. These include the following assets:

- Market Cross, Greenmarket
- Queen Victoria Statue, Bitts Park
- James Creighton Statue, Hardwicke Circus,
- James Steel Statue, English Street
- Earl of Lowther Statue, The Crescent
- Cenotaph, Rickerby Park
- War Memorial, Greenmarket
- War Memorial, Richardson St Cemetery
- War Memorial, Botcherby Community Centre
- War Memorial, Stanwix Cemetery
- Hyssop Holme Well, Etterby

#### b) Pictures, Prints and Sculptures

The Council's collection of pictures, prints and sculptures is reported in the Balance Sheet at insurance valuation. The schedule covers some 4,800 items. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values. There is one item that has an individual valuation of £600,000 and this is a painting from 1868 titled Risen at Dawn; Gretchen Discovering Faust's Jewels, by Dante Gabriel Charles Rossetti. There are a further 4 items with an individual valuation of £250,000 each and a further 10 items valued over £100,000 each.



**c) China, Glass and Porcelain**

The Council's collection of china, glass and porcelain is reported in the Balance sheet at insurance valuation. The schedule covers some 800 items. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values. There are no significant individual items, the largest single valuation being £15,000 for a figurine.

**d) Archaeology**

The Council's collection of archaeology is reported in the Balance sheet at insurance valuation. The schedule covers some 20,000 items. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values.

**e) Natural History**

The Council's collection of natural history is reported in the Balance sheet at insurance valuation. The schedule covers some 816,500 items. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values.

**f) Other Museum collection**

The Council's other museum collections include items of social history, silver, coins and medals, fire-arms, musical instruments and costumes and clothing and is reported in the Balance sheet at insurance valuation. The schedule covers c.22,000 items. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values.

**g) Civic Regalia**

The Council's Civic Regalia is reported in the Balance sheet at insurance valuation. The insurance cover is renewed annually and valuations are adjusted to reflect market indices or any known changes to values.

**h) Other heritage assets not included in the balance sheet**

The Council's owns other items that are classified as heritage assets but which do not hold a valuation and for which it would not be cost effective to obtain a valuation. These include:

- Mayoral picture gallery, Civic Centre
- Various pictures, sculptures and paintings, 1<sup>st</sup> floor Civic Centre

### 4.34 Heritage Assets: Summary of Transactions

2011/12 £000		2012/13 £000
15	<b>Cost of Acquisitions of heritage assets</b> Statues, Monuments and Historic landmarks	36
15	<b>Total Cost of Purchases</b>	36
15	<b>Value of Heritage Assets acquired by Donation</b> Museums Collection - Pictures, Prints & Sculptures	29
15	<b>Total Donations</b>	29
(15)	<b>Impairment recognised in the period</b> Museums Collection - Pictures, Prints & Sculptures	(29)
(129)	Statues and Monuments	(35)

The Code of Practice requires a five year summary of transactions, but where this is not practicable for any period prior to 1 April 2010, only periods after this date need be disclosed. As the records held in connection with heritage assets were very fragmented, it has therefore not been possible to gather the data to enable a five year summary of transactions.

### 4.35 Heritage Assets: Further information on the Museum's Collections

The collections fall into four main areas: Archaeology, Social History, Natural Sciences and Fine and Decorative Arts. Human history collections are centred on the **Social History** of Carlisle District, and the **Archaeology** of North Cumbria; **Natural Sciences** encompasses the flora, fauna and geology of Cumbria; and **Fine and Decorative Arts** includes British fine and decorative art, with particular reference to North Cumbria.

#### Fine and Decorative Art

##### a) Scope of the Collections

Wide ranging fine art collection consisting of 4,800 paintings, watercolours, drawings, prints, photographs, sketch books and sculpture by mainly British artists dating from about 1650 to the present day. This collection is mostly of regional significance but also includes works of national importance. Notable elements include:

##### **Purchase Scheme 1933-75** (200 works)

Collection of 20<sup>th</sup> century British art including works of national importance. Key artists represented include: Stanley Spencer, William Rothenstein, Wyndham Lewis, Esmond Lowinsky, Vanessa Bell, Lucien Pissarro, Charles Ginner, L S Lowry, John Nash, Eric Ravilious, Carel Weight, Peter Blake and Roger de Grey.

##### **Emily and Gordon Bottomley Bequest 1949** (600 works)

Collection of 19<sup>th</sup> and 20<sup>th</sup> century British art including works of national importance. Key artists represented include Pre-Raphaelites: Dante Gabriel Rossetti, Elizabeth Siddal, William Morris, Edward Burne-Jones, Ford Madox Brown and Arthur Hughes. Other key artists represented include Samuel Palmer, Charles Ricketts and Paul Nash.

##### **Carel Weight Bequest 1999** (91 works)

Important collection of late 19<sup>th</sup> and 20<sup>th</sup> century mainly British art. Key artists represented include Lucien Pissarro, Stanley Spencer, L S Lowry, Thomas Barclay Hennell and Carel Weight.

**Pre-Raphaelite Collection** (48 works)

Nationally important collection of works by the Pre-Raphaelites acquired from the Howard family, William Rothenstein, the Purchase Scheme and Gordon Bottomley. Key artists listed above.

**Local Art and Artists Collection** (1,000 works)

Important collection of works by local and visiting artists many of which relate to northern Cumbria. Key artists represented include Sam Bough, William James Blacklock, Winifred Nicholson, Sheila Fell, Julian Cooper, Donald Wilkinson, Jem Southam and Keith Tyson.

**Decorative Art** (1,500 items)

Wide ranging collection mostly consisting of ceramics including the Williamson Bequest (1940) of 800 pieces of 18th and 19th century English porcelain, all major factories represented. The bequest also includes a 17<sup>th</sup> century table clock by Joseph Knibb of London. Textiles include a good collection of quilts (40). Items associated with the Arts and Crafts Movement include costume, textiles, furniture, ceramics and metalwork. A small collection of musical instruments includes strings by the Forster family and a decorated violin by Andrea Amati (1564).

**Natural Sciences****a) Scope of the collections**

Regionally significant collections of zoological, botanical and geological material, totalling some quarter of a million specimens. These collections are particularly strong in material of Cumbrian provenance and provide a unique resource relating to the landscape and biodiversity of the region.

**Zoology** (c. 210,000 items)

Significant collection of British birds and mammals (mounts and skins) and birds' eggs; some vertebrate skeletal material; extensive and significant collections of British insects; British and foreign Mollusca.

**Botany** (c. 26,000 items)

Lakeland and British herbaria, including mosses and lichens.

**Fungi** (c. 1,500 items)

Developing collection of Cumbrian fungi with special focus on montane and grassland species.

**Geology** (c.9,000 items)

Substantial holdings of fossil, rock and mineral material. Includes a major Cumbrian mineral collection and an important 19th century fossil collection

**Cumbria Biodiversity Data Centre** (570,000 records)

Tullie House operates the local biodiversity data centre for Cumbria, in partnership with a number of funding organisations. The computer database presently includes some 50,000 records deriving from specimens in the collections.

**Social History****a) Scope of Collections** (c.22,000 items)

A wide-ranging collection of objects, ephemera and photographs (plus a limited range of oral history recordings and audio visual footage) relating to personal, community and working life in Carlisle district from the 1644-5 Civil War onwards. This includes a large collection of men's, ladies', children's and infants' costume and accessories dating from 1700 to the present.

The collections include a good general representation of working, domestic and recreational activities. Material includes items from the 1745 Jacobite Rising, 17th/18th century silver of the city and its trade guilds, coins and medallions from 16<sup>th</sup> to 20<sup>th</sup> centuries, Carlisle made watches, long case clocks and firearms, State Management branded pub material, traditional Cumbrian sports trophies and accessories, ephemera relating to 20<sup>th</sup> Carlisle Pageants and fairs, tools, equipment and products of local industry and agriculture, the Blue Streak Rocket Project Archive, costumes of notable individuals including Margery Jackson and Pilot Tadeusz Felc.

## **Archaeology**

### **a) Scope of Collections (c.20,000 items)**

The collections cover the period from the arrival of humans into Cumbria up to the 1644-5 Civil War. It consists of artefacts and their associated documentation covering the whole period. This documentation includes original paper documents, photographs, digital records, publication offprints and other secondary sources. In addition, the museum is a repository for excavation archives undertaken by various bodies in the area, including English Heritage, Oxford Archaeology North, and North Pennines Archaeological Trust.

There are important items within the collections from the whole period. These include: rough-out material from the Langdale stone axes factories, pottery from Ehenside Tarn and Old Walls, a stone spear-mould from Croglin, a gold neck-ring from Greysouthern, and cemetery material from Garlands and Aglionby, which date to the prehistoric period. The material relating to the Roman occupation includes an internationally important collection of inscribed and sculptured stones from Carlisle and Hadrian's Wall as well as domestic and military material. The post-Roman and Early Medieval period includes objects from Viking burials at Ormside, Hesket and Cumwhitton and a Saxon sword from the River Thames. The medieval life of the city is represented by coins struck at the Carlisle Mint, ceramics from Carlisle and further away, city bell, muniment chest and stocks. The Elizabethan period is covered by weights and measures and racing bells. In addition, there is a fine collection of British coinage of all periods. A notable point about the collection is that the waterlogged conditions that can be found in the archaeological layers of Carlisle allow the preservation of wood and leather artefacts that do not survive in other places.

### **Preservation and Management**

As the museum holds, and intends to acquire, archives, including photographs and printed ephemera. Its governing body will be guided by the Code of Practice on Archives for Museums and Galleries in the United Kingdom (3rd ed., 2002). The Council's policy on acquisition, disposals and management of Heritage assets provides further information on this.

## 4.36 Financial Instruments

### (a) Financial Liabilities held at Amortised Cost

2011/12			2012/13	
Long Term £000	Current £000		Long Term £000	Current £000
15,000	483	Borrowing	15,000	483
0	884	Cash at Bank and Cash equivalents	0	0
1,154	2,119	Operational Creditors	1,166	2,498
<b>16,154</b>	<b>3,486</b>	<b>Total</b>	<b>16,166</b>	<b>2,981</b>

### (b) Loans and Receivables held at Amortised Cost

2011/12			2012/13	
Long Term £000	Current £000		Long Term £000	Current £000
0	15,063	Investments	0	17,110
63	2,025	Operational Debtors	54	1,700
4	0	Car Loans	9	0
0	1,792	Cash at Bank and Cash equivalents	0	2,110
229	0	Transferred Debt	206	0
<b>296</b>	<b>18,880</b>	<b>Total</b>	<b>269</b>	<b>20,920</b>

### (c) Reconciliation of Balance Sheet Debtors and Creditors to Financial Instruments

2011/12			2012/13	
Debtors £000	Creditors £000		Debtors £000	Creditors £000
2,025	2,119	Value as per Note (a) & (b) above	1,700	2,498
4	0	Car Loans	9	0
3,056	2,820	Non-Contractual Items	1,464	1,778
<b>5,085</b>	<b>4,939</b>	<b>Total per Balance Sheet</b>	<b>3,173</b>	<b>4,276</b>

**(d) Gains and Losses on Financial Instruments**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in 2012/13 relating to financial instruments are made up as follows:

2012/13	Financial Liabilities (measured at Amortised Cost) £000	Financial Assets (Loans & Receivables) £000	Financial Assets (Available for Sale) £000	Total £000
Interest Paid	1,298	0	0	1,298
Impairment Losses	0	(52)	0	(52)
<b>Interest Payable and Similar Charges</b>	<b>1,298</b>	<b>(52)</b>	<b>0</b>	<b>1,246</b>
Interest Received	0	(393)	0	(393)
(Gains)/Losses on Derecognition	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(393)</b>	<b>0</b>	<b>(393)</b>
<b>Net (Gain)/Loss for year</b>	<b>1,298</b>	<b>(445)</b>	<b>0</b>	<b>853</b>

Comparative information for financial year 2011/12 is as follows:

2011/12 Comparative Figures	Financial Liabilities (measured at Amortised Cost) £000	Financial Assets (Loans & Receivables) £000	Financial Assets (Available for Sale) £000	Total £000
Interest Paid	1,312	0	0	1,312
Impairment Losses	0	(38)	0	(38)
<b>Interest Payable and Similar Charges</b>	<b>1,312</b>	<b>(38)</b>	<b>0</b>	<b>1,274</b>
Interest Received	0	(377)	0	(377)
(Gains)/Losses on Derecognition	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(377)</b>	<b>0</b>	<b>(377)</b>
<b>Net (Gain)/Loss for year</b>	<b>1,312</b>	<b>(415)</b>	<b>0</b>	<b>897</b>

**(e) Fair Value of Assets & Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Council has based its fair value report on the borrowing/deposit rate

for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities. Other assumptions include:

- estimated fair values have been calculated using the equivalent market interest rates as at 31 March 2013;
- early repayment or impairment is not recognised; and
- the fair value of operational liabilities and receivables is taken to be the invoiced or billed amount.

31 March 2012			31 March 2013	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
19,640	26,394	Financial Liabilities	19,147	25,926

The fair value is more than the carrying amount because the Council's loan portfolio includes a number of fixed rate loans where the interest payable is more than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to the early repayment of the loans.

31 March 2012			31 March 2013	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
19,176	19,256	Loans & Receivables	21,189	21,219

The fair value is more than the carrying amount because the Council's investment portfolio includes a number of fixed rate investments where the interest receivable is more than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the Council would receive if it agreed to the early repayment of the investments.

#### (f) Risks arising from Financial Instruments

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

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **liquidity risk** – the possibility that the Council might not have funds available to meet its payment commitments; and
- **market risk** – the possibility that a financial loss might arise for the Council as a result of movements in interest rates.

The Council's annual treasury management strategy focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written policies within its treasury management strategy covering interest rate risk, credit risk and the investment of surplus cash balances.

#### (g) Credit Risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers. Investments are not placed with credit rated banks and other financial institutions unless they have a minimum credit rating of Short-term P1, Support C or equivalent (Based on Moody's Credit Ratings). Some investments are placed with Building Societies that do not have a formal credit rating. This policy is

dictated by the size of the Society (minimum £1billion Assets) and is grounded upon the strict regulatory regime with which all building societies must comply. The Council has a policy of not lending more than £4million of its surplus balances to any one institution, although with Government backed banks the limit is £8million, with no more than 50% held as non-specified investments i.e. investments with a period to maturity of more than one year or placed with an institution without a formal credit rating.

The following analysis summarises the Council's potential maximum credit risk exposure, based on the experience gathered over the last five financial years, on the level of default on loans and receivables and adjusted for current market conditions:

	Value at 31 March 2013 £000	% Default based on previous experience	% default adjusted for current market conditions	Estimated maximum exposure to default £000
Deposits with banks and other financial institutions	19,220	Nil	Nil	0
Gross Operational Debtors	1,778	1.54%	1.39%	25
				<b>25</b>

The Council does not expect any losses in respect of non-performance by counter-parties in relation to its wholesale deposits.

The Council does not generally allow credit to its customers, so £0.563 million of the current value at 31 March 2013 of £1.778million is past its due date for payment. The aged-debt analysis of this sum is as follows:

2011/12 £000		2012/13 £000
740	Less than 3 months	420
6	3-5 months	7
42	More than 5 months	136
<b>788</b>	<b>Total</b>	<b>563</b>

During the period the movement on the bad debt provision that related to customers was as follows:

2011/12 £000		2012/13 £000
138	Opening Balance	97
(3)	Write Offs in Year	(21)
(38)	(Decrease)/Increase to Provisions	(52)
<b>97</b>	<b>Closing Balance</b>	<b>24</b>



**(h) Liquidity Risk**

As the Council has ready access to borrowing from either the Public Works Loans Board, or from other financial institutions in the money market, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The major risk facing the Council is that it will be bound to refinance nearly all of its borrowing in 2020, when interest rates may be less favourable than at present. However the current policy of the Council is not to refinance any of this debt at the moment due to the significant redemption premium it would be required to pay to the lender. This position will be reviewed as the loan moves nearer to maturity in the light of interest rates prevalent at the time. There are no other identified borrowing requirements in place at 31 March 2013.

The maturity analysis of loans and borrowings within financial liabilities is as follows:

2011/12 £000		2012/13 £000
483	Less than 1 year	483
0	1 - 2 years	0
0	2 - 5 years	0
15,000	Over 5 years	15,000
<b>15,483</b>	<b>Total</b>	<b>15,483</b>

**(i) Market Risk**

The Council is exposed to some risk due to movements in interest rates on its loans and investments. As nearly all of the Council's borrowing and investments have been placed at fixed rates, this risk has to a large extent been minimised. Nevertheless, there remain some risks:

- An increase in interest rates will result in a fall in the fair value of borrowings and investments.
- A decrease in interest rates will result in a rise in the fair value of borrowings and investments.
- The value of interest received from investments will rise or fall depending in increases and decreases in interest rates and will impact on the Comprehensive Income and Expenditure Statement.

Borrowings and investments are not carried in the Balance Sheet at fair value, so nominal gains and losses on fixed rate financial instruments have no impact on the Comprehensive Income and Expenditure Statement.

If interest rates had been 1% higher and all other variables were held constant the financial effect would have been:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Impact on Surplus/Deficit on provision of services	0
Decrease in Fair Value of investments	(68)
Decrease in Fair Value of Borrowings	(1,204)

The approximate impact of a fall in interest rates by 1% would have had the same impact as above, but would have reversed the movements.

The Council carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections. The Treasury Management Strategy also advises on the limits for new variable and fixed-rate borrowing for the year. No new borrowing was undertaken in 2012/13.

#### 4.37 Inventories

	Consumable Stores	Maintenance Materials	Client Services Work In Progress	Total
2012/13	£000	£000	£000	£000
<b>Balance outstanding at 1 April</b>	<b>46</b>	<b>45</b>	<b>27</b>	<b>118</b>
Purchases	216	127	0	343
Recognised as an expense in the year	(217)	(154)	(27)	(398)
Written off balances	0	(3)	0	(3)
<b>Balance outstanding at 31 March</b>	<b>45</b>	<b>15</b>	<b>0</b>	<b>60</b>

	Consumable Stores	Maintenance Materials	Client Services Work In Progress	Total
2011/12 Comparative Figures	£000	£000	£000	£000
<b>Balance outstanding at 1 April</b>	<b>105</b>	<b>51</b>	<b>23</b>	<b>179</b>
Purchases	135	163	20	318
Recognised as an expense in the year	(141)	(170)	(16)	(327)
Written off balances	(53)	1	0	(52)
<b>Balance outstanding at 31 March</b>	<b>46</b>	<b>45</b>	<b>27</b>	<b>118</b>

#### 4.38 Construction Contracts

At 31 March 2013 the Council was carrying out no construction contracts.

#### 4.39 Short Term Debtors

2011/12 £000		2012/13 £000
1,859	Central Government Bodies	154
1,156	Other Local Authorities	892
0	NHS Bodies	0
3	Public Corporations and trading funds	0
3,052	Bodies external to government	3,159
(985)	Bad debt provisions	(1,032)
<b>5,085</b>	<b>Total</b>	<b>3,173</b>

#### 4.40 Cash and Cash Equivalents

2011/12 £000		2012/13 £000
(884)	Cash and Bank	370
0	Overnight Cash Deposits	0
1,792	Short Term Investments with maturity of less than 3 months	1,740
<b>908</b>	<b>Total</b>	<b>2,110</b>

#### 4.41 Assets Held for Sale

2011/12 £000		2012/13 £000
<b>530</b>	<b>Balance outstanding at 1 April</b>	<b>250</b>
250	Assets newly classified as held for sale:	220
(530)	Property Plant and Equipment	0
	Assets Sold	
<b>250</b>	<b>Balance outstanding at 31 March</b>	<b>470</b>

#### 4.42 Short and Long Term Creditors

2011/12 £000	Short Term Creditors	2012/13 £000
(1,360)	Central Government Bodies	(892)
(603)	Other Local Authorities	(806)
(7)	NHS Bodies	0
(45)	Public Corporations and trading funds	0
(2,855)	Other Entities and Individuals	(2,498)
(69)	Employee Benefits	(80)
<b>(4,939)</b>	<b>Total</b>	<b>(4,276)</b>

Long Term Creditors relate to Section 106 agreements received that will be payable after 12 months. These are funds that have been received as part of planning consents agreed by the Council for further amenity work and projects that will be ongoing as part of a development. The long term element of these amounts to £1,165,623 2012/13 (2011/12 £1,153,900).

## 4.43 Provisions

The movement in the level of provisions held by the Council during 2012/13 is as follows: -

	1 April 2012	Additions in year	Used in year	Unused Amounts reversed	31 March 2013
	£000	£000	£000	£000	£000
Insurance Claims	443	105	(40)	0	508
Municipal Mutual Insurance (MMI)	0	175	0	0	175
Cemeteries Perpetuity Fund	75	0	0	0	75
Land Charges Provision	74	0	0	0	74
Rickergate Properties Ringfenced Account	0	74	0	0	74
Other Provisions	65	7	(8)	0	64
<b>Total</b>	<b>657</b>	<b>361</b>	<b>(48)</b>	<b>0</b>	<b>970</b>
<b>Split as:</b>					
Falling due within 1 year	443	280	(40)	0	683
Falling Due after 1 year	214	81	(8)	0	287

(i) **Insurance Claims**

The Council has established a provision totalling £508,235 to meet insurance claims arising from public liability, employer's liability, motor vehicle and other claims. This figure is based on the estimated gross value of claims against the Council at 31 March 2013 and the insurance provision will therefore cover this value in full. However it is expected that £322,436 will be reimbursed by the Council's insurers and through other third party claims. It is difficult to predict the expected timings of any outflows relating to insurance claims due to their complicated nature.

(ii) **Municipal Mutual Insurance (MMI)**

The Council has a liability under the scheme of arrangement entered into following the transfer of the assets and goodwill of MMI Ltd. to Zurich Municipal on the 1 April 1993. The liabilities of MMI Ltd. were not, however, transferred to Zurich Municipal and the company is exploring ways in which these liabilities can be transferred to another insurance company to enable MMI Ltd. to be wound up. During 2012/13 the Scheme of Arrangement was triggered giving rise to a liability for the Council. At 31 March 2013 the estimated maximum amount liable to clawback, in the event of the scheme being triggered, was £874,000. An initial levy of 15% has been set by the Scheme administrators, Ernst and Young although there are indications from the Scheme Administrators that this could rise up 28% in order to achieve a solvent run off for MMI. As such the Council has made an initial provision of £175,000 to cover these liabilities with a further budgetary provision of £175,000 in 2013/14 should this be required to increase the provision.

(iii) **Other Provisions**

a. **Cemeteries Perpetuity Fund**

This fund is used to maintain and repair cemetery headstones where owners cannot be contacted. It was agreed in 2009 to use the fund to carry out essential repair work on memorials.

**b. Land Charges Provision**

A provision set up to meet the potential liabilities of claims relating to potential refunds of personal search fees.

**c. Rickergate Properties Ringfenced Account**

This provision was previously held as a creditor and represents the net income from properties purchased in Rickergate with funds from North West Development Agency. The Homes and Communities Agency have now taken over control of this scheme and have informed the Council that this income does not need to be repaid to it as was previously the case, and can be used to fund any future costs on the scheme with their approval.

**d. Other Provisions**

The Council holds other minor provisions for liabilities with uncertain timing or amounts.

**4.44 Unusable reserves****(a) Revaluation Reserve**

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

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains 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
19,924	<b>Balance at 1 April</b>	<b>20,426</b>
865	Upward Revaluation of Assets	1,670
(262)	Downward Revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(1,447)
603	Surplus or Deficit on Revaluation of Non Current Assets not posted to the Surplus or Deficit on Provision of Services	223
(101)	Difference between Fair Value Depreciation and Historic Cost Depreciation	(107)
0	Accumulated gains on assets sold or scrapped	(47)
<b>20,426</b>	<b>Balance at 31 March</b>	<b>20,495</b>

**(b) 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 acquisitions, 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 the Revaluation reserve was created to hold such gains.

Note 4.4 provides details of the source of all the transactions posted to the Account.

2011/12 £000		2012/13 £000
<b>145,915</b>	<b>Balance at 1 April</b>	<b>139,210</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(2,709)	Charges for depreciation and impairment of non-current assets	(2,583)
(2,750)	Revaluation losses on Property, Plant and Equipment	(10,295)
(58)	Amortisation of Intangible Assets	(64)
(1,765)	Revenue Expenditure Funded from Capital under Statute	(1,149)
(1,430)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(4,020)
<b>(8,712)</b>		<b>(18,111)</b>
101	Adjusting Amounts written out of the Revaluation reserve	154
<b>(8,611)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(17,957)</b>
<b>137,304</b>		<b>121,253</b>
	Capital Financing Applied in the year	
1,988	Use of Capital Receipts Reserve to finance new capital expenditure	4,417
2,447	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,548
19	Application of grants to capital financing from the Capital Grants Unapplied Account	6
278	Statutory provision for the financing of capital investment charged against the General Fund	304
0	Transfer of Capital receipt for reclassified assets (Finance to Operating Leases)	0
454	Capital expenditure charged against the General Fund	627
<b>5,186</b>		<b>6,902</b>
(3,295)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(903)
15	Movement in Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	29
<b>139,210</b>	<b>Balance at 31 March</b>	<b>127,281</b>

**(c) 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 Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.



2011/12 £000		2012/13 £000
(30,005)	<b>Balance at 1 April</b>	<b>(35,678)</b>
(5,345)	Actuarial Gains or losses on pension assets and liabilities	(8,133)
(3,229)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,438)
2,901	Employer's pensions contributions and direct payments to pensioners payable in the year	2,804
<b>(35,678)</b>	<b>Balance at 31 March</b>	<b>(44,445)</b>

**(d) 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
<b>43</b>	<b>Balance at 1 April</b>	<b>58</b>
15	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	7
<b>58</b>	<b>Balance at 31 March</b>	<b>65</b>

**(e) Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g., annual leave entitlement carried forward at 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
<b>(63)</b>	<b>Balance at 1 April</b>	<b>(69)</b>
63	Settlement or cancellation of accrual made at the end of the previous period	69
(69)	Amounts accrued at the end of the current year	(80)
<b>(6)</b>	Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration charged in the year in accordance with statutory requirements	<b>(11)</b>
<b>(69)</b>	<b>Balance at 31 March</b>	<b>(80)</b>

## 4.45 Capital Expenditure and Capital Financing

2011/12 £000		2012/13 £000
6,954	Opening Capital Financing Requirement	7,611
	<b>Capital Expenditure</b>	
3,517	Property, Plant and Equipment	2,199
536	Investment Properties	1,450
	Investment Properties - Acquired by exchange	535
45	Intangible Assets	0
15	Heritage Assets	0
1,765	Revenue Expenditure funded from Capital Under Statute	1,149
5,878		5,333
	<b>Sources of Finance</b>	
(1,988)	Capital Receipts used to finance expenditure	(2,554)
0	Capital receipts applied to Capital Adjustment Account	(1,863)
(1,332)	Government Grants and Contributions	(663)
(455)	Revenue Financing & Reserves	(627)
(278)	Minimum Revenue Provision	(304)
(35)	Transferred Debt	(23)
(1,133)	Contributions from other bodies	(356)
0	Contributions from other bodies - exchanged asset	(535)
(5,221)		(6,925)
<b>7,611</b>	<b>Closing Capital Financing Requirement</b>	<b>6,019</b>
	<b>Explanation of Movements in year</b>	
0	Increase in underlying need to borrow (supported by Government Finance Assistance)	0
657	Increase in underlying need to borrow (unsupported by Government Finance Assistance)	(1,592)
0	Assets acquired under Finance Leases	0
0	Assets acquired under PFI/PPP contracts	0
<b>657</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(1,592)</b>

## 4.46 Grant Income

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

2011/12 £000		2012/13 £000
15	<b>Capital Grants Receipts in Advance</b> Play Area Contributions	0
15	<b>Total</b>	0

## 4.47 Leases

The Council acts as lessor in respect of land and property owned by it and leased to tenants, and for sub-leases on contract hire cars supplied to its staff. The value of the income from rents associated with these agreements, and included within the Council's Comprehensive Income and Expenditure Statement in 2012/13 was £4.624m (£4.438m 2011/12). At 31 March 2013 the minimum lease payments under operating leases and contract hire agreements were as follows:

2012/13	Leased Cars £000	Property Leases £000	Other Leases £000	Total £000
Not later than 1 year	0	546	0	546
Later than 1 year and not later than 5 years	4	1,749	0	1,753
later than 5 years	0	33,110	0	33,110
<b>Total</b>	<b>4</b>	<b>35,405</b>	<b>0</b>	<b>35,409</b>

2011/12 Comparative Figures	Leased Cars £000	Property Leases £000	Other Leases £000	Total £000
Not later than 1 year	3	605	0	608
Later than 1 year and not later than 5 years	9	2,075	0	2,084
later than 5 years	0	40,344	0	40,344
<b>Total</b>	<b>12</b>	<b>43,024</b>	<b>0</b>	<b>43,036</b>

The capital value held within the balance sheet at 31 March 2013 in respect of land and property generating leasehold income is £94.863million (£98.271million 2011/12). This figure represents the gross value of the Investment Properties and as these are non-operational fixed assets, they are not subject to a depreciation charge. The total contingent rents recognised as income in the period were £2,536,030. (£2,581,680 2011/12).

**(a) Operating Leases**

Total operating lease rentals paid in 2012/13 amounted to £137,312 (£244,798 2011/12). At 31 March 2013 the minimum lease payments under operating leases and contract hire agreements was as follows:

On Leases expiring:	Leased Cars £000	Other Leases £000	Total £000
Not later than 1 year	0	109	109
Later than 1 year and not later than 5 years	28	0	28
Later than 5 years	0	0	0
<b>Total</b>	<b>28</b>	<b>109</b>	<b>137</b>

On Leases expiring: 2011/12 Comparative Figures	Leased Cars £000	Other Leases £000	Total £000
Not later than 1 year	6	144	150
Later than 1 year and not later than 5 years	21	68	89
Later than 5 years	0	0	0
<b>Total</b>	<b>27</b>	<b>212</b>	<b>239</b>

The Council sub-leases contract hire cars to staff. The total future subleases payments expected to be received under non cancellable subleases at 31 March 2013 was £3,675 (2011/12 £11,630). There are no contingent rents associated with any of the leases.

**(b) Finance Leases**

The Council made no payments under finance leases during 2012/13 (None during 2011/12).

**4.48 Disclosure of Net Pension Assets/Liabilities**

As part of the terms and conditions of employment of its officers, the Council offers retirement benefits. Although these will not become payable until relevant employees retire, the Council has a commitment to make the payments that should be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme as administered by Cumbria County Council. This is a funded scheme which means that both the Council and employees, who are members of the Scheme, pay contributions into a fund independent of the Council's own assets. The contributions are calculated at a level estimated to balance the pension liabilities with investment assets.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather when the benefits are eventually paid as pensions. However, the charge that is made against council tax is based on the cash payable in the year, resulting in the real cost of providing retirement benefits being reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2012/13.

2011/12 £000		2012/13 £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<u>Net Cost of Services</u>	
1,922	Current Service Costs	2,059
8	Past Service Costs / (Gain)	60
220	Curtailment Cost	62
	<u>Surplus or Deficit on Provision of Services</u>	
6,745	Interest cost	6,431
(5,666)	Expected return on assets in the scheme	(5,174)
	<u>Other Comprehensive Income and Expenditure</u>	
5,345	Actuarial Gains and Losses	8,133
<b>8,574</b>	<b>Net Charge to the Comprehensive Income &amp; Expenditure Statement</b>	<b>11,571</b>
	<b>Movement in Reserves Statement</b>	
3,229	Reversal of net charge made for retirement benefits in accordance with IAS 19	3,438
(2,901)	Actual amount charged against the General Fund Balance for pensions in the year	(2,804)
<b>328</b>	<b>Contribution (to) / from Pension Reserve</b>	<b>634</b>

The Cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure is a £23,575,000 loss.

**(a) Assets and Liabilities in relation to Retirement Benefits**

Reconciliation of present value of the scheme liabilities:

31 March 2012 £000		31 March 2013 £000
124,158	Benefit Obligation at beginning of period (1 April)	132,417
1,922	Current Service Cost	2,059
6,745	Interest Cost	6,431
764	Member Contributions	721
8	Past Service Cost	60
4,326	Actuarial (gains)/losses on liabilities	15,961
220	Curtailments	62
(5,726)	Benefits/transfers paid	(5,106)
<b>132,417</b>	<b>Benefit Obligation at end of period (31 March)</b>	<b>152,605</b>

Reconciliation of Fair Value of the scheme assets:

31 March 2012 £000		31 March 2013 £000
94,153	Fair Value of plan assets at beginning of period (1 April)	96,739
5,666	Expected return on plan assets	5,174
(1,019)	Actuarial gains/(losses) on assets	7,828
2,901	Employer Contributions	2,804
764	Member Contributions	721
(5,726)	Benefits/transfers paid	(5,106)
<b>96,739</b>	<b>Fair Value of plan assets at end of period (31 March)</b>	<b>108,160</b>

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 a gain of £13,001,000 (2011/12: a gain of £4,647,000).

#### (b) Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£	£	£	£	£	£
Present value of liabilities	115,724	98,203	135,654	124,158	132,417	152,605
Fair Value of assets	87,282	70,736	91,472	94,153	96,739	108,160
<b>(Surplus)/Deficit in the scheme</b>	<b>28,442</b>	<b>27,467</b>	<b>44,182</b>	<b>30,005</b>	<b>35,678</b>	<b>44,445</b>

The liabilities show the underlying long-term commitments that the Council has to pay in respect of retirement benefits. The total liability of £45.445 million has had a significant effect on the net worth of the Council as shown in the balance sheet, but statutory arrangements to deal with the funding deficit mean that the financial position of the Council remains healthy. The deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, following an assessment by the scheme's 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 £2.731 million.

#### (c) 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 Council's liabilities within the Cumbria County Council Pension Fund have been assessed by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, with estimates being based on the latest full valuation of the scheme as at 31 March 2011.

The main assumptions used in their calculations are:

2011/12		2012/13
	Long-term expected rate of return on assets in the scheme:	
7.00%	Equity investments	7.00%
3.10%	Government Bonds	2.80%
4.10%	Other Bonds	3.90%
6.00%	Property	5.70%
0.50%	Cash/Liquidity	0.50%
7.00%	Other	7.00%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.80	Men	22.20
24.50	Women	24.90
	Longevity at 65 for future pensioners:	
23.20	Men	24.10
26.00	Women	26.90
2.50%	Rate of Inflation (CPI)	2.40%
4.25%	Rate of Increase in Salaries	4.15%
2.50%	Rate of increase in Pensions	2.40%
50.00%	Proportion of employees opting to take a commuted lump sum	50.00%
4.90%	Rate of discounting Scheme Liabilities	4.20%

Assets in the County Council Pension Fund are valued at fair value, mainly market value for investments, and consist of the following categories by proportion:

2011/12			2012/13	
%	Expected Return		%	Expected Return
51.6	7.00%	Equity Investments	55.4	7.00%
16.0	3.10%	Government Bonds	15.9	2.80%
16.0	4.10%	Bonds	15.8	3.90%
6.4	6.00%	Property	5.6	5.70%
1.6	0.50%	Cash/Liquidity	0.6	0.50%
8.4	7.00%	Other Assets	6.7	7.00%
<b>100.0</b>			<b>100.0</b>	

**(d) 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 absolute amounts and as a percentage of assets or liabilities at 31 March 2013.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%	%
Differences between expected and actual return on assets	7.40	30.30	17.10	1.40	1.10	7.20
Experience gains and losses on liabilities	0.70	0.00	0.00	3.90	0.00	0.00

The movement on the net pension liability during the year is as follows:

2011/12 £000		2012/13 £000
(30,005)	Net Pension Liability at 1 April	(35,678)
	<b>Movements in year:</b>	
(1,922)	Current Service Cost	(2,059)
2,901	Employers Contributions payable to the scheme	2,804
(228)	Past Service Costs/Curtailment Costs	(122)
(6,745)	Interest Cost	(6,431)
5,666	Expected Return on assets in the scheme	5,174
(5,345)	Actuarial Gains / (Losses)	(8,133)
<b>(35,678)</b>	<b>Net Pension Liability at 31 March</b>	<b>(44,445)</b>

The annual report of the Cumbria Pension Fund is available from Cumbria County Council, The Courts, Carlisle.

#### 4.49 Trust Funds

The City Council holds the accumulated balances of two bequests for which it is the sole trustee. The transactions and balances for these bequests are included in the movement of provisions in the Council's financial statements. The bequests for which the Council is sole trustee are shown below.



Bequest	Purpose	2012/13 Income £	2012/13 Expenditure £	Assets at 31 March 2013 £	Liabilities at 31 March 2013 £
Parker	Established in 1954 to benefit disabled children and other young residents of the city	2	0	1,334	0
District Nurses Amenity Fund	Established to provide amenities for nurses' homes and retirement allowances to nurses	8	0	7,139	0
<b>Total</b>		<b>10</b>	<b>0</b>	<b>8,473</b>	<b>0</b>

The Council also holds balances for two other charities, which it administers on behalf of the trustees. The transactions and balances for these charities are excluded from the Council's financial statements. These balances are: -

Charity	Purpose	2012/13 Income £	2012/13 Expenditure £	Assets at 31 March 2013 £	Liabilities at 31 March 2013 £
Mary Hannah Almshouses	Registered Housing Association	18,918	12,284	312,224	1,671
Carlisle Educational Charity	To provide grants to students	9,859	10,450	212,733	0
<b>Total</b>		<b>28,777</b>	<b>22,734</b>	<b>524,957</b>	<b>1,671</b>

## 4.50 Contingent Assets

### (a) Riverside (formerly Carlisle Housing Association (CHA))

At 31 March 2013 £266,737 (31 March 2012 £256,888) was due from Riverside under the terms of the Preserved Right to Buy (PRTB) sharing agreement made as part of the transfer of the Council's housing stock in 2002. This has been accrued into the 2012/13 accounts and has been reflected in the total for capital receipts received in the year. Under the terms of the transfer the City Council will receive an agreed proportion of PRTB receipts for the first 15 years of the contract.

## 4.51 Contingent Liabilities

### (a) Home Housing Association

During 1992/93 the City Council entered into a joint scheme with Home Housing Association to secure the development of two sites at Heysham Nursery and Gelt Road, Brampton to provide houses to rent. To fund the development programme, Home

Housing Association have raised a total of £100million through a stock issue, which will mature in 2037. In order to enable Home Housing Association to raise private finance from institutional investors all participating authorities, of which there were 29 in total, were required to enter into a standard form of guarantee in which they jointly and severally guarantee the loan stock raised by Home Housing Association. The maximum liability of each authority under the guarantee is £100million but because the liability is jointly and severally guaranteed, authorities would obviously not be prepared to expose themselves to the risk, however remote, of having to meet the full liability of the stock issue under their individual guarantee. Accordingly there is a counter indemnity and contribution arrangement whereby each participating authority undertakes to reimburse any other authority, or authorities, paying more than their proportionate share of the guarantee. An authority's proportionate share is determined by reference to the estimated development expenditure in that authority's area. If the guarantee were called in, the worst situation for this Council would be that once it had recovered any contribution from other authorities it would be left to fund no more than the cost of the development in its own area. The guarantee figure as at 31 March 2013 was £2,299,000. This cost would be offset wholly, or partly, by the sums recovered from repossessing the units from Home Housing Association and selling them on.

**(b) Municipal Mutual Insurance Ltd. (MMI)**

The Council may still have a liability under the scheme of arrangement entered into following the transfer of the assets and goodwill of MMI Ltd. to Zurich Municipal on the 1 April 1993. Whilst the MMI scheme of arrangement has been triggered and the Council has recognised a provision in respect of the initial levy amount, there is a likelihood that future levies will be made in order for the liabilities of MMI to be met. There are indications that the initial levy rate of 15% may rise to around 28%. The Council has recognised a provision of £175,000, which represents 20% of its overall potential liability to MMI (£874,000). Therefore a further 8% levy would increase this provision by £70,000.

**(c) Riverside (Formerly Carlisle Housing Association (CHA))**

On 9 December 2002 the City Council completed the transfer of its housing stock to Riverside. Under the terms of the transfer the City Council is committed to providing, from the date of transfer, certain environmental and non-environmental warranties in favour of Riverside and lenders to the Association for periods of 25 years and 18 years respectively. The Council has insurance cover in place to meet the cost of claims arising from any breach of the environmental warranties in the first 12 years following the date of transfer. An earmarked reserve to the value of £488,000 has also been set up to meet the future cost of insurance premiums in years 13 to 25 (£292,000) and the potential costs of any future claims (£196,000). In the period from the date of the transfer to 31 March 2012, the Council has not received any claims in respect of either environmental or non-environmental warranties.

## 4.52 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Resources on 28 June 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.

New arrangements for the retention of business rates came into force on 1 April 2013, and the Council will now assume the liability for refunding taxpayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously such amounts would not have been recognised as income by the Council, but would have been transferred to DCLG. The total amount of these liabilities at 31 March 2013 was £3,608,600

and the Council's share of this is £1,443,440. As the regulations only come into force on 1 April, no adjustments have been made in these (2012/13) accounts.

As of 1 April 2013, the Council gave up its right to maintain highways within the district and the function transferred back to the County Council. This included the TUPE transfer of employees involved in the service. In 2012/13 the Council spent £1,758,000 on undertaking these highways functions. A minor residual service has been maintained by the Council.

#### **4.53 Authorisation for Issue**

The Statement of Accounts were authorised for issue on 28 June 2013 by the Director of Resources, Peter Mason CPFA. This is the date up to which post balance sheet events have been considered.

## Cash-Flow Statement

### 4.54 Cash Flow Statement – Operating Activities

2011/12 £000		2012/13 £000
8,520	(Surplus) / Deficit on the Provision of Services	12,761
	<b>Adjustments to the net surplus or deficit on the provision of services for non cash movements</b>	
(5,517)	Depreciation and downward revaluation charges	(12,942)
(3,295)	Movement in Fair Value of Investment Properties	(903)
(1,430)	Carrying amount of non current assets sold	(4,020)
(328)	Pension (IAS 19)	(634)
0	Increase in impairment provision for bad debts	0
(61)	Increase/(decrease) in stocks	(58)
1,377	Increase/(decrease) in debtors	(1,958)
2,905	(Increase)/decrease in creditors	(85)
(114)	Other non-cash items charged to net surplus/deficit on provision of services	60
(6,463)		(20,540)
	<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	
0	Purchase of short term and long term investments	0
0	Proceeds from short term and long term investments	0
2,005	Proceeds from the sale of property plant and equipment, investment property and intangible assets	5,015
845	Capital Grants charged to Comprehensive Income and Expenditure	87
2,850		5,102
4,907	<b>Net Cash Flow from Operating Activities</b>	(2,677)
	<b>Shown within Net Cash Flow from Operating Activities</b>	
1,296	Interest Payable	1,314
(477)	Interest Receivable	(349)
819		965

## 4.55 Cash Flow Statement – Investing and Financing Activities

2011/12 £000		2012/13 £000
	<b>Investing Activities</b>	
5,502	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	3,439
34,700	Purchase of Short Term and Long Term Investments	43,145
0	Other Payments for Investing Activities	9
(1,787)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(4,356)
(39,700)	Proceeds from Short Term and Long Term Investments	(41,145)
(1,905)	Other Receipts from Investing Activities	(38)
<b>(3,190)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>1,054</b>
	<b>Financing Activities</b>	
0	Repayments of short and long term borrowing	0
(1,319)	Other payments for financing activities	(421)
<b>(1,319)</b>	<b>Net Cash Flows from financing Activities</b>	<b>(421)</b>

## SECTION 5 – SUPPLEMENTARY FINANCIAL STATEMENTS

### 5.1 The Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2011/12 £000		Note	2012/13	
			£000	£000
	<b>Income</b>			
46,960	Council Tax	5.2(c)	47,263	
37,753	Income from Business Ratepayers		40,422	
	Income from the General Fund			
7,389	- Council Tax Benefits		7,443	
<b>92,102</b>	<b>Total Income</b>			<b>95,128</b>
	<b>Expenditure</b>			
	Precepts and Demands	5.2(d)		
40,397	Cumbria County Council		40,449	
6,743	Cumbria Police Authority		6,992	
7,147	Carlisle City Council		7,181	
54,287				54,622
	Business Rates			
37,571	Payments to National Pool		40,240	
182	Allowance for cost of NNDR collection		182	
37,753				40,422
	Bad and Doubtful Debts - Council Tax			
(65)	Write offs		(72)	
(6)	Provisions		107	
(71)				35
	Contribution:			
19	Adjustment of Previous Years' Collection Fund Surplus			0
114	Movement on Fund Balance			49
<b>92,102</b>	<b>Total Expenditure</b>			<b>95,128</b>
	<b>Collection Fund Balance</b>			
329	Fund Balance at 1 April			443
114	Surplus/(Deficit) for Year			49
<b>443</b>	<b>Fund Balance at 31 March</b>			<b>492</b>

On the basis that surpluses and deficits are shared with the County Council and the Police Authority, the Council has accounted for the Collection Fund balance in its 2012/13 Statement of Accounts as follows:

- The £492,315 surplus is accounted for in line with the Code of Practice 2012 guidance, with the Council acting as the major precepting authorities' agent in the collection of Council Tax. The £64,929 Carlisle share of the surplus is shown as a balance on the Collection Fund adjustment Account. The £363,360 share is attributable to the County Council and the £64,025 attributable to the Police Authority is used in the calculation for the difference in cash collected on behalf of the precepting authorities and that paid out to them and the corresponding year end debtor or creditor in the Balance Sheet.

## **5.2 Notes to the Collection Fund**

### **(a) General**

The Collection Fund was established under the Local Government Finance Act 1988 and amended under the Local Government Finance Act 1992 with the introduction of council tax in April 1993. The Fund records the collection and distribution of amounts due for council tax and non-domestic rates. The balance on the Fund is included in the Council's Balance Sheet.

The surplus or deficit on the Collection Fund is distributed between the Council (as billing authority), Cumbria County Council and Cumbria Police Authority on the basis of estimates of the year end balance made on the 15 January each year. Any surplus or deficit on the Collection Fund is carried forward to the following financial year and will affect the level of council tax to be raised for that year.

The surplus on the Fund at 31 March 2013 was £492,315.

**(b) Council Tax base calculation**

The council tax base set for 2012/13, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	66.50	5/9	36.95
A	18,356.50	6/9	12,237.67
B	10,022.00	7/9	7,794.91
C	6,484.50	8/9	5,764.02
D	4,634.25	9/9	4,634.25
E	2,293.00	11/9	2,802.56
F	947.50	13/9	1,368.60
G	311.50	15/9	519.17
H	16.00	18/9	32.00
	<b>43,131.75</b>		<b>35,190.13</b>
Second Homes	165.06		165.06
Relevant Amount	<b>43,296.81</b>		<b>35,355.19</b>
Estimated Collection Rate			98.50%
<b>Council Tax Base =</b> <b>Relevant Amount (Band D Equivalent) x Collection Rate</b>			<b>34,824.86</b>

**(c) Income from Business Ratepayers**

National Non-Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (45.8p in 2012/13), and local businesses pay an annual NNDR bill calculated by multiplying the rateable value of their business premises by this annual rate. The Council is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into an NNDR Pool administered by the Government. The Government then redistributes the sums paid into the Pool back to Local Authorities on the basis of a fixed amount per head of population.

The NNDR income after reliefs and provisions of £40.422million was based on a total rateable value for the Council's area of £105,707,901 for the year (£105,027,160 in 2011/12). The Council received £6,230,008 from the NNDR Pool in 2012/13, which is credited directly to the Comprehensive Income and Expenditure Statement.

**(d) Billing and Precepting Authorities**

Carlisle City Council is the billing authority for council tax and NNDR bills and therefore collects all the income due for the year. The Council pays over to Cumbria County Council and Cumbria Police Authority amounts they have requested to provide their services in the Council area. These sums are known as precepts and for 2012/13 the values were: -



2011/12 £		2012/13 £
7,147,095	Carlisle City Council	7,181,003
40,396,427	Cumbria County Council	40,449,100
6,743,370	Cumbria Police Authority	6,992,490

Included in the amount for the City Council is a precept of £444,825 (2011/12 £437,780 which is collected on behalf of Parish Councils. This is paid in full directly from the Councils Comprehensive Income and Expenditure Statement.



# Report to Audit Committee

Agenda  
Item:

Meeting Date: 22<sup>nd</sup> July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref:KD  
Within Policy and Budget Framework YES  
Public / Private Public

Title: PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD12/13

**Purpose / Summary:** This report summarises the 2012/13 provisional outturn for the General Fund Revenue Services.

## Recommendations:

Members are asked to note the report.

## Tracking

Executive:	<b>31<sup>st</sup> May 2013</b>
Overview and Scrutiny:	<b>6<sup>th</sup> June 2013</b>
Council:	<b>16<sup>th</sup> July 2013</b>
Audit:	<b>22<sup>nd</sup> July 2013</b>

# Report to Executive

Agenda  
Item:

Meeting Date: 31<sup>st</sup> May 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref:KD  
Within Policy and Budget Framework YES  
Public / Private Public

Title: PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD12/13

**Purpose / Summary:** This report summarises the 2012/13 provisional outturn for the General Fund revenue budget and gives reasons for the variances.

The outturn position shows a net underspend of £75,247 for Council services as at 31 March 2013, once committed expenditure totalling £696,400 and £312,697 transfers to/from earmarked reserves are taken into account.

It should be noted that the information contained in this report is provisional, subject to the formal audit process. The Statement of Accounts for 2012/13 will be presented to the Audit Committee on 22 July, followed by a three month audit process.

## Recommendations:

The Executive is asked to:

- (i) Note the net underspend as at 31 March 2013 of £75,247 after carry forwards as in (ii) below, and net transfers to/from earmarked reserves as noted in (iii),(iv), (v) and (vi) below;
- (ii) Note the committed expenditure totalling £696,400 to be met in 2013/14 which has been approved by the Director of Resources and under delegated powers, and the release of £677,400 in 2013/14 and £19,000 in 2014/15 from the General Fund Reserve, for recommendation to Council;
- (iii) Make recommendations to Council to release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve, as detailed in paragraph 4.1,
- (iv) Make recommendations to Council to release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve, as detailed in paragraph 4.2;

- (v) Make recommendations to Council to write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances as outlined in paragraph 4.3;
- (vi) Make recommendations to Council to top up the Transformation Reserve with £200,000 from the underspend position, as set out in paragraph 4.4;
- (vii) Make recommendations to Council to approve the establishment of the Municipal Mutual Insurance provision for £175,000 as outlined in paragraph 4.5; and
- (viii) Make recommendations to Council to approve the establishment of the Welfare Reform Reserve, as detailed in paragraph 4.6, noting that £200,000 will be transferred to the reserve as part of the year end process.

### **Tracking**

Executive:	<b>31<sup>st</sup> May 2013</b>
Overview and Scrutiny:	<b>6<sup>th</sup> June 2013</b>
Council:	<b>16<sup>th</sup> July 2013</b>

## **1. BACKGROUND**

- 1.1 This report shows the provisional outturn position for the General Fund Revenue budgets for 2012/13.
- 1.2 A summary of the overall position is shown in paragraph 2. Further details for each directorate are included in **Appendices A1 - A6** as follows:
- (i) A comparison of the outturn position against the budget.
  - (ii) An analysis of the major variances relating to both income and expenditure, with comments from the Director.
  - (iii) The items of carry forwards to cover committed expenditure to be expended in line with the original purpose. These requests follow the procedure agreed by Council with every form being signed off by the relevant Director and Portfolio holder, and the Director of Resources.
- 1.3 Members should note that the information contained in this report is provisional and subject to the formal audit process. The formal Statement of Accounts for 2012/13 will be presented to the Audit Committee on 22 July, followed by a three month audit period. Any significant changes required following the approval of the 2012/13 accounts will, if necessary, be reported to a future Executive meeting.
- 1.4 Please note that throughout this report:
- (i) the use of a bracket represents a favourable position i.e. either an underspend or additional income received,
  - (ii) the term 'underspend' is taken to include both reduced expenditure and/or increased income,
  - (iii) the term 'overspend' includes both spending above budget and/or reduced income levels.

## 2. SUMMARY REVENUE OUTTURN 2012/13

2.1 The following table shows the revised 2012/13 budget for the General Fund:

2012/13 Revenue Budget	£
Approved Budget (Council resolution – February 2012)	13,987,100
Carry forward requests (2011/12 out-turn)	357,500
<b>Council Resolution 2012/13</b>	<b>14,344,600</b>
Non-Recurring Expenditure	
Transformation Savings (RD35/12)	(218,500)
Transformation Costs (Transformation Reserve) <sup>note 1</sup>	431,600
Clean up Carlisle	20,000
<b>Updated Budget 2012/13</b>	<b>14,577,700</b>
Note 1 – the use of earmarked reserves to fund 2012/13 expenditure	

2.2 The provisional outturn position for the General Fund is summarised below and explanations for the main variances are provided in the appendices. The key issues are highlighted in paragraph 4:

Directorate / Appendix		Annual Net Budget	Total Spend	Net Variance at 31/03/11	Carry Forwards Committed	Adjusted Variance
		(£)	(£)	(£)	(£)	(£)
Chief Executive's Team	A1	105,900	108,449	2,549	0	2,549
Community Engagement	A2	8,003,200	7,889,225	(113,975)	(69,000)	(44,975)
Economic Development	A3	1,929,800	1,823,502	(106,298)	(176,700)	70,402
Governance	A4	1,828,100	1,743,509	(84,591)	(53,000)	(31,591)
Local Environment	A5	5,711,400	5,710,752	(648)	(144,300)	143,652
Resources <sup>Note 1</sup>	A6	(3,000,700)	(3,719,087)	(718,387)	(253,400)	(464,987)
<b>Sub Total</b>		<b>14,577,700</b>	<b>13,556,350</b>	<b>(1,021,350)</b>	<b>(696,400)</b>	<b>(324,950)</b>
<b>Transfers</b> <sup>Note 2</sup>						<b>312,697</b>
<b>Costs of Disposal</b> <sup>Note 3</sup>						<b>(62,994)</b>
<b>Total</b>						<b>(75,247)</b>

Note (1): Corporate underspends are included in the Resources total, e.g. Salary Turnover Savings

Note (2): See Paragraphs 4.1, 4.2 & 4.3.

Note (3): To be funded by Capital Receipts, see paragraph 7.6

- 2.3 The above table details the net Council budget. The Council's original gross budget for 2012/13 was £68.02m and although there are many individual variances as detailed by directorates in **Appendices A1 – A6**, the net underspend equates to 0.11% of this budget.

### **3. EXPLANATION OF MAJOR VARIANCES**

- 3.1 The provisional outturn position for 2012/13 is an underspend of £75,247 after taking into account carry forward requests of £696,400 as set out in paragraph 6, and transfers to/from earmarked reserves totalling £312,697, as set out in paragraphs 4.1 to 4.4.
- 3.2 The reallocation of central departments' balances to service areas still has to be carried out, which explains many of the balances held on some management and support service centres. This reallocation will be completed before the Statement of Accounts is prepared.
- 3.3 Currently included in the Revenue Outturn is £238,300 of Highways Claimed Rights expenditure and £238,300 Highways Claimed Rights income that relates to capital schemes. In accordance with Capital Finance Regulations this expenditure and income should be included in the Council's Capital Programme for Statement of Accounts purposes. There will be no impact on the overall bottom line in the Revenue and Capital Outturn as the expenditure is fully funded, however this needs to be reflected correctly in the accounts.
- 3.4 Members are regularly updated on the budget position throughout the year, with quarterly reports being considered by the Executive and scrutinised by Resources Overview and Scrutiny Panel. Many of the variances shown in the Appendices have previously been reported with any necessary steps to mitigate the impact on the future budget position dealt with as part of the 2013/14 budget. However, some pressures have an ongoing impact which must be addressed during the forthcoming 2014/15 budget process. These include income shortfalls in respect of parking, the Lanes, development and building control fees.
- 3.5 Some of the main service expenditure and income variances are set out below. Many of these have been reported throughout the year in budget monitoring reports and further explanations are provided in the appendices.



Additional Costs/Shortfall in Income	Recurring £	Non Recurring £	Total £	Appendix
Enterprise Centre lettings & NNDR costs		68,000	68,000	A3
Tourist Information Centres Ticket Sales		41,000	41,000	A3
Development Control - Inquiry costs and fees		(15,500)	(15,500)	A3
Bereavement Services income		(52,600)	(52,600)	A5
Highways Maintenance & Claimed Rights		235,000	235,000	A5
Off Street Parking	50,000	98,300	148,300	A5
Countywide Parking Contracts		70,100	70,100	A5
ICT Printing Recharges	150,000	0	150,000	A6
Investment Income		37,500	37,500	A6
Minimum Revenue Provision		29,200	29,200	A6
Legal Fees for Resource Centre		43,700	43,700	A2
Bousteads Grassing [Joiners Shop] rent income	10,200	0	10,200	A6
Arts Centre costs		8,800	8,800	A2
VAT recovery Claims not paid in 2012/13 (Trade Waste)		236,200	236,200	A6
Insurance Excess		175,000	175,000	A6
Bad Debt Provision increase		43,300	43,300	A6
<b>Total additional costs/income shortfalls</b>	<b>210,200</b>	<b>1,018,000</b>	<b>1,228,200</b>	
Reduction in costs/Additional income				
CCTV Transmission and Maintenance Costs		(40,800)	(40,800)	A5
Revenues & Benefits including Shared Service		(81,100)	(81,100)	A2
ICT Connect Shared Service		(37,100)	(37,100)	A6
Transport Repairs & Hire Costs		(101,100)	(101,100)	
Travel Review & Leased Cars		(20,400)	(20,400)	
Salary Turnover Savings/Pay Award		(493,400)	(493,400)	A6
Overtime Reductions		(50,700)	(50,700)	
Pension Deficit Funding		(166,800)	(166,800)	A6
Direct Revenue Financing		(48,300)	(48,300)	A6
Lanes Income		(100,000)	(100,000)	A6
City Lighting - Energy and New Lighting Costs		(53,500)	(53,500)	A5
Industrial Estates rents		(76,900)	(76,900)	A6
Benefits Payments and Subsidies		(84,600)	(84,600)	A2
Budgeted Transformation Savings		(56,500)	(56,500)	
Inflation		(104,500)	(104,500)	
Other Miscellaneous underspends		(37,450)	(37,450)	
<b>Total reduced costs/additional income</b>	<b>0</b>	<b>(1,553,150)</b>	<b>(1,553,150)</b>	
Net saving to be returned to Reserves	<b>210,200</b>	<b>(535,150)</b>	<b>(324,950)</b>	

<b>Combined Recurring/Non Recurring Net Saving</b>		<b>(324,950)</b>		
<b>Net transfers to earmarked Reserves</b> <sup>Note 1</sup>		<b>312,697</b>		
<b>Costs of Disposal funded by Capital Receipts</b>		<b>(62,994)</b>		
<b>Net Underspend</b>		<b>(75,247)</b>		

Note 1: Paragraphs 4.1, 4.2, 4.3 & 4.4.

#### **4. KEY ISSUES**

- 4.1 There has been less than expected expenditure for Sheepmount drainage and the Executive is asked to recommend the release the balance of £1,878 on the Sheepmount Reserve to the General Fund Reserve.
- 4.2 There has been less take up than expected for the career development package and the Executive is asked to recommend the release of the Job Evaluation Reserve balance of £29,670 to the General Fund Reserve
- 4.3 The City has operated Carlisle's On Street Parking contract since 2001 on behalf of Cumbria County Council. The aim of the original service, set up using contributions from the Residents Parking Scheme and balance of income from Excess Charge Notices, was that it should be funded by income from the issue of Penalty Charge Notices and self financing. In recent years this account has run into a deficit position and in 2009, Cumbria transferred the parking spaces at the northern end of Lowther Street to the City, to operate as an off street parking area, with income from ticket sales to be offset against the On Street Parking account. It is proposed that the outstanding balance of £190,000 on the account at the year end should be written off. Dialogue will be held with the County Council to tackle this recurring deficit in future years.
- 4.4 There is a balance of £296,193 on the Transformation Reserve earmarked to fund any future one-off costs associated with the Transformation programme. This is the remainder at 31<sup>st</sup> March 2013 after providing for redundancy and compensatory payments in 2012/13. It is proposed that this fund should be replenished by transferring £200,000 from the underspent revenue balance, subject to Council agreement, and details of the Reserve are provided in the table below.

<b>Transformation Reserve</b>	<b>£</b>
Opening Balance	477,895
Transfer in (agreed RD11/12)	250,000
<b>Balance at 1st April 2012</b>	<b>727,895</b>
Spent	(431,702)
<b>Balance at 31st March 2013</b>	<b>296,193</b>
Transfer In	200,000
<b>Balance to carry forward</b>	<b>496,193</b>
Known Commitments in 2013/14	246,193
<b>Balance to carry forward</b>	<b>250,000</b>

- 4.5 A provision of £175,000 is required to be established in order to provide for the future costs associated with the insolvent runoff of Municipal Mutual Insurance, who were previously one of the Council's insurers. Due to a scheme of arrangement being triggered, MMI have issued a levy rate of 15% against claims they have paid out since 1993 in relation to the Council's cover. The Council's levy is therefore £175,000. It is likely that further provisions will be needed in the future to meet the ongoing solvency issues MMI faces.
- 4.6 The Government's Welfare Reform Agenda, once fully implemented will have a major impact on the benefit system, including a household benefit cap and the introduction of the Universal Credit system which subsumes housing benefit (by 2017). In the medium to longer term the Council will have to significantly reduce staff resources working on benefits administration. Whilst staff redeployment policies will reduce the impact of the changes, there is likely to be voluntary/compulsory redundancies in the section. It is proposed that a Welfare Reform Reserve be established and the unused balance of £200,000, accrued from underspends on staffing and other savings, is transferred to the Reserve to fund such costs. It is further recommended that management of the Reserve rests with the Director of Community Engagement with the use of the Reserve requiring Executive approval.
- 4.7 There are items of expenditure totalling £45,755 included in the outturn that are to be funded by the release from earmarked reserves, which have previously been approved by the Executive. These include £38,594 from the EEAC Reserve for Fuel Poverty (DS100/09), and £7,161 from the Job Evaluation Reserve for the Career Development Package (C.109/11).

## 5. RECESSION PLANNING

- 5.1 The Council's bad debt provision has been increased in respect of housing benefit overpayments and penalty charge notices but reduced for sundry debtors, and this has been allocated directly to the services. Further details can be found in report RD14/13 elsewhere on the agenda.

## 6. CARRY FORWARD REQUESTS

- 6.1 In accordance with the Council's Constitution, any net underspending/savings on service estimates under the control of the Director may be carried forward. This is to facilitate the achievement of more strategic five year budgeting which requires greater flexibility of budgets between years as set out in the Medium Term Financial Plan. Approval of carry forwards is subject to the following as contained in the Council's Constitution:

- *the authorisation of the Director of Resources where the request relates to a specific committed item of expenditure where, due to external or other factors, the Director has been unable to spend the approved budget by 31 March. The use of the resource will be restricted to the purpose for which the estimate was originally intended. The carry forward will only be approved by the Director of Resources if the expenditure is within both the Directorate's and the Authority's budget as approved for that year. Any carry forward which would result in an over-spend for the Authority will require authorisation by the Council.*
- *any overspending on service estimates in total on budgets under the control of the Director must be carried forward to the following year, and will constitute the first call on service budgets in the following year, unless the Council determines otherwise by way of a supplementary estimate. The Director of Resources will report the extent of overspending carried forward to the Executive, Resources Overview and Scrutiny Panel and to the Council.*

The delegated power applies only in so far as the carry forwards do not take the Council into an overspend position.

- 6.2 Details of the carry forward requests, which itemise committed expenditure, are contained within **Appendix B**. The requests have been subject to the scrutiny of the relevant Director and Portfolio Holder prior to formal consideration by SMT and the Director of Resources, who is satisfied that budgets of £677,400 should be carried forward to 2013/14 and £19,000 to 2014/15. Although some Directorates have expended in excess of their budgets, or have suffered reduced income as detailed in the individual appendices, once the committed expenditure is taken into account there is an overall underspend across the whole authority. These amounts have therefore been included in the carry forward. The relevant Director will be able to give further details of carry forward requests if required at the meeting.

- 6.3 For information, the table below provides details of the outturn position (excluding funding) and level of carry forward requests over the last five years for illustrative purposes:

	2012/13 provisional £	2011/12 £	2010/11 £	2009/10 £	2008/09 £
Variance at 31 March	(1,021,350)	(618,959)	(2,004,397)	(2,367,534)	(3,577,380)
Carry forward requests	696,400	357,500	1,758,700	1,552,000	1,005,600
Final variance less in year budget initiatives	(324,950) <u>249,703</u>	(261,459)	(245,697)	(815,534)	(2,571,780) <u>2,326,192</u>
Service Expenditure variance	(75,247)				(245,588)
Percentage variance on service expenditure of original gross budget	(0.11)%	(0.41)%	(0.36)%	(1.23)%	(0.37)%

## 7. BALANCE SHEET

- 7.1 In line with suggested best practice, information relating to significant items on the Council's balance sheet has been reported regularly to Members during the course of the year. The Council's balance sheet as at 31 March 2013 forms part of the annual Statement of Accounts that will be considered by the Audit Committee on 22 July, followed by a three month process.
- 7.2 The VAT partial exemption calculation continues to be monitored and has still to be finalised for 2012/13; however the provisional outturn figure is 2.92%, well below the permitted 5% limit.
- 7.3 The 2012/13 Collection Fund projected surplus has increased from £443,395 to £492,315 (Council share increased from £58,513 to £64,929). The Council Tax and NNDR Provisional outturn report provides further details and is considered elsewhere on the agenda (RD14/13)
- 7.4 At 31<sup>st</sup> March 2013 balances totalling £1,372,541 are held in respect of Section 106 agreements and other commuted sums, with a further £5,031,585 expected, relating to agreements for sites yet to be developed. These sums are to be used for the provision and future maintenance of public open spaces, children's play areas, cycleways and transport facilities etc. The City Council acts as custodian only for £802,381 of the sums held, in respect of projects for which Cumbria County Council

is responsible, including the Caldew Cycleway and Public Realm. Should the County Council not progress these projects, or they remain incomplete before the agreed deadlines, the custodial sums must be repaid, along with a premium for interest, to the Developers. Further details of the balances retained are set out in the table below:

Commuted Sums 2012/2013	Opening Balance & Receipts	Spend	Retained Balance 31/03/13	Expected Sums
	(£)	(£)	(£)	(£)
Affordable Housing Contributions	15,000	0	15,000	254,373
Cycleway & Public Realm	756,000	23,159	732,841	0
Education	0	0	0	3,500,000
Play Areas & Facilities	287,488	49,483	238,005	94,500
Public Open Spaces Provision/Maintenance	448,874	131,718	317,156	406,546
Sports Provision/Maintenance	0	0	0	48,584
Transport & Pedestrianisation	69,540	0	69,540	727,582
<b>Total</b>	<b>1,576,902</b>	<b>204,360</b>	<b>1,372,541</b>	<b>5,031,585</b>

7.5 The level of Council reserves was approved by Council in February 2013 and showed that there will be pressure on reserves from 2013/14 onwards if ambitious transformation savings are not delivered to plan. Due to the level of underspend identified within this report after all carry forward requests are approved and transfers to/from earmarked reserves, approximately £75,200 will be returned to the General Fund Reserve. This will replenish the usable revenue balances by 31 March 2015 to the minimum required.

	31/03/2013 £'000s	31/03/2014 £'000s	31/03/2015 £'000s	31/03/2016 £'000s	31/03/2017 £'000s	31/03/2018 £'000s
<b>Prudent Level of Reserves</b>	<b>(2,600)</b>	<b>(2,600)</b>	<b>(2,600)</b>	<b>(2,600)</b>	<b>(2,600)</b>	<b>(2,600)</b>
Council Resolution General Fund Reserve	(1,846)	(2,092)	(2,534)	(3,402)	(3,355)	(2,515)
Underspend position returned to Reserves	(1,021)	0	0	0	0	0
Transfer (from)/to earmarked reserves:						
- Career Development (JE)	(7)					
- Fuel Poverty (EEAC)	(38)					
- Job Evaluation Reserve <sup>(1)</sup>	(30)					
- Sheepmount Reserve <sup>(1)</sup>	(2)					
- Transformation Reserve <sup>(1)</sup>	200					
- On Street Parking Reserve <sup>(1)</sup>	190					
Committed Carry Forwards		677	19	0	0	0
Cost of Disposal	(63)					
<b>Revised Reserves Balance</b>	<b>(2,617)</b>	<b>(2,186)</b>	<b>(2,609)</b>	<b>(3,477)</b>	<b>(3,430)</b>	<b>(2,590)</b>

Note <sup>(1)</sup>: Transfers to/from earmarked reserves subject to approval

- 7.6 In accordance with revised Capital Finance Regulations, costs associated with asset disposal totalling £62,994 that are included in the revenue outturn, can be funded from the capital receipt generated. This will result in an increase to revenue balances at 31<sup>st</sup> March 2013 and is reflected in the table above.

## **8. CONSULTATION**

- 8.1 Consultation to date.  
Portfolio Holders and SMT have considered the issues raised in this report.
- 8.2 Consultation Proposed.  
Resources Overview and Scrutiny Panel will consider the report on 06 July 2013.

## **9. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 9.1 The Executive is asked to:
- (i) Note the net underspend as at 31 March 2013 of £75,247 after carry forwards as in (ii) below, and net transfers to/from earmarked reserves as noted in (iii), (iv), (v) and (vi) below;
  - (ii) Note the committed expenditure totalling £696,400 to be met in 2013/14 which has been approved by the Director of Resources and under delegated powers, and the release of £677,400 in 2013/14 and £19,000 in 2014/15 from the General Fund Reserve, for recommendation to Council;
  - (iii) Make recommendations to Council to release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve, as detailed in paragraph 4.1;
  - (iv) Make recommendations to Council to release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve, as detailed in paragraph 4.2;
  - (v) Make recommendations to Council to write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances as outlined in paragraph 4.3;
  - (vi) Make recommendations to Council to top up the Transformation Reserve with £200,000 from the underspend position, as set out in paragraph 4.4;
  - (vii) Make recommendations to Council to approve the establishment of the Municipal Mutual Insurance provision for £175,000 as outlined in paragraph 4.5;  
and
  - (viii) Make recommendations to Council to approve the establishment of the Welfare Reform Reserve, as detailed in paragraph 4.6, noting that £200,000 will be transferred to the reserve as part of the year end process.

## **10. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

10.1 The Council's budget is set in accordance with the priorities of the Carlisle Plan and the 2012/13 outturn shows the delivery of these priorities within budget.

**Contact Officer:** Maureen McCartney **Ext:** 7291

**Appendices** A1 to A6, B and C.  
**attached to report:**

**Note:** in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

**CORPORATE IMPLICATIONS/RISKS:** SMT and JMT have been involved in the preparation of this report. Risks to future years' budget and development of ongoing impact of issues identified will be monitored carefully in budget monitoring reports and appropriate action taken.

**Chief Executive's – N/A**

**Community Engagement – N/A**

**Economic Development – N/A**

**Governance –** The Council has a fiduciary duty to manage its finances properly and the proper reporting of the outturn figures is part of this process. Approval of full Council is required for the additional use of revenue reserves to fund expenditure commitments as set out in the report.

**Local Environment – N/A**

**Resources –** Financial implications are contained within the main body of the report.



## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

CHIEF EXECUTIVE'S TEAM	Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013	£	£	£	£	£
Annual Budget	1,424,000	(25,800)	(1,292,300)		105,900
Budget to date	1,424,000	(25,800)	(1,292,300)		105,900
Total Actual	1,433,825	(33,982)	(1,291,394)		108,449
<b>Variance</b>	<b>9,825</b>	<b>(8,182)</b>	<b>906</b>		<b>2,549</b>
<b>Carry Forwards</b>				0	0
<b>Adjusted Variance</b>	<b>9,825</b>	<b>(8,182)</b>	<b>906</b>	<b>0</b>	<b>2,549</b>

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Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Policy and Communications	1	19,500	0	(769)		18,731
Miscellaneous	2	(9,675)	(8,182)	1,675	0	(16,182)
<b>Total Variance to date</b>		<b>9,825</b>	<b>(8,182)</b>	<b>906</b>	<b>0</b>	<b>2,549</b>

Note	Chief Executive's Comments
1.	Savings not achieved from subscriptions budget.
2.	Various net minor underspends across the service.

## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

COMMUNITY ENGAGEMENT	Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013	£	£	£	£	£
Annual Budget	14,170,000	(4,805,000)	(1,361,800)		8,003,200
Budget to date	14,170,000	(4,805,000)	(1,361,800)		8,003,200
Total Actual	14,060,086	(4,809,082)	(1,361,779)		7,889,225
<b>Variance</b>	<b>(109,914)</b>	<b>(4,082)</b>	<b>21</b>		<b>(113,975)</b>
<b>Carry Forwards</b>				69,000	69,000
<b>Adjusted Variance</b>	<b>(109,914)</b>	<b>(4,082)</b>	<b>21</b>	<b>69,000</b>	<b>(44,975)</b>

Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Hostels and Homeshares	1	38,215	(936)	0		37,279
Housing Regeneration	2	(73,399)	11,966	21	69,000	7,587
Revenues & Benefits Shared Services	3	(94,919)	13,806	0		(81,112)
Miscellaneous	4	20,189	(28,918)	0	0	(8,729)
<b>Total Variance to date</b>		<b>(109,914)</b>	<b>(4,082)</b>	<b>21</b>	<b>69,000</b>	<b>(44,975)</b>

Note	Community Engagement - Director's Comments
1.	Overspends due to legal costs of adjudication notices.
2.	Underspends on grant funded schemes to be rolled forward.
3.	Underspends on staffing due to vacant posts and income shortfall for court costs recoveries.
4.	Net underspend relates to miscellaneous variances and grant income allocations across services.

## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

ECONOMIC DEVELOPMENT	Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013	£	£	£	£	£
Annual Budget	3,847,900	(1,282,200)	(635,900)		1,929,800
Budget to date	3,847,900	(1,282,200)	(635,900)		1,929,800
Total Actual	3,681,311	(1,221,909)	(635,900)		1,823,502
<b>Variance</b>	<b>(166,589)</b>	<b>60,291</b>	<b>0</b>		<b>(106,298)</b>
<b>Carry Forwards</b>				176,700	176,700
<b>Adjusted Variance</b>	<b>(166,589)</b>	<b>60,291</b>	<b>0</b>	<b>176,700</b>	<b>70,402</b>

Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Business & Employment Development	1	(33,091)	0	0	5,000	(28,091)
Enterprise Centre	2	13,979	53,996	0		67,976
Carlisle TIC	3	25,195	16,050	0		41,245
Business Support & Regeneration Projects	4	(148,669)	0	0	148,500	(169)
Miscellaneous	5	(24,002)	(9,756)	0	23,200	(10,558)
<b>Total Variance to date</b>		<b>(166,589)</b>	<b>60,291</b>	<b>0</b>	<b>176,700</b>	<b>70,402</b>

Note	Economic Development - Director's Comments
1.	Underspends on projects due to reduced capacity.
2.	NNDR costs for units vacant for more than six months and income shortfall from lettings.
3.	Overspend on ticket purchases and income shortfall on commission and sales.
4.	Underspent support funds and project expenses to be carried forward.
5.	Net minor underspends and surplus income across the services.

## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

GOVERNANCE	Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013	£	£	£	£	£
Annual Budget	3,300,900	(643,800)	(829,000)		1,828,100
Budget to date	3,300,900	(643,800)	(829,000)		1,828,100
Total Actual	3,229,439	(656,947)	(828,984)		1,743,509
<b>Variance</b>	<b>(71,461)</b>	<b>(13,147)</b>	<b>16</b>		<b>(84,591)</b>
<b>Carry Forwards</b>				53,000	53,000
<b>Adjusted Variance</b>	<b>(71,461)</b>	<b>(13,147)</b>	<b>16</b>	<b>53,000</b>	<b>(31,591)</b>

Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Town Twinning	1	(53,831)	(39)	0	53,000	(870)
Miscellaneous	2	(17,629)	(13,108)	16	0	(30,721)
<b>Total Variance to date</b>		<b>(71,461)</b>	<b>(13,147)</b>	<b>16</b>	<b>53,000</b>	<b>(31,591)</b>

Note	Governance - Director's Comments
1.	This is a 3 years programme budget and will be used to fund the Council's Town Twinning activities agreed at the Annual 3 Way meeting.
2.	Various underspends and surplus income across the services

PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

LOCAL ENVIRONMENT		Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013		£	£	£	£	£
Annual Budget		18,047,400	(8,377,400)	(3,958,600)		5,711,400
Budget to date		18,047,400	(8,377,400)	(3,958,600)		5,711,400
Total Actual		16,842,695	(7,182,955)	(3,948,989)		5,710,752
Variance		(1,204,705)	1,194,445	9,611		(648)
Carry Forwards					144,300	144,300
Adjusted Variance		(1,204,705)	1,194,445	9,611	144,300	143,652
Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Bereavement Services	1	(42,149)	(11,812)	48	50,000	(3,913)
CCTV	2	(41,003)	176	0	30,000	(10,827)
Clean Up Carlisle	3	(53,837)	(1,050)	(0)	50,800	(4,087)
LE Management & Administration	4	(22,440)	0	(0)	6,500	(15,940)
Neighbourhoods & Green Spaces	5	(37,000)	5,813	(0)		(31,187)
Parking	6	(62,741)	291,048	(9,864)		218,443
Highways Maintenance	7	(684,860)	923,470	19,416		258,025
Highways Claimed Rights	8	(96,394)	(408)	0		(96,802)
Misc Highways & Environment Expenses	9	(18,397)	0	0	7,000	(11,397)
City Lighting	10	(53,501)	(24)	0		(53,524)
Recycling & Waste Management	11	(24,850)	(18,089)	(0)		(42,939)
Miscellaneous	12	(67,534)	5,321	12	0	(62,201)
Total Variance to date		(1,204,705)	1,194,445	9,611	144,300	143,652

## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

Note	Local Environment - Director's Comments
20	<ol style="list-style-type: none"> <li>1. Savings on staff and other costs and cremation fees performed better than expected. To be carried forward for additional costs of replacing Cremator Chimney Linings.</li> <li>2. Transmission and maintenance savings to be rolled forward to fund costs of decommissioning and delay in implementing reduced service.</li> <li>3. Late start to scheme; underspent budgets to be rolled forward to fund 2 years programme, scheduled for completion in 2014.</li> <li>4. Underspends on IT, postages and office supplies, statutory systems training programmed for later in the year.</li> <li>5. Savings on insurance excesses and claims.</li> <li>6. Off Street Parking: Savings on management and staffing, (£129,600) taken into Salary Turnover Savings, set aside to offset anticipated contracts and ticket sales shortfall, totalling £146,337. On Street Parking: £5,987 net includes administration savings accrued to offset £43,076 income shortfall from PCN's etc. Other Contracts £64,158 net overspend: £71,632 Eden DC, £8,536 William Street (CCC), £7,248 Marks &amp; Spencer, (£23,258) South Lakes includes management fee for Back Office support contract, still to complete, .</li> <li>7. Savings on sub-contractors and other operational expenses offset by income shortfall. The year on year decrease in Claimed Rights budgets and capital projects has put the Highways' Team's ability to achieve the level of income fixed in the budgets at high risk and this function transfers to the County Council from 1st April 2013.</li> <li>8. Underspend on insurance claims and reduced provision for bad debts.</li> <li>9. Underspent allocations for Councillors' small scale projects, committed funds to be carried forward.</li> <li>10. Savings on maintenance costs and energy due to efficiencies and reduced lighting levels.</li> <li>11. Savings realised from efficiencies on transport, repairs, hire and fuel costs - although repairs costs are increasing as vehicle fleet ages.</li> <li>12. Various minor underspends more than offset the income shortfalls across the services.</li> </ol>

## PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13

RESOURCES		Gross Expenditure	Gross Income	Recharges	Carry Forwards Awaiting Approval	Adjusted Total
Position as at 31st March 2013		£	£	£	£	£
Annual Budget		49,999,400	(46,294,700)	(6,705,400)		(3,000,700)
Budget to date		49,999,400	(46,294,700)	(6,705,400)		(3,000,700)
Total Actual		49,077,489	(45,979,952)	(6,816,624)		(3,719,087)
Variance		(921,911)	314,748	(111,224)		(718,387)
Carry Forwards					253,400	253,400
Adjusted Variance		(921,911)	314,748	(111,224)	253,400	(464,987)

Analysis of Variances		Expenditure Variance	Income Variance	Recharges Variance	Carry Forwards Awaiting Approval	Adjusted Variance
Service	Note	£	£	£	£	£
Transport	1	(61,311)	355,597	(303,152)		(8,866)
Building Maintenance	2	3,298	(9,890)	41,582		34,990
Stores & Stock Account	3	164,024	(154,293)	0		9,731
Direct Revenue Financing	4	(48,291)	0	0	39,100	(9,191)
Treasury & Debt Management	5	29,962	38,481	2,627		71,070
Non Distributed Costs	6	(173,418)	0	0		(173,418)
Other Financial Costs	7	(654,908)	243,744	0	9,800	(401,365)
ICT Services	8	(22,634)	(3,226)	138,753		112,893
The Lanes	9	50	(99,987)	0		(99,937)
Miscellaneous	10	(158,683)	(55,678)	8,967	204,500	(894)
Total Variance to date		(921,911)	314,748	(111,224)	253,400	(464,987)

Note	Resources - Director's Comments
	<ol style="list-style-type: none"> <li>1. Underspend on repairs partly offset by net shortfall on income and recharges</li> <li>2. Underspent expenses and premises maintenance recharges shortfall.</li> <li>3. Includes net residual value of stores to be written off following transfer of Highways service to Cumbria County Council.</li> <li>4. Carry forward to fund capital schemes.</li> <li>5. Overspend on MRP and reduced investment income</li> <li>6. Savings on shared service pension costs</li> <li>7. Improved savings: Salary Turnover Savings (£544,100), 0% Pay Award (£108,000), and net income shortfall includes £236,224 on VAT Recovery claims not paid (Trade Waste).</li> <li>8. Shortfall in income from ICT Connect printing and copying service, dedicated staff are no longer provided at the facility in Carlisle, consequently printing has been diverted to new printers recently installed throughout the Civic Centre.</li> <li>9. Windfall on previous years' income</li> <li>10. Various minor underspends and surplus income, carry forwards to fund loss of property income and asset disposal costs.</li> </ol>



## 2012/13 REVENUE CARRY FORWARD REQUESTS

## APPENDIX B

Directorate/Section	Description	Requests into			Total
		2013/14 £	2014/15 £	2015/16 £	
<b>Community Engagement</b>					
Housing - Empty Homes	Committed funding for Empty Homes Initiatives. Approved as part of 2012/13 Budget process, not spent due to delays in agreeing conditions with a Third Sector organisation provider.	50,000			50,000
Housing - Empty Homes	Empty Homes Officer - fixed term contract that overlaps financial years due to delay in recruiting. Carry forward would enable officer to complete existing projects and initiatives, and undertake new ones. Will also help maximise income from New Homes Bonus.		19,000		19,000
					0
		50,000	19,000	0	69,000
<b>Economic Development</b>					
Business & Employment	To fund sponsorship of Pirelli Rally as promised by the Leader of Carlisle City Council.	5,000			5,000
Tourism Support	To support various elements of the Tourism Support service including hosting a local Tourism Conference, Winter Lights within the city centre, and support for Hadrian's Wall Trust.	16,400			16,400
Support for Employment Projects	LABGI funding that because of limited capacity has not been utilised thus far for the BSUS programme and there is also a desire to work alongside existing employers and training organisations.	30,000			30,000
City Centre Capacity	Project is to build on the work done for the Business Improvement District. The result of the ballot was needed before further projects could be developed to enhance the City centre offer as the outcome would impact on partnership arrangements.	48,600			48,600
Discover Carlisle & Marketing	The Discover Carlisle website and brand development has not been able to advance as far as originally envisaged in 2012/13 and requires further development into one of the main marketing tools for Carlisle during 2013/14 to allow it to be able to generate significant income streams through sponsorship and advertising revenues to be self sustaining.	6,800			6,800
Business Start Ups	The City Council are committed to a 2 year programme covering 2012/13 and 2013/14 of working with the Cumbria Chamber of Commerce to deliver local business start up support (BSUS), the annual commitment is £30,000 (SLA). This will also attract substantial external funding from ERDF and the New Enterprise Allowance scheme.	49,600			49,600
Regeneration Project Support	The identification of a number of Regeneration and Strategic Property projects has been ongoing through the year but the actual development of such projects has been slower than anticipated due to a lack of a full time Regeneration Projects Officer. Carry forward will enable development of projects such as Public Realm to continue.	20,300			20,300
		176,700	0	0	176,700
<b>Governance</b>					
Town Twinning	The budget is a 3 year rolling programme to fund the Council's Town Twinning activities.	53,000	0	0	53,000
					0
		53,000	0	0	53,000

## 2012/13 REVENUE CARRY FORWARD REQUESTS

## APPENDIX B

Directorate/Section	Description	Requests into			Total
		2013/14 £	2014/15 £	2015/16 £	
<b>Local Environment</b>					
Performance Improvement	Implementation of Waste Management module to FLARE. Phase 1 (Service requests) is complete, carry forward allows phase 2 (Rounds Management) to complete, Project is complex and has taken longer than anticipated.	6,500	0	0	6,500
CCTV	£9,000 for commitment to British Telecom fibre optic contract to allow £180,000 savings to be achieved on recurring basis from 2013/14. £13,000 to cover costs of fixed term CCTV Supervisor post. £8,000 for decommissioning costs.	30,000	0	0	30,000
Small Scale Community Projects	To fund commitments to various small scale projects waiting to be invoiced or recharged. Uncommitted unspent money has not been requested for carry forward	7,000	0	0	7,000
Clean Up Carlisle	To ensure a full 2 year programme of works for Clean Up Carlilse Campaign can be completed.	50,800	0	0	50,800
Crematorium	Cremator chimney lining replacement at an expected cost £50,000. Executive approved the release of up to £35,000 from Cremator Reserve to fund these works (LE06/13). Due to the level of underspend on the Crematorium, it is proposed to carry forward underspends to fund this work to ensure maximum funds can be retained in the reserve to accommodate full cremator replacements in future years.	50,000	0	0	50,000
		144,300	0	0	144,300
<b>Resources</b>					
Property	This budget is to offset the loss of rental income arising from the sale of properties as part of the Asset Review Programme. The programme has experienced delays and postponements on the sale of some properties resulting in the budget being underspent. The carry forward is required to offset the loss of rental income which will occur before other income generating assets are identified for purchase and acquired as part of the re-investment programme.	41,500			41,500
Property	The costs of disposal of the Asset Review Disposal Programme have been temporarily funded from this Property revenue budget which was originally earmarked for asset re-investment initiatives and consultant advice. These costs can be funded from capital receipts (up to 4% of the value of the receipt). It is requested that the revenue budget is replenished by the level of the costs of disposal funded from capital.	163,000			163,000
Direct Revenue Financing - Clean Up Carlisle	To provide funding to allow capital scheme to complete.	8,500			8,500
Direct Revenue Financing - PCIDSS Capital Finance	To provide funding to allow capital scheme to complete.	30,600			30,600
	Budget to provide Contractor plus replacement	9,800			9,800
		253,400	0	0	253,400
<b>Total General Fund Carry Forward Requests</b>		<b>677,400</b>	<b>19,000</b>	<b>0</b>	<b>696,400</b>

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## **EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 31 MAY 2013**

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**EX.48/13      PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13**  
(Key Decision – KD.09/13)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

### **Subject Matter**

The Finance, Governance and Resources Portfolio Holder presented report RD.12/13 summarising the provisional outturn for the 2012/13 General Fund Revenue Budget. He informed Members that the outturn position showed that the net underspend for Council services as at 31 March 2013, once committed expenditure totalling £696,400 and £312,697 transfers to / from earmarked reserves were taken into account, was £75,247.

The table at Section 2.1 of the report showed that the Council's revised budget for 2012/13 was a total of £14,577,700. A summary of the expenditure for individual Directorates and an explanation of the major variances in those budgets were provided. Also itemised were the budget headings which had achieved savings and provided increased income.

Turning to the key issues, the Finance, Governance and Resources Portfolio Holder reported that the Government's Welfare Reform Agenda, once fully implemented would have a major impact on the benefit system, including a household benefit cap and the introduction of the Universal Credit system which would subsume housing benefit (by 2017). In the medium to longer term the Council would have to significantly reduce staff resources working on benefits administration. Whilst staff redeployment policies would reduce the impact of the changes, there were likely to be voluntary / compulsory redundancies in the Section. He proposed therefore that a Welfare Reform Reserve be established and the unused balance of £200,000 (accrued from underspends on staffing and other savings) be transferred to the Reserve to fund such costs. It was further recommended that management of the Reserve should rest with the Director of Community Engagement with the use of the Reserve requiring Executive approval.

It was also proposed that the Executive make recommendations to Council:

- to release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve (as detailed in paragraph 4.1);
- to release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve (as detailed in paragraph 4.2);

- to write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances (as outlined in paragraph 4.3);
- to top up the Transformation Reserve with £200,000 from the underspend position (as set out in paragraph 4.4); and
- to approve the establishment of the Municipal Mutual Insurance provision for £175,000 (as outlined in paragraph 4.5)

In terms of recession planning, the Finance, Governance and Resources Portfolio Holder explained that the Council's bad debt provision had been increased in respect of housing benefit overpayments and penalty charge notices, but reduced for sundry debtors which had been allocated directly to the services. Further details could be found in Report RD.14/13 elsewhere on the Agenda.

He also circulated details of the carry forward requests which had been submitted by Directorates adding that, if Members were minded to approve the carry forward requests, a recommendation would need to be submitted to the City Council.

The Finance, Governance and Resources Portfolio Holder advised that, due to the level of underspend identified within the report after all carry forward requests were approved and transfers to / from earmarked reserves, approximately £75,200 would be returned to the General Fund Reserve. That would replenish the usable revenue balances by 31 March 2015 to the minimum required.

In accordance with revised Capital Finance Regulations, costs associated with asset disposal totalling £62,994 which were included in the revenue outturn, could be funded from the capital receipt generated. That would result in an increase to revenue balances at 31 March 2013.

The Finance, Governance and Resources Portfolio Holder pointed out that the information contained within the report was provisional and subject to the formal audit process.

He also wished to place on record thanks to Financial Services Officers for keeping a tight reign on the Council's finances.

In conclusion, the Finance, Governance and Resources Portfolio Holder formally moved the recommendations, which were duly seconded by the Deputy Leader and Economy and Enterprise Portfolio Holder.

**Summary of options rejected**    None

## **DECISION**

That the Executive:

- (i)      Noted the net underspend as at 31 March 2013 of £75,247 after carry forwards as in (ii) below, and net transfers to/from earmarked reserves as noted in (iii), (iv), (v) and (vi) below;

- (ii) Noted the committed expenditure totalling £696,400 to be met in 2013/14 which had been approved by the Director of Resources and under delegated powers, and the release of £677,400 in 2013/14 and £19,000 in 2014/15 from the General Fund Reserve, for recommendation to Council;
- (iii) Recommended that the City Council release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve, as detailed in paragraph 4.1,
- (iv) Recommended that the City Council release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve, as detailed in paragraph 4.2;
- (v) Recommended that the City Council write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances as outlined in paragraph 4.3;
- (vi) Recommended that the City Council top up the Transformation Reserve with £200,000 from the underspend position, as set out in paragraph 4.4;
- (vii) Recommended that the City Council approve the establishment of the Municipal Mutual Insurance provision for £175,000 as outlined in paragraph 4.5; and
- (viii) Recommended that the City Council approve the establishment of the Welfare Reform Reserve, as detailed in paragraph 4.6, noting that £200,000 would be transferred to the reserve as part of the year end process.

### **Reasons for Decision**

To receive the Report on the Provisional General Fund Revenue Outturn and make recommendations to the City Council

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## **EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 JUNE 2013**

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### **ROSP.39/13 PROVISIONAL GENERAL FUND REVENUE OUTTURN 2012/13**

The Director of Resources presented report RD.12/13 summarising the provisional outturn for the 2012/13 General Fund Revenue Budget. He informed Members that the outturn position showed that the net underspend for Council services as at 31 March 2013, once committed expenditure totalling £696,400 and £312,697 transfers to / from earmarked reserves were taken into account, was £75,247.

The table at Section 2.1 of the report showed that the Council's revised budget for 2012/13 was a total of £14,577,700. A summary of the expenditure for individual Directorates and an explanation of the major variances in those budgets were provided. Also itemised were the budget headings which had achieved savings and provided increased income.

Turning to the key issues, the Director of Resources reported that the Government's Welfare Reform Agenda, once fully implemented would have a major impact on the benefit system, including a household benefit cap and the introduction of the Universal Credit system which would subsume housing benefit (by 2017). In the medium to longer term the Council would have to significantly reduce staff resources working on benefits administration. Whilst staff redeployment policies would reduce the impact of the changes, there were likely to be voluntary / compulsory redundancies in the Section. He proposed therefore that a Welfare Reform Reserve be established and the unused balance of £200,000 (accrued from underspends on staffing and other savings) be transferred to the Reserve to fund such costs. It was further recommended that management of the Reserve should rest with the Director of Community Engagement with the use of the Reserve requiring Executive approval. The Executive had been asked to make a number of recommendations to Council as set out in the report.

The Director of Resources circulated details of the carry forward requests which had been submitted by Directorates, he advised that, due to the level of underspend identified within the report after all carry forward requests were approved and transfers to / from earmarked reserves, approximately £75,200 would be returned to the General Fund Reserve. That would replenish the usable revenue balances by 31 March 2015 to the minimum required.

In accordance with revised Capital Finance Regulations, costs associated with asset disposal totalling £62,994 which were included in the revenue outturn, could be funded from the capital receipt generated. That would result in an increase to revenue balances at 31 March 2013.

The Director of Resources pointed out that the information contained within the report was provisional and subject to the formal audit process.

The Executive had on 31 May 2013 (EX.48/13) considered the report and decided:

“That the Executive:

- (i) Noted the net underspend as at 31 March 2013 of £75,247 after carry forwards as in (ii) below, and net transfers to/from earmarked reserves as noted in (iii), (iv), (v) and (vi) below;
- (ii) Noted the committed expenditure totalling £696,400 to be met in 2013/14 which had been approved by the Director of Resources and under delegated powers, and the release of £677,400 in 2013/14 and £19,000 in 2014/15 from the General Fund Reserve, for recommendation to Council;
- (iii) Recommended that the City Council release the balance of £1,878 from the Sheepmount Reserve to the General Fund Reserve, as detailed in paragraph 4.1,
- (iv) Recommended that the City Council release the balance of £29,670 from the Job Evaluation Reserve to the General Fund Reserve, as detailed in paragraph 4.2;
- (v) Recommended that the City Council write off the accrued deficit on the On Street Parking reserve of £190,000 to General Fund Balances as outlined in paragraph 4.3;
- (vi) Recommended that the City Council top up the Transformation Reserve with £200,000 from the underspend position, as set out in paragraph 4.4;
- (vii) Recommended that the City Council approve the establishment of the Municipal Mutual Insurance provision for £175,000 as outlined in paragraph 4.5; and
- (viii) Recommended that the City Council approve the establishment of the Welfare Reform Reserve, as detailed in paragraph 4.6, noting that £200,000 would be transferred to the reserve as part of the year end process.”

In considering the report Member raised the following comments and concerns:

- A Member asked for an explanation of the expected sum of £3.5m next to Education in the Commuted Sums 2012/13 table.

The Director of Resources agreed to submit a written response to the Panel.

- Would Allerdale and Copeland Borough Councils be contributing to the Welfare Reform Reserve?

The Director of Resources confirmed that both Councils would share the cost of redundancies due to welfare reform.

- Why was the outstanding balance on the On Street Parking account being written off?

The Director of Resources explained that the deficit belonged to the City Council and the County Council was not obliged to pay it, as a result it would be written off.

RESOLVED - That the recommendations as set out in the Provisional General Fund Revenue Outturn 2012/13 Report (RD12/13) be agreed.



# Report to Audit Committee

Agenda  
Item:

**A.6(b)**

Meeting Date: 22nd July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref:KD09/13  
Within Policy and Budget Framework YES  
Public / Private Public

Title: PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL PROGRAMME 2013/14  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD 11/13

## Purpose / Summary:

This report summarises the 2012/13 provisional outturn for the Council's Capital Programme and provides details of the revised Capital programme for 2013/14.

## Recommendations:

Members are asked to note the report.

## Tracking

Executive:	<b>31 May 2013</b>
Overview and Scrutiny:	<b>6 June 2013</b>
Council:	<b>16 July 2013</b>
Audit Committee:	<b>22 July 2013</b>

## Report to Executive

Agenda  
Item:

Meeting Date: 31st May 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref:KD09/13  
Within Policy and Budget Framework YES  
Public / Private Public

Title: PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL PROGRAMME 2013/14  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD 11/13

### Purpose / Summary:

This report summarises the 2012/13 provisional out-turn for the capital budget and provides details of the revised capital programme for 2013/14. The out-turn shows that the net underspend for Council Services as at 31 March 2013 once committed expenditure totalling £1,822,500 is taken into account is £1,596,953. Requests for carry forwards for new items of expenditure totalling £6,200 have been made, and also the removal of the Asset Management Plan expenditure budgets of £1,546,800 from the capital programme, which results in a net underspend to £43,953.

It should be noted that the information contained in this report is provisional subject to the formal audit process. The Statement of Accounts for 2012/13 will be presented to the Audit Committee on 22 July, followed by a three-month audit process.

### Recommendations:

The Executive is asked to:

- (i) Note that subject to all recommendations below being approved, the net underspend will be £43,953.
- (ii) Note the net underspend as at 31 March 2013 of £1,596,953 **includes** committed expenditure to be met totalling £1,822,500 in 2013/14, which have been approved under delegated powers by the Director of Resources;
- (iii) Make recommendations to Council on 16 July on the carry forward requests of £6,200 for new items of expenditure for furniture and equipment at Play Areas as detailed in paragraph 2.5;

- (iv) Make recommendations to Council on 16 July on the removal of the Asset Management Plan expenditure budgets from the Council's capital programme (£1,546,800 from 2012/13, £6,272,500 from 2013/14, £1,035,800 from 2014/15 and £4,045,500 from 2015/16) to be released back from reserves on approval by the Executive when revenue generating opportunities for land and property acquisitions become available.
- (v) Note the use of the Conservation Fund to fund expenditure on Central Plaza and the Asset Management Reserve to fund expenditure on Industrial Estates, Asset Management Plan and Community Resource and Training Centre in 2012/13;
- (vi) Consider the revised programme for 2013/14 together with the proposed methods of financing, as detailed at para 5.2 and Appendix B, for recommendation to Council on 16 July;

### Tracking

Executive:	<b>31 May 2013</b>
Overview and Scrutiny:	<b>6 June 2013</b>
Council:	<b>16 July 2013</b>

## **1. BACKGROUND**

1.1 This report sets out the summarised financial out-turn for the Council's Capital Programme as follows:

- (i) the out-turn for individual schemes for 2012/13, summarised in **Appendix A**
- (ii) the revised programme for 2013/14, and the provisional programme for 2014/15 to 2017/18, summarised in **Appendix B**.

1.2 The report sets out the financial implications arising from the out-turn including the impact on capital resources for 2013/14. Members should note that the information contained in this report is provisional and subject to the formal audit process. Any significant changes required following the approval of the 2012/13 accounts will, if required, be reported to a future Executive meeting.

1.3 Please note that throughout this report the use of brackets indicates a favourable variance i.e. either an underspend or additional income received.

## **2. SUMMARY CAPITAL OUTTURN 2012/13**

2.1 The original capital programme of £10,940,500 for 2012/13 was approved in February 2012. Since then, a review of the capital programme has been undertaken and the capital funding has been revised. In accordance with proper accounting practices it has been necessary to gross up the expenditure budgets to properly reflect the total cost of the schemes including those fully funded from external grant/contributions.

The revised programme for 2012/13 of £7,979,200 is a result of the following funding streams:

	£
Original 2012/13 Programme (approved February 2012)	10,940,500
Agreed Carry Forwards from 2011/12 (RD10/12 Council 17/07/12)	1,692,800
Agreed Carry forwards into 2013/14 (RD46/12)	(3,000,000)
Agreed Savings from 2012/13 Programme (RD46/12)	(2,080,300)
Additional Funding: Castle Way Cycle Ramp (RD01/12 Exec 05/04/12)	370,000
Additional Funding: Public Realm (RD34/12 Exec 03/09/12)	40,000
Reduced funding for Old Town Hall (ED30/12 Council 13/11/12)	(89,800)
Removal of funding from other projects to fund Old Town Hall (ED30/12 Council 13/11/12)	(85,600)
Use of Conservation Fund (ED29/11 Exec 30/08/11)	8,900
External contributions/grants	6,400
Schemes funded by Revenue budgets	176,300
<b>Revised 2012/13 Capital Programme</b>	<b>7,979,200</b>

2.2 The provisional out-turn position for the 2012/13 capital programme is shown below:

Directorate	Revised Annual Budget	Total Expenditure	Carry Forwards (Committed)	Variance	New Items	Return to Reserves	Final Variance
	£	£	£	£	£	£	£
Resources	3,615,700	1,527,740	463,400	(1,624,560)	0	1,546,800	(77,760)
Community Engagement	2,758,700	2,151,252	610,700	3,252	0	0	3,252
Local Environment	1,099,700	674,180	449,900	24,380	6,200	0	30,580
Economic Development	505,100	206,575	298,500	(25)	0	0	(25)
<b>Total</b>	<b>7,979,200</b>	<b>4,559,747</b>	<b>1,822,500</b>	<b>(1,596,953)</b>	<b>6,200</b>	<b>1,546,800</b>	<b>(43,953)</b>

2.3 The position for 2012/13 after committed carry forwards have been taken into account is an underspend of £1,596,953.

2.4 The remaining budget provided in 2012/13 for land and property acquisitions that will generate increased revenue income within the Asset Management Plan (£1,546,800) is requested to be returned to reserves to be released by the Executive when such acquisitions become available. A summary of the receipts and expenditure within the Asset Management Plan is shown below:

	2011/12 £	2012/13 £
Opening Balance	0	(1,885,884)
Funds provided from Asset Management Reserve	(1,000,000)	0
Capital Receipts Generated	(1,348,400)	(4,111,210)
Expenditure incurred	445,295	162,704
Costs of Disposal funded from capital receipts	17,221	62,994
Receipts replenished from Invest to Save scheme	0	(18,069)
<b>Balance of funds held in reserve for Asset Management Plan expenditure</b>	<b>(1,885,884)</b>	<b>(5,789,465)</b>

- 2.5 Additional budget for new and continuing schemes is requested for 2013/14 to be funded from the remaining budget in 2012/13. These are detailed below:

Scheme	Variance ( £ )	Comments
Play Areas	6,200	To fund additional equipment and furniture at St James Park and Richmond Green play areas included within the 2012/13 capital programme (carried forward from 2011/12).
<b>Total</b>	<b>6,200</b>	

- 2.6 Currently included in the Revenue Outturn is £238,300 of Highways Claimed Rights Expenditure and £238,300 Highways Claimed Rights income that relates to capital schemes. In accordance with Capital Finance Regulations, this expenditure and income should be included in the Council's Capital Programme for Statement of Account purposes. There will be no impact on the overall bottom line in the Revenue and Capital Outturn as the expenditure is fully funded, however, this needs to be reflected correctly in the accounts. This is not currently reflected in the figures presented in this report and the amounts are reported in RD12/13 considered elsewhere on the agenda.
- 2.7 The main overspends after carry forwards are summarised below:
- Crematorium Extension (£21,844 overspend) in relation to cabling and IT works in excess of the building works originally budgeted for.
  - Castle Street Public Realm Improvements (£21,770 overspend) in relation to construction work and traffic management. Included in the overspend is a request to carry forward £10,000 to complete the traffic management work now that the traffic orders have been granted.

- 2.8 Some schemes resulted in underspends (after carry forward requests) in the year and the main ones are summarised below:
- ICT Shared Service (£76,092 underspend). Remaining budget for Enterprise Licences is no longer required as alternative in house arrangements have been made.
  - Talkin Tarn (£9,249 underspend). The cost of improvements to the car park were less than originally anticipated.
- 2.9 Otherwise schemes are progressing within budget, although some schemes have not been completed to the original timescales which has resulted in the request for carry forwards.
- 2.10 Further details for each directorate are included in **Appendices A1-A4**.

### **3. CARRY FORWARD REQUESTS**

- 3.1 In accordance with the Council's Constitution, any net underspending/savings on service estimates under the control of the Director may be carried forward. This is to facilitate the achievement of more strategic five year budgeting which requires greater flexibility of budgets between years as set out in the Medium Term Financial Plan. Approval of carry forwards is subject to the following as contained in the Council's Constitution:

- *the authorisation of the Director of Resources where the request relates to a specific committed item of expenditure where, due to external or other factors, the Director has been unable to spend the approved budget by 31 March. The use of the resource will be restricted to the purpose for which the estimate was originally intended. The carry forward will only be approved by the Director of Resources if the expenditure is within both the Directorate's and the Authority's budget as approved for that year. Any carry forward which would result in an over-spend for the Authority will require authorisation by the Council.*
- *any overspending on service estimates in total on budgets under the control of the Director must be carried forward to the following year, and will constitute the first call on service budgets in the following year, unless the Council determines otherwise by way of a supplementary estimate. The Director of Resources will report the extent of overspending carried forward to the Executive, Resources Overview and Scrutiny Panel and to the Council.*

The delegated power applies only in so far as the carry forwards do not take the Council into an overspend position.

3.2 Carry forwards at the end of the year have been analysed to assess the year of potential expenditure to enable better profiling of budgets for future years. Of the committed carry forwards shown in paragraph 2.2, it is estimated that the full £1,822,500 (net) will be spent in 2013/14.

3.3 The carry forwards in relation to new items of expenditure (£6,200) as detailed in para 2.5 are estimated to be spent in 2013/14.

#### 4. FINANCING OF CAPITAL PROGRAMME 2012/13

4.1 Utilisation of resources to fund the 2012/13 Capital Programme in light of the out-turn is provisionally estimated as follows:

	Revised Budget £	Provisional Out-turn £
Capital Programme expenditure in year	<b>7,979,200</b>	<b>4,559,747</b>
<b><u>Financed by:</u></b>		
Capital Receipts (including PRTB receipts) (note 1)	5,067,300	2,554,285
Capital Grants		
• Disabled Facilities Grant	663,000	663,000
• General	79,600	28,494
Reserves & Balances (note 2)		
• Earmarked Reserves	1,026,900	606,637
• Direct Revenue Financing	666,200	617,909
Contributions from other bodies incl S106 (note 3)	476,200	89,422
<b>Total Financing</b>	<b>7,979,200</b>	<b>4,559,747</b>

Notes:

- Usable capital receipts carried forward from 2011/12 and those generated during the year amount to £9,296,053 compared to the revised estimate figure of £9,179,061, a decrease of £116,992. This is due to there being no general asset sales in year. Of the total sum available, £2,554,285 has been used to fund the Capital Programme in 2012/13, with the balance (£6,741,768) being carried forward to 2013/14 and held within the Capital Adjustment Account in order to reduce the Council's MRP liability as per the Treasury Management budget agreed in February 2013. In accordance with revised Capital Finance Regulations, costs associated with asset disposal totalling £62,994 that are included in the revenue outturn, can be funded from the capital receipt generated. This will result in a decrease to the capital receipts balance reported above at 31<sup>st</sup> March 2013.



2. The use of capital receipts has been optimised in order to fund 2012/13 capital expenditure. Direct revenue funding, S106 receipts and earmarked reserves and provisions specifically set up to fund capital expenditure have also been used to fund capital expenditure in 2012/13. Capital receipts are the last source of funding applied to finance the capital programme, external funding is always applied first. The use of the Asset Management Reserve was lower than expected in 2012/13 due to slippage on Asset Management Plan expenditure into future years. Internal borrowing in 2012/13 was not required. The implementation of PCIDSS and slippage on the Old Town Hall means £39,100 direct revenue funding for the schemes has also slipped into 2013/14.
3. The use of Section 106 receipts towards Castle Way Cycle Ramp and Public Realm (S106) was less than budgeted. £386,800 has been carried forward into 2013/14 to allow the schemes to complete.

## **5. FIVE YEAR CAPITAL PROGRAMME**

- 5.1 A five-year Capital Programme for 2013/14 to 2017/18 is detailed in **Appendices B1-B2**.
- 5.2 The programme for **2013/14** totalling £4,760,200 is based upon the programme as agreed by Council in February 2013 of £9,280,000, the commitments brought forward from 2012/13 as identified above of £1,822,500, additional budget of £6,200 for continuing/new schemes subject to approval by Council as detailed above in paragraph 2.5, less budget provided of £76,000 in ICT Shared Service for Enterprise Licences, and less land and property acquisitions within the Asset Management Plan to be held in reserves until suitable revenue generating acquisitions become available (£6,272,500).
- 5.3 The 2013/14 programme will be continually reviewed to ensure the Council has the capacity to deliver this level of programme. The main challenge for future years is the vehicle replacement programme (currently planned to be funded by internal borrowing).
- 5.4 It is suggested that the revised programme for 2013/14 as detailed in Appendix B1 is financed as follows:

	<u>Original Budget</u> £	<u>Revised Budget</u> £
Original Programme	9,280,000	9,280,000
Add: Carried forward from 2012/13	0	1,828,700
Less: Enterprise Licences	0	(76,000)
Less: Asset Review Expenditure (to be released from Reserve as and when required)	0	(6,272,500)
<b>Total Expenditure to be financed</b>	<b>9,280,000</b>	<b>4,760,200</b>
<b><u>Financed by:</u></b>		
Capital Grants		
• DFG	663,000	663,000
• General	0	37,900
Capital Receipts *	7,932,100	3,141,100
Contributions from other bodies	330,000	716,800
Direct Revenue Financing	83,900	123,000
Reserves	0	32,900
Internal Borrowing	271,000	45,500
<b>Total Financing</b>	<b>9,280,000</b>	<b>4,760,200</b>

\* Balance of capital receipts will reduce by £62,994 for costs of disposal as described in Note 1 para 4.1.

- 5.6 The proposed programme for **2014/15** to **2017/18** as detailed in Appendix B2 is based on the programme agreed by Council in February 2013 and the recommendations made in this report.

## **6 CONSULTATION**

### **6.1 Consultation to Date.**

Portfolio Holders and SMT have considered the issues raised in this report.

### **6.2 Consultation Proposed.**

Resources Overview and Scrutiny Panel will consider the report on 6 June 2013.

## **7 CONCLUSION AND REASONS FOR RECOMMENDATIONS**

### **7.1 The Executive is asked to:**

- (i) Note that subject to all recommendations below being approved, the net underspend will be £43,953.
- (ii) Note the net underspend as at 31 March 2013 of £1,596,953 which includes committed expenditure to be met totalling £1,822,500 in 2013/14, which have been approved under delegated powers by the Director of Resources;
- (iii) Make recommendations to Council on 16 July on the carry forward requests of £6,200 for new items of expenditure for furniture and equipment at Play Areas as detailed in paragraph 2.5;

- (iv) Make recommendations to Council on 16 July on the removal of the Asset Management Plan expenditure budgets from the Council's capital programme (£1,546,800 from 2012/13, £6,272,500 from 2013/14, £1,035,800 from 2014/15 and £4,045,500 from 2015/16) to be released back from reserves on approval by the Executive when revenue generating opportunities for land and property acquisitions become available.
- (v) Note the use of the Conservation Fund to fund expenditure on Central Plaza and the Asset Management Reserve to fund expenditure on Industrial Estates, Asset Management Plan and Community Resource and Training Centre in 2012/13;
- (vi) Consider the revised programme for 2013/14 together with the proposed methods of financing, as detailed at para 5.2 and Appendix B, for recommendation to Council on 16 July;

## **8 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

8.1 The Council's capital programme reflects the current priorities in the Carlisle Plan e.g. Arts Centre and Leisure facilities.

**Contact Officer:** Emma Gillespie

**Ext:** 7289

**Appendices** A1 to A4 and B1 to B2.  
**attached to report:**

**Note:** in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

**CORPORATE IMPLICATIONS/RISKS:** SMT and JMT have been involved in the preparation of this report. Individual capital schemes have different risks attached.

**Chief Executive's** – Not applicable

**Community Engagement** – Not applicable

**Economic Development** – Not applicable

**Governance** – The Council has a fiduciary duty to manage its finances properly and the proper reporting of the outturn figures is part of this process. Approval of full Council is required for the additional use of capital reserves to fund expenditure commitments as set out in the report.

**Local Environment** – Not applicable

**Resources** – Financial implications are contained in the main body of the report.

**RESOURCES**

Position as at 31 March 2013

Scheme	Revised Annual Budget 2012/13 £	Expenditure to date 2012/13 £	Total Variance 2012/13 £	Carry Forwards (Committed) £	Carry Forwards (New items) £	Return to Reserves £	Adjusted Variance £	Category of Carry Forward (Note 1)	Details of major variances
ICT Shared Service	331,800	147,408	(184,392)	108,300	0	0	(76,092)	A	Part of Shared Service Business Case. Underspend in relation to Enterprise Licences which are no longer required as alternative in house arrangements have been made.
Franking Machine	0	7,697	7,697	0	0	0	7,697	-	A necessary purchase to accommodate changes introduced by the Postal Service.
Planned Enhancements to Council Property	322,000	305,803	(16,197)	0	0	0	(16,197)	-	A strategic underspend to accommodate the Town Clocks Invest to Save project.
Town Clocks Invest to Save	0	7,575	7,575	0	0	0	7,575	-	To fit auto-winding and regulation of town clocks and is accommodated from within the Planned Enhancements to Council Property budget. Revenue savings will be generated to repay the capital investment.
Enhancements to Enterprise Centre	25,000	24,705	(295)	0	0	0	(295)	-	A revision to the original Planned Enhancements to Council Property to allow improvements to the Enterprise Centre due to the transfer of management to the Civic Centre.
Vehicles and Plant	1,173,400	862,396	(311,004)	311,000	0	0	(4)	A	Revised replacement plan. Carry forward relates to vehicles currently on order.
Bousteads Grassing Demolition	0	(452)	(452)	0	0	0	(452)	-	Project complete.
PCIDSS Capital	32,000	1,437	(30,563)	30,600	0	0	37	A	Implementation costs for a new security Standard in line with the Payment Card Industry (RD26/12 Executive 6/8/12). Project commencing and will complete in 2013/14.
Asset Management Plan	1,709,500	154,305	(1,555,195)	0	0	1,546,800	(8,395)	-	A five year Development and Investment Plan for the City Council's property portfolio with the aim of delivering additional income or reduced costs in the revenue costs in the revenue account on a recurring basis. It is proposed that the budgets are returned to reserves and earmarked for asset purchases to be released back into the programme by Executive when such acquisition opportunities become available.
Sustainable Energy Projects	0	8,400	8,400	0	0	0	8,400	-	Solar scheme approved during 2011/12 and funded from Asset Management Plan receipt.
Document Image Processing	22,000	8,466	(13,534)	13,500	0	0	(34)	A	Phased implementation in progress. Will complete in 2013/14.
<b>TOTAL</b>	<b>3,615,700</b>	<b>1,527,740</b>	<b>(2,087,960)</b>	<b>463,400</b>	<b>0</b>	<b>1,546,800</b>	<b>(77,760)</b>		

**Note 1**

A - Committed expenditure (to be used for original purpose/externally funded)

B - New items of expenditure

A/B - Combination of committed expenditure and new items of expenditure

**COMMUNITY ENGAGEMENT****Position as at 31 March 2013**

Scheme	Revised Annual Budget 2012/13 £	Expenditure to date 2012/13 £	Total Variance 2012/13 £	Carry Forwards (Committed) £	Carry Forwards (New items) £	Return to Reserves £	Adjusted Variance £	Category of Carry Forward (Note 1)	Details of major variances
Customer Services	10,000	8,125	(1,875)	0	0	0	(1,875)	-	Improvements to the entrance of the Contact Centre including the purchase of self serve terminals.
Disabled Facilities Grants	863,000	863,136	136	0	0	0	136	-	Mandatory grants. A new Framework Agreement for procurement commenced early April 2012 which has improved the efficiency and effectiveness of systems.
Disabled Facilities Grants - Pilot	0	4,800	4,800	0	0	0	4,800	-	Expenditure fully funded by grant.
Community Resource & Training Centre	261,100	261,002	(98)	0	0	0	(98)	-	Project complete. Adjudication notice served by Contractor with substantial claim has been settled.
Families Accommodation Replacement	1,616,900	1,008,250	(608,650)	608,600	0	0	(50)	A	Project commencing as expected. Completion due Spring 2013.
Trinity Church Multi Use Games Area	7,700	5,606	(2,094)	2,100	0	0	6	A	Underspend due to successful agreement on final account. Balance required to allow replacement of existing seat and grass resurfacing.
Roman Frontier	0	333	333	0	0	0	333	-	Project complete.
<b>TOTAL</b>	<b>2,758,700</b>	<b>2,151,252</b>	<b>(607,448)</b>	<b>610,700</b>	<b>0</b>	<b>0</b>	<b>3,252</b>		

**Note 1**

A - Committed expenditure (to be used for original purpose/externally funded)

B - New items of Expenditure

A/B - Combination of committed expenditure and new items of expenditure

**LOCAL ENVIRONMENT****Position as at 31 March 2013**

Scheme	Revised Annual Budget 2012/13 £	Expenditure to date 2012/13 £	Total Variance 2012/13 £	Carry Forwards (Committed) £	Carry Forwards (New items) £	Return to Reserves £	Adjusted Variance £	Category of Carry Forward (Note 1)	Details of major variances
ODPM - Making Space for Water	4,500	0	(4,500)	0	0	0	(4,500)	-	Funding towards flood work to parts of Crosby-on-Eden
Crematorium Extension	60,000	81,844	21,844	0	0	0	21,844	-	Improvements to Crematorium building to generate revenue savings. Overspend in relation to additional IT and cabling work in excess of original tender.
Talkin Tarn	95,000	85,751	(9,249)	0	0	0	(9,249)	-	Improvements to Talkin Tarn car park funded from surplus revenue income.
Play Area Developments	66,900	62,182	(4,718)	0	6,200	0	1,482	B	Non-committed carry forwards requested for additional furniture/equipment at St James Park and Richmond Green play areas.
Environmental Improvements	46,400	45,774	(626)	0	0	0	(626)	-	Budget carried forward from 2011/12 to complete work at Cenotaph, Verge Improvements and Back Lanes. All projects complete.
Kingstown Industrial Estate Roads	317,900	284,961	(32,939)	32,900	0	0	(39)	A	Refurbishment of Kingstown Broadway North carriageway to 10 year design life. Carry forward to complete works currently tendered and also allow additional works to a number of access crossings.
Castle Street Public Realm	70,000	81,770	11,770	10,000	0	0	21,770	A	Anticipated final overspend on project of £22,000. The carry forward of £10,000 will allow scheduled works to complete in 2013/14.
Connect 2 Cycleway	15,000	3,235	(11,765)	11,700	0	0	(65)	A	Contribution towards length of cycleway. Carry forward required to ensure works required to ensure adoption of the cycleway can be completed.
Castle Way Cycle Ramp	370,000	23,159	(346,841)	346,800	0	0	(41)	A	Approved by Executive 11/04/12 (RD01/12). Funded by Section 106 monies. Revised planning application submitted which has delayed expenditure in 2012/13. Carry forward required to ensure project can be completed in line with Section 106 agreement.
Public Realm Works S106	40,000	0	(40,000)	40,000	0	0	0	A	Approved by Executive 3/09/12 (RD34/12). Funded by Section 106 monies. Carry forward required to ensure project can be completed in line with Section 106 agreement.
Clean Up Carlisle	14,000	5,504	(8,496)	8,500	0	0	4	A	Approved by Council 17/07/12 (LE22/12). Carry forward required to ensure the 2 year Clean Up Carlisle Campaign can be completed and full benefits received.
<b>TOTAL</b>	<b>1,099,700</b>	<b>674,180</b>	<b>(425,520)</b>	<b>449,900</b>	<b>6,200</b>	<b>0</b>	<b>30,580</b>		

**Note 1**

A - Committed expenditure (to be used for original purpose/externally funded)

B - New items of Expenditure

A/B - Combination of committed expenditure and new items of expenditure

**PROVISIONAL GENERAL FUND CAPITAL OUTTURN 2012/13**

**APPENDIX A4**

**ECONOMIC DEVELOPMENT**

**Position as at 31 March 2013**

Scheme	Revised Annual Budget 2012/13 £	Expenditure to date 2012/13 £	Total Variance 2012/13 £	Carry Forwards (Committed) £	Carry Forwards (New items) £	Return to Reserves £	Adjusted Variance £	Category of Carry Forward (Note 1)	Details of major variances
EA Central Plaza	8,900	8,871	(29)	0	0	0	(29)	-	Implementation of an Urgent Works Notice under Section 54 of the Planning (Listed Buildings and Conservation Areas) Act 1990 to be funded from Conservation Fund approved by Executive 30.08.11 (ED29/11).
Old Town Hall Strategic TIC	496,200	197,704	(298,496)	298,500	0	0	4	A	Revised project approved by Council 13/11/13. Works started on site in January 2013 and will continue until the end of June 2013.
<b>TOTAL</b>	<b>505,100</b>	<b>206,575</b>	<b>(298,525)</b>	<b>298,500</b>	<b>0</b>	<b>0</b>	<b>(25)</b>		

**Note 1**

A - Committed expenditure (to be used for original purpose/externally funded)

B - New items of Expenditure

A/B - Combination of committed expenditure and new items of expenditure



Scheme	Original Capital Programme 2013/14 £	Carry Forwards from 2012/13 £	New Projects to be added £	Other Adjustments £	Revised Capital Programme 2012/13 £
<b><u>Current non-recurring commitments</u></b>					
Public Realm S106	330,000	40,000			370,000
Clean Up Carlisle	12,000	8,500			20,500
	<b>342,000</b>	<b>48,500</b>	<b>0</b>	<b>0</b>	<b>390,500</b>
<b><u>Recurring commitments</u></b>					
Asset Review Purchases	6,272,500			(6,272,500)	0
Planned Enhancements to Council Property	300,000				300,000
Vehicles, Plant & Equipment	259,500	311,000			570,500
ICT Shared Service	114,000	108,300			222,300
IT Equipment	79,000			(76,000)	3,000
	<b>7,025,000</b>	<b>419,300</b>	<b>0</b>	<b>(6,348,500)</b>	<b>1,095,800</b>
<b><u>New non-recurring commitments</u></b>					
Arts Centre	250,000				250,000
Public Realm Work	100,000				100,000
Paternoster Row	100,000				100,000
Harraby School and Community Campus contribution	600,000				600,000
	<b>1,050,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,050,000</b>
<b><u>Disabled Facilities Grants</u></b>					
Private Sector Grants	863,000				863,000
	<b>863,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>863,000</b>
<b><u>Continuing Schemes</u></b>					
Play Area Developments			6,200		6,200
Old Town Hall		298,500			298,500
Trinity Church MUGA		2,100			2,100
Castle Street Public Realm		10,000			10,000
Female & Families Accommodation		608,600			608,600
Kingstown Industrial Estate		32,900			32,900
PCIDSS Capital		30,600			30,600
Document Image Processing		13,500			13,500
Connect 2 Cycleway		11,700			11,700
Castle Way Cycle Ramp (S106)		346,800			346,800
	<b>0</b>	<b>1,354,700</b>	<b>6,200</b>	<b>0</b>	<b>1,360,900</b>
<b>TOTAL</b>	<b>9,280,000</b>	<b>1,822,500</b>	<b>6,200</b>	<b>(6,348,500)</b>	<b>4,760,200</b>

**2014/15 to 2017/18 PROPOSED CAPITAL PROGRAMME****APPENDIX B2**

<b>Scheme</b>	<b>Original Capital Programme 2014/15 £</b>	<b>Original Capital Programme 2015/16 £</b>	<b>Original Capital Programme 2016/17 £</b>	<b>Original Capital Programme 2017/18 £</b>
Private Sector Grants	863,000	863,000	863,000	663,000
Planned Enhancements to Council Property	300,000	300,000	300,000	300,000
Vehicles, Plant & Equipment	279,000	1,901,000	200,000	200,000
Asset Review Purchases	0	0	0	0
Arts Centre	161,000	175,000	0	0
Harraby School and Community Campus Contribution	500,000	500,000	0	0
Old Town Hall/Greenmarket	1,500,000	0	0	0
Leisure Facilities	0	5,000,000	0	0
<b>TOTAL</b>	<b>3,603,000</b>	<b>8,739,000</b>	<b>1,363,000</b>	<b>1,163,000</b>

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## **EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 31 MAY 2013**

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**EX.49/13      PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL  
PROGRAMME 2013/14**  
(Key Decision – KD.09/13)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

### **Subject Matter**

The Finance, Governance and Resources Portfolio Holder presented report RD.11/13 summarising the Provisional Outturn for the Council's Capital Budget, together with details of the revised Capital Programme for 2013/14. He informed Members that the outturn showed that the net underspend for Council services as at 31 March 2013 once committed expenditure totalling £1,822,500 was taken into account was £1,596,953. He added that requests had been made for carry forwards for new items of expenditure totalling £6,200, and also the removal of the Asset Management Plan expenditure budgets of £1,546,800 from the capital programme, which would result in a net underspend of £43,953.

The Finance, Governance and Resources Portfolio Holder set out the position with regard to carry forward requests on the Capital Programme. He also identified for Members the resources which had been used to fund the 2012/13 Capital Programme and detailed the 5 year Capital Programme for the period 2013/14 to 2017/18. He reported that the programme for 2013/14 totalled £4,760,200 based upon the programme agreed by Council in February 2013 of £9,280,000; the commitments brought forward from 2012/13 of £1,822,500; an additional budget of £6,200 for continuing / new schemes subject to approval by Council, less budget provided of £76,000 in ICT Shared Service for Enterprise Licences, and less land and property acquisitions within the Asset Management Plan to be held in reserves until suitable revenue generating acquisitions became available (£6,272,500).

The 2013/14 programme would be continually reviewed to ensure the Council had the capacity to deliver that level of programme. The main challenge for future years related to the vehicle replacement programme (currently planned to be funded by internal borrowing).

The proposed funding arrangements for the revised 2013/14 programme were also outlined within the report.

The Finance, Governance and Resources Portfolio Holder expressed well deserved thanks to the Officers involved.

In conclusion, the Finance, Governance and Resources Portfolio Holder moved the recommendations set out in the report, which were duly seconded by the Deputy Leader and Economy and Enterprise Portfolio Holder.

**Summary of options rejected**    None

## **DECISION**

That the Executive:

- (i)     Noted that, subject to all recommendations below being approved, the net underspend would be £43,953.
- (ii)    Noted the net underspend as at 31 March 2013 of £1,596,953 included committed expenditure to be met totalling £1,822,500 in 2013/14, which had been approved under delegated powers by the Director of Resources;
- (iii)   Recommended that the City Council on 16 July 2013 approves the carry forward requests of £6,200 for new items of expenditure for furniture and equipment at Play Areas as detailed in paragraph 2.5;
- (iv)    Recommended that the City Council on 16 July 2013 approves the removal of the Asset Management Plan expenditure budgets from the Council's capital programme (£1,546,800 from 2012/13, £6,272,500 from 2013/14, £1,035,800 from 2014/15 and £4,045,500 from 2015/16) to be released back from reserves on approval by the Executive when revenue generating opportunities for land and property acquisitions became available.
- (v)     Noted the use of the Conservation Fund to fund expenditure on Central Plaza and the Asset Management Reserve to fund expenditure on Industrial Estates, Asset Management Plan and Community Resource and Training Centre in 2012/13;
- (vi)    Had considered the revised programme for 2013/14 together with the proposed methods of financing, as detailed at paragraph 5.2 and Appendix B, for recommendation to Council on 16 July 2013.

## **Reasons for Decision**

To receive the report on the Provisional Capital Outturn for 2012/13 and make recommendations to the City Council on the 2013/14 Capital Programme

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## **EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 JUNE 2013**

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### **ROSP.40/13 PROVISIONAL CAPITAL OUTTURN 2012/13 AND REVISED CAPITAL PROGRAMME 2013/14**

The Director of Resources presented report RD.11/13 summarising the Provisional Outturn for the Council's Capital Budget, together with details of the revised Capital Programme for 2013/14. He informed Members that the outturn showed that the net underspend for Council services as at 31 March 2013 once committed expenditure totalling £1,822,500 was taken into account was £1,596,953. He added that requests had been made for carry forwards for new items of expenditure totalling £6,200, and also the removal of the Asset Management Plan expenditure budgets of £1,546,800 from the capital programme, which would result in a net underspend of £43,953.

The Director of Resources set out the position with regard to carry forward requests on the Capital Programme. He also identified for Members the resources which had been used to fund the 2012/13 Capital Programme and detailed the 5 year Capital Programme for the period 2013/14 to 2017/18. He reported that the programme for 2013/14 totalled £4,760,200 based upon the programme agreed by Council in February 2013 of £9,280,000; the commitments brought forward from 2012/13 of £1,822,500; an additional budget of £6,200 for continuing / new schemes subject to approval by Council, less budget provided of £76,000 in ICT Shared Service for Enterprise Licences, and less land and property acquisitions within the Asset Management Plan to be held in reserves until suitable revenue generating acquisitions became available (£6,272,500).

The 2013/14 programme would be continually reviewed to ensure the Council had the capacity to deliver that level of programme. The main challenge for future years related to the vehicle replacement programme (currently planned to be funded by internal borrowing).

The proposed funding arrangements for the revised 2013/14 programme were also outlined within the report.

The Executive had on 31 May 2013 (EX.49/13) considered the report and decided:

That the Executive:

- (i) Noted that, subject to all recommendations below being approved, the net underspend would be £43,953.
- (ii) Noted the net underspend as at 31 March 2013 of £1,596,953 included committed expenditure to be met totalling £1,822,500 in 2013/14, which had been approved under delegated powers by the Director of Resources;

- (iii) Recommended that the City Council on 16 July 2013 approves the carry forward requests of £6,200 for new items of expenditure for furniture and equipment at Play Areas as detailed in paragraph 2.5;
- (iv) Recommended that the City Council on 16 July 2013 approves the removal of the Asset Management Plan expenditure budgets from the Council's capital programme (£1,546,800 from 2012/13, £6,272,500 from 2013/14, £1,035,800 from 2014/15 and £4,045,500 from 2015/16) to be released back from reserves on approval by the Executive when revenue generating opportunities for land and property acquisitions became available.
- (v) Noted the use of the Conservation Fund to fund expenditure on Central Plaza and the Asset Management Reserve to fund expenditure on Industrial Estates, Asset Management Plan and Community Resource and Training Centre in 2012/13;
- (vi) Had considered the revised programme for 2013/14 together with the proposed methods of financing, as detailed at paragraph 5.2 and Appendix B, for recommendation to Council on 16 July 2013.

In response to a question the Director of Resources confirmed that the Town Hall project was on target.

RESOLVED – That the Provisional Capital Outturn 2012/13 and Revised Capital Programme 2013/14 (RD.11/13) be noted.

# Report to Audit Committee

Agenda  
Item:

**A.7**

Meeting Date: 22 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD09/13  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OUTTURN 2012/13  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD13/13

## Purpose / Summary:

This report, which provides Treasury Management outturn for 2012/13, was received by the Executive on 31 May 2013 and approved by Council on 16 July 2013.

The Audit Committee is invited to make any observations on treasury matters which took place during 2012/13 although it will be noted from the report that this was a relatively quiet year for Treasury Management. The Committee is otherwise asked to note the report.

## Recommendations:

That the report be noted and received.

## Tracking

Executive:	<b>31 May 2013</b>
Overview and Scrutiny:	<b>6 June 2013</b>
Council:	<b>16 July 2013</b>
Audit Committee:	<b>22 July 2013</b>

# Report to Executive

Agenda  
Item:

Meeting Date: 31 May 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD09/13  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OUTTURN 2012/13  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD13/13

## Purpose / Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B).

## Recommendations:

- 1 That this report be received and recommended to Council for approval.

## Tracking

Executive:	<b>31 May 2013</b>
Overview and Scrutiny:	<b>6 June 2013</b>
Council:	<b>16 July 2013</b>



## **1. BACKGROUND**

- 1.1 The purpose of this report is to inform Members on various Treasury Management issues.
- 1.2 Appendix A1 to this report sets out a final report on Treasury Management in 2012/13 as required by the CIPFA Code of Practice on Treasury Management. Appendix A2 highlights some performance measures and Appendix A3 shows the final prudential indicators for 2012/13.
- 1.3 Appendices B1-B3 details the schedule of Treasury Transactions for the period 1 January 2013 – 31 March 2013.

## **2. CONSULTATION**

- 2.1 Resources Overview and Scrutiny Panel will consider the report on 6 June 2013 and the Audit Committee will do so on 22 July 2013.

## **3. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 3.1 That this report be received and recommended to Council for approval.

## **4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 4.1 To ensure that the Council's investments are in line with appropriate policies including the Treasury Management Strategy Statement.

**Contact Officer:** Steven Tickner **Ext:** 7280

**Appendices attached to report:**

- Appendix A1 – Treasury Management 2012/13**
- Appendix A2 – Performance Statistics**
- Appendix A3 – Prudential Code and Prudential Borrowing**
- Appendix B1 – Treasury Transactions**
- Appendix B2 – Investment Transactions**
- Appendix B3 – Outstanding Investments**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

## **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – n/a**

**Community Engagement – n/a**

**Economic Development – n/a**

**Governance** – Treasury Management activities are delegated to the Director of Resources and Financial Procedure Rule 3.19 requires that he prepare an annual report on the topic. This Report fulfils that obligation.

**Local Environment – n/a**

**Resources** – Included in the report

## TREASURY MANAGEMENT 2012/13

### 1. INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management (2011) now requires that full Council should receive both a mid term and an annual report on treasury management activities during the year. This report on the treasury function during 2012/13, while being first presented to the Executive, is therefore required to have the approval of full Council in order to comply with the CIPFA Code.
- 1.2 Regular reports on treasury transactions are presented to the Executive while an interim report on treasury management in 2012/13 was presented in November 2012 (RD47/12). The purpose of this report is to complete the process of accounting for the treasury function in the last financial year in compliance with the Code. Any funding and other financing transactions will be detailed and placed in the context of money market conditions in 2012/13 while the City Council's investment activities will also be discussed. Separate papers (A2 and A3) provide information on performance in 2012/13 and on the Prudential Code on local authority borrowing.

### 2. MONEY MARKET CONDITIONS

- 2.1 The following table sets out the levels of bank base rate in 2012/13

	%	
1 April 2012	0.50	Average = 0.50%
31 March 2013	0.50	(2011/12 = 0.50%)

- 2.2 The financial year began with bank rate remaining at 0.50% and this rate, remained constant for the whole of 2012/13.
- 2.3 The pattern of long term borrowing rates in 2012/13 can be gauged by the following table of Public Works Loans Board (PWLB) fixed rate maturity loans during the year. These are the rates cited in the regular Treasury Transactions reports and relate to the type of loan that historically has most usually been taken up by the City Council.

	1 Yr %	10 Yr %	25 Yr %
1 April 2012	1.31	3.28	4.39
31 March 2013	1.13	2.84	4.07
Highest Rate in 2012/13	1.33	3.30	4.44
Lowest Rate in 2012/13	1.00	2.52	3.81
Span of Rates	0.33	0.78	0.63

### 3. LONG TERM FUNDING

- 3.1 The Prudential Code on local authority borrowing came into operation on 1 April 2004. The principal effect of the Code was to abolish most central government control of local authority borrowing, a principle that has been a cornerstone of local government finance for over a century. Instead, authorities must follow the guidance laid down in the Code and they will be expected to comply with its requirements. These cover not just borrowing but any decision that determines whether the capital investment plans of an authority are affordable, prudent and sustainable. The Code is discussed in more detail in Appendix A3.
- 3.2 The revenue support grant system still provides for an element of support towards each authority's estimated borrowing needs. It may be noted that the Council does still receive an element of revenue grant support for the costs of its borrowing in previous years.
- 3.3 The City Council did not, therefore, draw down any external long term loans in 2012/13. The capital programme was funded internally by drawing from the authority's own resources, principally its stock of capital receipts, and from external grants and contributions.

### 4. DEBT RESCHEDULING

- 4.1 The City Council's long-term loans portfolio now consists entirely of the £15m stock issue, placed in 1995 and not due to mature until 2020. While there is a possibility that these funds could be repaid prior to that date, this is unlikely to be in the near future although the issue is regularly reviewed in conjunction with our treasury advisers. In the current financial climate, the cost of the premium that would be required to effect the early repayment remains prohibitive.

## 5. LOANS OUTSTANDING

5.1 Set out below is a schedule of outstanding external loans as at 31 March 2013.

	£
Public Works Loans Board	NIL
Secured Loan Stock	15,000,000
Short Term Loans	<u>13,300</u>
Total Loans Outstanding	<u>£15,013,300</u>

## 6. INVESTMENT TRANSACTIONS

6.1 As is apparent from the regular 'Treasury Transactions' reports, the City Council continues to be a frequent investor in the short-term money market and the interest earned from these transactions makes a valuable contribution to the overall level of the Council's revenue budget. Investments are placed only with the institutions that fall within the guidelines of the Council's approved Investment Strategy and a full schedule of investments at 31 March 2013 is set out in Appendix B3. It should be noted that the Council's level of short term investment reaches its lowest point each year on 31 March when any benefits accruing from positive annual cash flow are, by definition, extinguished.

6.2 The total at that date (£18.7) can be compared with an average figure in 2012/13 of over £25.3m and a peak amount of over £31.8m. The closing balance in 2011/12 was £16.8m. The increase is due to additional capital receipts being generated from the asset review.

6.3 The Investment Strategy for 2012/13 embraced a mixture of longer term investments and monies lent out for shorter periods to meet anticipated cash flow needs e.g. grant and precept payment dates. Investment limits with both Lloyds Group and RBS Group banks were kept at £8million as these institutions are currently Government backed and therefore seen as a safer investment opportunity.

6.4 Investment income in 2012/13 at £393,000 was below the original estimate of £431,000. Actual investment rates obtained in 2012/13 were generally below expectations when the budget was framed although this factor was mitigated to some extent by the outturn on cash flow being slightly better than expected. The average yield on the Council's investments in 2012/13 was 1.39%. This good performance was assisted by a significant proportion of investments being placed for longer terms of up to a year and the use of Money Market Funds for shorter dated cash requirements.

## 7 INVESTMENT STRATEGY 2013/14

7.1 The Investment Strategy must be agreed before the start of each financial year and the 2013/14 Strategy was approved by Council on 5 February 2013. While the principles of the Strategy remain fundamentally sound, any amendments to the current schedule of investments, if agreed by the Executive, must be approved by Council.

## 8. PERFORMANCE MANAGEMENT

- 8.1 The CIPFA Code places an increased emphasis on performance monitoring in an attempt to measure the efficiency of the treasury function. With treasury management, the difficulty in assessing performance arises from the very different circumstances of each authority and the fact that, for example, a long term borrowing decision can affect an authority's measured performance for many years to come. In the case of the City Council, this is particularly the case with the £15m stock issue which will affect our average borrowing rate until 2020. Equally, borrowing decisions invariably impact on investment decisions since, in cash flow terms, one can be the mirror image of the other.
- 8.2 Appendix A2 sets out some performance indicators in respect of both loans and investments outturn for 2012/13 and 2011/12.

## 9. TREASURY CONSULTANCY SERVICE (TCS)

- 9.1 The City Council continues to employ Sector Treasury Services as its treasury management consultants. Sector provide daily bulletins on both borrowing and investment issues and these help advise both the investment and funding decisions that are taken by the Council.

## 10 CONCLUSIONS

- 10.1 The City Council has only one substantial long term loan i.e. the £15m stock issue, which is likely to remain on the books for some time yet as the cost of making a premature repayment would be very prohibitive in the present climate, particularly with interest rates being at such depressed levels. In addition, there are no plans to undertake any prudential or other borrowing in this financial year. The focus of the authority's treasury management activities therefore remains very much on the investment aspect of the function.
- 10.2 Investment conditions were, in one sense, as exceptional in 2012/13 as they were the previous year. But they were also very different as investors coped with some of the lowest interest rates ever seen in the world economy. Although the effect on the City Council's investment interest was slightly down on the previous year, the performance achieved was significantly better than bank base rate levels. For this authority, as indeed for most others, the reduction in investment income poses a very significant financial challenge.
- 10.3 The outlook for interest rates in the UK remains uncertain but there is a general expectation that bank base rates will not start to rise again until well into 2015. The Council was able to benefit from some significantly high investment rates offered through 2011/12 and 2012/13 where 3% was achievable on 1-year money. However, the Bank of England liquidity schemes that enabled banks to borrow direct from the Bank of England and very low levels has had the effect of these high rates falling significantly. Similar rates on offer now are only 1.1% and going forward the Council is going to face further

challenges in generating investment income on similar levels to those achieved in the previous two years. The one mitigating factor that will help the Council counteract this dip will be the receipts receivable from the asset review that will enhance average balances until they are spent and therefore take up some of the slack from falling rates.

CITY OF CARLISLEPERFORMANCE MEASUREMENT STATISTICS1. LOANS MANAGEMENT

	2012/13 %	2011/12 %
Average External Debt Rate - Carlisle	8.78	8.74

Comment

Average loan debt statistics tend to reflect borrowing decisions taken over a period of many years. The City Council's only substantial remaining external debt is the £15m stock issue which carries a high coupon (8.75%).

2. INVESTMENT MANAGEMENT

	2012/13 %	2011/12 %
Average Return in Year - Carlisle	1.39	1.55
Average Bank Base Rate in Year	0.50	0.50
Average 7 Day LIBID Rate	0.40	0.48

Comment

The City Council's return in 2012/13 on its investments was slightly below that obtained in 2011/12 and was lower than anticipated when the budget was originally set. This is due to falling rates throughout the year and some capital receipts not being received that were originally anticipated.



## THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

### 1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

### 2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the Council itself to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 The final performance indicators for the current year, as compared to those reported in during the budget cycle are set out below. The compilation and monitoring of these indicators is central to the operation of the Code.

	2012/13 Provisional Outturn £	2011/12 Outturn £
<b>(i) Capital Expenditure</b>	4,798,025	5,317,353
<b>(ii) Financing Costs</b>		
Interest Payable - Re Borrowing	1,318,000	1,322,100
Minimum Revenue Provision	304,400	278,100
Investment Income	(393,000)	(377,000)
<b>Total Financing Costs</b>	<b>1,229,400</b>	<b>1,223,200</b>
<b>(iii) Net Revenue Stream</b>		
Funding from Govt Grants/Local Taxpayers	13,535,000	13,904,000
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b>	9.08%	8.80%
The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.		
<b>(v) Incremental Impact on Council Tax</b>	8.74	8.15
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
<b>(vi) Authorised Borrowing Limit</b>	37,600,000	37,600,000
Maximum Level of Borrowing and Other Long term Liabilities	15,013,300	15,013,300
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2012/13 Provisional Outturn £	2011/12 Outturn £
<b>(vii) Operational Borrowing Limit</b> Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	32,600,000 15,013,300	32,600,000 150,133
<b>(viii) Capital Financing Requirement (CFR)</b> As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	still to be calculated	7,421,000

**(a) Prudence and Sustainability**

	2012/13 £
<b>(i) Target New Borrowing to Date</b> No Long Term Borrowing has been taken in 2012/13	0 0
<b>(ii) Target Percentage of Fixed Rate Long Term Borrowing</b> Actual as at 31 March 2013	100% 100%
<b>(iii) Target Percentage of Variable Rate Long Term Borrowing</b> Actual as at 31 March 2013 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	100% 0%
<b>(iv) Target Minimum Level of Investments Classified as Specified</b> Actual Level of Specified Investments as at 31 March 2013  As part of the Investment Strategy for 2012/13, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 89.00%

TREASURY TRANSACTIONS  
1 JANUARY 2013 TO 31 MARCH 2013

1. LOANS (DEBT)

1.1 Transactions 1 January 2013 to 31 March 2013

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	0	0
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	<b>0</b>		<b>0</b>	

This provides a summary of loans that have been raised or repaid, analysed by type, since the previous report.

1.2 Loans (Debt) Outstanding at 31 March 2013

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	<b>15,013,300</b>

1.3 Loans Due for Repayment

	PWLB £	Overnight £	Total £
Short Term Debt at 31 March 2013	0	0	0
			<b>0</b>

Shown here is a calendar of future loan repayments which can be a useful aid to cash flow management. Following the repayment of the City Council's remaining PWLB debt in July 2004, no major debt repayments are anticipated.

## 1.4 Interest Rates

Date	PWLB Maturity		
	1 Year %	10 Years %	25 Years %
04 January 2013	1.32	3.13	4.27
11 January 2013	1.27	3.08	4.23
18 January 2013	1.27	3.06	4.23
25 January 2013	1.26	3.08	4.26
01 February 2013	1.26	3.13	4.27
08 February 2013	1.22	3.14	4.31
15 February 2013	1.2	3.23	4.37
22 February 2013	1.19	3.21	4.36
01 March 2013	1.14	2.97	4.16
08 March 2013	1.12	3.09	4.29
15 March 2013	1.12	3.05	4.27
22 March 2013	1.12	2.92	4.13
28 March 2013	1.13	2.84	4.07

## 2. INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	33,846,000	0.39 - 1.25	38,190,000	0.39 - 3.10
	<b>33,846,000</b>		<b>38,190,000</b>	

A full schedule of investment transactions is set out in appendix B2. Appendix B3 shows outstanding investments at 31 March 2013.

### 3. REVENUES COLLECTED

To: 31 March 2013		Collected £	% of Amount Collectable %
2012/13	Council Tax NNDR	46,497,239 39,697,034	97.78 98.58
<b>Total</b>		<b>86,194,273</b>	<b>98.14</b>
2011/12	Council Tax NNDR	46,058,618 37,380,206	97.61 97.78
<b>Total</b>		<b>83,438,824</b>	<b>97.68</b>
2010/11	Council Tax NNDR	46,059,538 35,109,986	97.60 98.06
<b>Total</b>		<b>81,169,524</b>	<b>97.80</b>

Final collection levels were very similar to those of the previous two years.

### 4. BANK BALANCE

5. At 31 March 2013 £373,300.91 in hand

This simply records the Council's bank balance at the end of the last day covered by the report.

### 6. OUTTURN ON TREASURY MANAGEMENT IN 2012/13

	Revised Estimate £000	Actual £000	Variance £000
Interest Receivable	(431)	(393)	38
Interest Payable	1,319	1,318	(1)
Less Rechargeable	(22)	(19)	3
	<b>1,297</b>	<b>1,299</b>	<b>2</b>
Principal Repaid	275	304	29
Debt Management	12	14	2
<b>NET BALANCE</b>	<b>1,153</b>	<b>1,224</b>	<b>71</b>

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OUTSTANDING INVESTMENTS AS AT 31<sup>ST</sup> MARCH 2013

DATE	BORROWER	AMOUNT	TERMS	RATE %	INTEREST
02/04/2012	Bank of Scotland (inc HBOS)	£1,000,000	11 April 2013	3.0000	£30,739.73
31/05/2012	Bank of Scotland (inc HBOS)	£1,000,000	30 May 2013	2.8500	£28,421.92
02/08/2012	Bank of Scotland (inc HBOS)	£1,000,000	02 August 2013	2.8500	£28,500.00
05/10/2012	Royal Bank of Scotland	£1,000,000	04 October 2013	1.7500	£17,452.05
02/01/2013	Nationwide	£1,000,000	04 April 2013	0.4400	£1,109.04
03/01/2013	Royal Bank of Scotland	£1,000,000	26 April 2013	1.2000	£3,715.07
04/01/2013	Bank of Scotland (inc HBOS)	£1,000,000	03 January 2014	1.1000	£10,969.86
28/01/2013	Royal Bank of Scotland	£2,000,000	13 May 2013	1.2000	£6,904.11
13/02/2013	Bank of Scotland (inc HBOS)	£1,000,000	14 February 2014	1.1000	£11,030.14
15/02/2013	Royal Bank of Scotland	£1,000,000	30 May 2013	1.2500	£3,561.64
07/03/2013	Royal Bank of Scotland	£1,000,000	17 June 2013	1.2500	£3,493.15
25/03/2013	Bank of Scotland (inc HBOS)	£1,000,000	28 March 2014	1.1000	£11,090.41
27/03/2013	Royal Bank of Scotland	£2,000,000	08 July 2013	1.2500	£7,054.79
27/03/2013	Bank of Scotland (inc HBOS)	£1,000,000	28 March 2014	1.1000	£11,030.14
28/03/2013	Bank of Scotland (inc HBOS)	£1,000,000	28 March 2014	1.1000	£11,000.00
28/03/2013	HSBC Bank	£1,740,000	02 April 2013	0.5000	£119.18
	<b>Total</b>	<b>£18,740,000</b>	<b>Weighted Average</b>	<b>1.3799</b>	<b>186,191.23</b>



## Outstanding Investments as at 31 March 2013

Category	Borrower	Principal (£)	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC Bank Plc	1,740,000		Call			0
R	Nationwide building Society	1,000,000	02/01/2013	04/04/2013	4	92	1,109
B	Bank of Scotland	1,000,000	02/04/2012	11/04/2013	11	374	30,740
B	Bank of Scotland	1,000,000	31/05/2012	30/05/2013	60	364	28,422
B	Royal Bank of Scotland	1,000,000		Call95			0
B	Royal Bank of Scotland	2,000,000		Call95			0
B	Royal Bank of Scotland	1,000,000		Call95			0
B	Royal Bank of Scotland	1,000,000		Call95			0
B	Royal Bank of Scotland	2,000,000		Call95			0
B	Bank of Scotland	1,000,000	02/08/2012	02/08/2013	124	365	28,500
B	Royal Bank of Scotland	1,000,000	05/10/2012	04/10/2013	187	364	17,452
B	Bank of Scotland	1,000,000	04/01/2013	03/01/2014	278	364	10,970
B	Bank of Scotland	1,000,000	13/02/2013	14/02/2014	90	90	2,712
B	Bank of Scotland	1,000,000	25/03/2013	28/03/2014	95	95	2,863
B	Bank of Scotland	1,000,000	27/03/2013	28/03/2014	362	366	11,030
B	Bank of Scotland	1,000,000	28/03/2013	28/03/2014	362	365	11,000
<b>Total Investments</b>		<b>£18,740,000</b>			<b>157</b>	<b>284</b>	<b>£144,798</b>

N.B Interest is recognised in the appropriate financial year in which it is due.

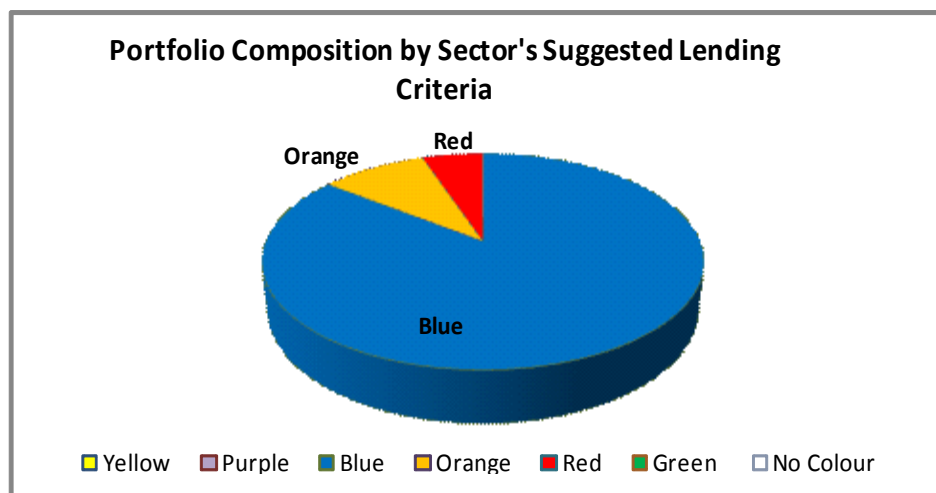
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

## Investments Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return WARoR	Weighted Average Days to Maturity WAM	Weighted Average Dats to Maturity from Execution WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	85.38%	16,000,000	43.75%	7,000,000	37.35%	1.54%	171	248
Orange	9.28%	1,740,000	100.00%	1,740,000	9.28%	0.50%	0	0
Red	5.34%	1,000,000	0.00%	-	0.00%	0.44%	4	92
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	<b>100.00%</b>	<b>18,740,000</b>	<b>30.63%</b>	<b>8,740,000</b>	<b>46.64%</b>	<b>1.39%</b>	<b>146</b>	<b>216</b>

Weighted Average Risk				
Risk Score for Colour (1 = Low, 7 = High)	Mar 2013	Dec 2012	Sep 2012	June 2012
1	0	0.0	0.0	0.1
2	0	0.0	0.0	0.0
3	3	2.1	2.1	2.3
4	0	0.0	0.0	0.0
5	0	0.0	0.0	0.0
6	0	1.0	1.0	0.6
7	0	0.6	0.6	0.3
	<b>3.2</b>	<b>3.7</b>	<b>3.8</b>	<b>3.3</b>

	Sector's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



Normal' Risk Score	3.5	3.5	3.5	3.5
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## **EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 31 MAY 2013**

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**EX.50/13     TREASURY MANAGEMENT OUTTURN 2012/13**  
(Key Decision – KD.09/13)

**Portfolio**     Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**     Resources

### **Subject Matter**

The Finance, Governance and Resources Portfolio Holder presented report RD.13/13 providing the annual report on Treasury Management, as required under both the Financial Procedure Rules and the CIPFA Code of Practice on Treasury Management. He also submitted the regular report on Treasury Transactions for the period 1 January 2013 to 31 March 2013. Members' attention was further drawn to developments in the Money Markets over the previous twelve months and their effect on the Council's investments, together with the various performance statistics included within the report.

The City Council had only one substantial long term loan (the £15m stock issue) which was likely to remain on the books for some time yet as the cost of making a premature repayment would be very prohibitive in the present climate, particularly with interest rates being at such depressed levels. There were no plans to undertake any prudential or other borrowing during the current financial year. The focus of the authority's treasury management activities remained therefore very much on the investment aspect of the function.

He added that although investment conditions were, in one sense, as exceptional in 2012/13 as had been the case during the previous year, they were very different as investors coped with some of the lowest interest rates ever seen in the world economy. Although the effect on the City Council's investment interest was slightly down on the previous year, the performance achieved was significantly better than bank base rate levels. For this authority, as indeed for most others, the reduction in investment income posed a very significant financial challenge.

Although the outlook for interest rates in the UK remained uncertain, there was a general expectation that rates would not start to rise again until well into 2015.

The Finance, Governance and Resources Portfolio Holder commented that Officers were managing particularly well. He then moved the recommendation, which was duly seconded by the Deputy Leader and Economy and Enterprise Portfolio Holder.

**Summary of options rejected**     None

**DECISION**

That Report RD.13/13 providing the Annual Report on Treasury Management be received and recommended to the City Council for approval.

**Reasons for Decision**

To receive the annual report on Treasury Management

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## **EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 JUNE 2013**

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### **ROSP.41/13 TREASURY MANAGEMENT OUTTURN 2012/13**

The Director of Resources presented report RD.13/13 providing the annual report on Treasury Management, as required under both the Financial Procedure Rules and the CIPFA Code of Practice on Treasury Management. He also submitted the regular report on Treasury Transactions for the period 1 January 2013 to 31 March 2013. Members' attention was further drawn to developments in the Money Markets over the previous twelve months and their effect on the Council's investments, together with the various performance statistics included within the report.

He added that although investment conditions were, in one sense, as exceptional in 2012/13 as had been the case during the previous year, they were very different as investors coped with some of the lowest interest rates ever seen in the world economy. Although the effect on the City Council's investment interest was slightly down on the previous year, the performance achieved was significantly better than bank base rate levels. For this authority, as indeed for most others, the reduction in investment income posed a very significant financial challenge.

Although the outlook for interest rates in the UK remained uncertain, there was a general expectation that rates would not start to rise again until well into 2015.

The Executive had on 31 May 2013 (EX.50/13) received the report and recommended it to the City Council for approval.

The Director of Resources explained that the Council made short term investments as longer term investments would tie money up for 4 years and the Council planned to use some money for the capital programme within that time.

**RESOLVED** – That the Treasury Management Outturn 2012/13 report (RD.13/13) be noted.



# Report to Audit Committee

Agenda  
Item:

**A.8**

Meeting Date: 22 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Considered under general exception  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD08/13

## Purpose / Summary:

This report was previously considered by the Executive on 7 May, and has since been considered by ROSP on 6 June. The reports contents were approved at Council on 16 July

This report requested approval to amend the limits that can be invested with different counterparties.

## Recommendations:

Audit Committee are asked to note the contents of this report

## Tracking

Executive:	7 <sup>th</sup> May 2013 and 1 <sup>st</sup> July 2013
Overview and Scrutiny:	6 <sup>th</sup> June 2013
Council:	16 <sup>th</sup> July 2013
Audit Committee:	22 <sup>nd</sup> July 2013

## Report to Executive

Agenda  
Item:

Meeting Date: 1 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Considered under general exception  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD08/13

### Purpose / Summary:

This report was previously considered by the Executive on 7 May, and has since been considered by ROSP on 6 June.

This report requests approval to amend the limits that can be invested with different counterparties.

### Recommendations:

The Executive is asked to:

- (i) Consider any responses from ROSP with regard to changes to the Counterparty limits;
- (ii) approve the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (iii) note that the contract for Treasury Management Advisory Services has been re-tendered and awarded under powers delegated to the Director of Resources.

### Tracking

Executive:	<b>7<sup>th</sup> May 2013 and 1<sup>st</sup> July 2013</b>
Overview and Scrutiny:	<b>6<sup>th</sup> June 2013</b>
Council:	<b>16<sup>th</sup> July 2013</b>



## **1. BACKGROUND**

- 1.1 The Treasury Management Strategy for 2013/14 was approved at Council on 5 February. Since this date, average investment balances have increased as a result of assets sales, and there have been significant changes to investment return interest rates. As a result of these changes, this report requests approval to amend the limits that can be invested with different counterparties.

## **2. PROPOSALS**

- 2.1 As the Government backed banks, Lloyds Group and RBS have the security of Government backing, the current limit with these institutions is set at £8m. The investment strategy being followed is to place as much of the core cash balances of the Council with these two institutions in order to maximise returns whilst minimising the risk. Typical 1-year returns from these 2 institutions have fallen dramatically over the past 6 months from 3% to 1.1% as a result of the Bank of England's strategy of making funds available to the banks. As a result of this all banks are offering lower rates for investments as they have easier access to capital from the Bank of England.
- 2.2 Other credit rated banks that fall within the criteria set out in the Treasury Management Strategy Statement have a limit of £4m. This includes the Council's own bank, HSBC.
- 2.3 The Council has recently opened an overnight deposit account with HSBC that attracts a rate of 0.50%; typical overnight rates offered by other institutions, including Money Market Funds (MMF's) are around 0.40%. The Council has in the past used MMF's quite extensively for overnight deposits as the rates offered were close to 0.80%, but again, as a result of more capital in the banking system, rates have fallen. The added benefit of using the HSBC account is that there are no transaction charges for placing the funds in the account which are incurred when sending funds to other institutions.
- 2.4 HSBC is one of the largest global banks and has the highest short term credit rating of F1+ from Fitch and P1 from Moody's.
- 2.5 Therefore, it is proposed that the counterparty limit with HSBC be maintained at £4m for investments up to 3 years in duration but that an additional £2m be allowed for additional investments that are for less than 1 month in duration. This would give an overall limit of £6m which could be placed with HSBC at any one time, but that £2m would have a duration of less than 1 month.

The Council has approached its Treasury advisors, Sector, regarding these proposals and they have indicated that the strategy does not put the Council's investments at any additional risk.

2.6 Non credit rated institutions that have assets over £1bn be limited to investments of £2m. This would include the Cumberland Building Society.

2.7 The revised limits and investment criteria are set out at **Appendix A**, and in summary would be as follows:

Lloyds Group/ RBS	£8million
HSBC	£6million (split £4m long term, £2million less than 1 month)
Other Credit Rated banks/institutions	£4million
Non Credit Rated Banks/Building Societies	£2million

2.8 A further review of counterparty limits will be undertaken later in the year to ensure limits continue to best meet the investment needs. Officers attended a Treasury seminar on 25<sup>th</sup> April where alternative investments instruments were discussed such as corporate bonds; all alternatives will continue to be reviewed.

2.9 Under delegated powers, the Director of Resources has re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

### **3. CONSULTATION**

3.1 The Council's Treasury Advisers have been involved in the Strategy and proposals contained within this report.

### **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

4.1 The Executive is asked to:

- (i) approve the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (ii) note that the contract for Treasury Management Advisory Services has been re-tendered and awarded under powers delegated to the Director of Resources.

## **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 5.1 To ensure that the Council's investments are in line with appropriate policies including the Treasury Management Strategy Statement.

**Contact Officer:** Steven Tickner

**Ext:** 7280

**Appendices attached to report:** Appendix A - Approved investment instruments

**Note:** in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

### **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – n/a**

**Community Engagement – n/a**

**Economic Development – n/a**

**Governance** – The Council's Treasury Management Strategy is defined in Article 4 of the Constitution as being part of the authority's "Budget". As such, it is correct for the matter to be considered by Overview & Scrutiny prior to recommendation to the Council by the Executive.

**Local Environment – n/a**

**Resources** – Contained within the report

**APPROVED INVESTMENT INSTRUMENTS**

**Specified Investments**

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. **A maximum of £4m of the investment portfolio** will be placed with any one counterparty or banking group, or a maximum of **£8m of the investment portfolio for Lloyds Group banks and RBS Group Banks and £6m with HSBC Bank (with £2m being limited to investments less than 1 month in duration)** whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m**.

<b>Fixed Term Deposits with fixed rates and maturities:-</b>	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Director of Resources	In-house
<b>Fixed term deposits with variable rate and variable maturities: -</b>	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or P1 (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -</b>	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

\*\* If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

## **Non-Specified Investments:**

**A maximum of 50% will be held in aggregate in non-specified investments**

### **1. Maturities of ANY period.**

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the Director of Resources. Minimum asset base of £1bn	In-house	50	364 days

### **2. Maturities in excess of 1 year**

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

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## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 7 MAY 2013

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**EX.42/13      TREASURY MANAGEMENT COUNTERPARTIES**  
(Key Decision)

(With the consent of the Chairman, and in accordance with Rule 15 of the Access to Information Procedure Rules; and Regulation 10 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 this item was included on the Agenda as a Key Decision, although not in the Notice of Executive Key Decisions)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

**Subject Matter**

The Finance, Governance and Resources Portfolio Holder submitted report RD.08/13 concerning Treasury Management Counterparties.

The Portfolio Holder reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Finance, Governance and Resources Portfolio Holder outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

A further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs. Officers had attended a Treasury

Seminar on 25 April 2013 where alternative investments instruments were discussed such as corporate bonds; all alternatives would continue to be reviewed.

The Finance, Governance and Resources Portfolio Holder added that the Director of Resources had, under delegated powers, re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

In conclusion the Finance, Governance and Resources Portfolio Holder moved the recommendations which were duly seconded by the Leader.

**Summary of options rejected**    None

## **DECISION**

That the Executive:

1.     Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
2.     Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.

## **Reasons for Decision**

To ensure that the Council's investments are in line with appropriate policies, including the Treasury Management Strategy Statement

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## EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 JUNE 2013

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### **ROSP.38/13 TREASURY MANAGEMENT COUNTERPARTIES**

The Director of Resources submitted report RD.08/13 concerning Treasury Management Counterparties.

The Director reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Director of Resources outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

A further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs.

The Executive had on 7 May 2013 (EX.43/13) considered the report and decided:

“That the Executive:

1. Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
2. Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.”

**RESOLVED** – That the Treasury Management Counterparties report (RD.08/13) be noted.



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## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 1 JULY 2013

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**EX.067/13    \*\*TREASURY MANAGEMENT COUNTERPARTIES**  
(Key Decision – KD.013/13)

(In accordance with Paragraph 15(i) of the Overview and Scrutiny Procedure Rules, the Mayor had agreed that call-in procedures should not be applied to this item)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

**Subject Matter**

Pursuant to Minute EX.42/13, the Deputy Leader and Economy and Enterprise Portfolio Holder submitted report RD.08/13 concerning Treasury Management Counterparties.

The Portfolio Holder reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Deputy Leader and Economy and Enterprise Portfolio Holder outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

He added that a further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs. Officers had attended a Treasury Seminar on 25 April 2013 where alternative investments instruments were discussed such as corporate bonds; all alternatives would continue to be reviewed.

The Director of Resources had, under delegated powers, re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

The Resources Overview and Scrutiny Panel had, on 6 June 2013, considered the matter and resolved that the report be noted.

A copy of Minute Excerpt ROSP.38/13 had been circulated.

In conclusion the Deputy Leader and Economy and Enterprise Portfolio Holder moved the recommendations which were duly seconded by Culture, Health, Leisure and Young People Portfolio Holder.

**Summary of options rejected**    None

## **DECISION**

That the Executive:

1.     Had considered the response provided by the Resources Overview and Scrutiny Panel with regard to changes to the counterparty limits (as detailed in Minute ROSP.38/13).
2.     Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
3.     Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.

## **Reasons for Decision**

To ensure that the Council's investments are in line with appropriate policies, including the Treasury Management Strategy Statement

## Audit Committee

Agenda  
Item:  
  
**A.9**

Meeting Date: 22<sup>nd</sup> July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework: Yes  
Public

Title: Internal Audit Progress Report 2013-14 (No. 1)  
Report of: Director of Resources  
Report Number: RD26/13

### Purpose / Summary:

This report summarises the work carried out by Internal Audit and details the progress made on delivery of the approved Audit Plan during the first quarter of 2013/14.

### Recommendations:

#### Members are requested to:

- Receive this report and note the progress made against the agreed 2013/14 Audit Plan referred to in section 2.
- Note the position of the Customer Services review, as detailed in section 3.
- Note the position on the follow up of previous audit recommendations as outlined in section 4.
- Receive the 8 completed audit reports referred to in section 5 and attached as Appendix C to J.

### Tracking

Audit Committee	22 <sup>nd</sup> July 2013
Overview and Scrutiny:	Not applicable
Council:	Not applicable

## 1 **BACKGROUND**

- 1.1 Management is responsible for the system of internal control and should put in place policies and procedures to ensure that systems are functioning correctly.
- 1.2 Internal Audit examine, appraise and report on the effectiveness of financial and other risk, governance and internal controls to enable it to provide an opinion on the adequacy of the control environment and report any significant control issues.
- 1.3 This report summarises the work carried out by Internal Audit and details the progress made on delivery of the approved Audit Plan during the first quarter of 2013/14.

## 2 **AUDIT PERFORMANCE AGAINST THE 2013/14 AUDIT PLAN**

- 2.1 The 2013-14 Strategic and Annual Risk Based Audit Plans were presented to the Audit Committee on 15th April 2013 – report RD 06/13 refers.
- 2.2 To assist Members in monitoring the progress made against the agreed 2013/14 Audit Plan, **Appendix A** illustrates the current position of the Plan up to the end of June 2013. The position can be summarised as follows:

	<b>Allocated Days</b>	<b>Actual Days (Quarter1)</b>
High Risk	182	70
Value for Money & Efficiency	40	0
Main Financial System	148	8
ICT	25	0
Project Support	20	0
Fraud	25	7
Other	100	29
<b>Total Audit Days 2013-14</b>	<b>540</b>	<b>114</b>

- 2.2.1 The Plan calls for 540 direct audit days to be delivered in 2013/14 – 114 days (21%) have been delivered in the first quarter period. Time has been spent on the following areas:

- 2013/14 audit reviews have been started in the areas of Procurement, Customer Contact Centre, Fixed Assets, Organisational Development, Performance Standards and Revenues Recovery.
- Detailed follow up audits have been started on Carlisle Cycleway, Tendering and Contracting and External Funding.
- 2012/13 NFI review of data matches is ongoing.
- Time has also been spent in this first quarter period, finalising 2012/13 audit reports which were at draft stage at year end.

2.3 Members are asked to note the progress made against the agreed 2013/14 Audit Plan in quarter 1.

### **3 AUDIT OF CUSTOMER SERVICES**

3.1 It was anticipated the review of Customer Services would be completed in the first quarter of 2013/14 and ready for report to this Committee. This has not been possible due to delays in agreeing a start date in Customer Services due to other work pressures.

3.2 This review is now in progress and it is expected to be completed and ready for report in September 2013.

### **4 FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS**

4.1 A revised system for the follow up of audit recommendations is now in operation which utilises Covalent, the corporate performance management system.

4.2 It is intended that these revised arrangement places the onus back on to managers to feedback on the action which they have taken to effectively address each audit recommendation for which they are assigned responsibility to implement, within the timescales defined in the action plan.

4.3 A report on the position of all follow ups of previous audit recommendations monitored via Covalent will be prepared for the September meeting of this Committee.

- 4.4 Audit reviews which result in partial or limited assurance evaluations are followed up in detail by Internal Audit. There are 5 'partial' audit reviews from 2012/13 which have been incorporated into the 2013/14 Plan for formal follow up audits to be undertaken; 3 of these formal follow up reviews are currently being progressed and the outcome of each will be reported to a future meeting of this Committee.

## **5 REVIEW OF COMPLETED AUDIT WORK**

- 5.1 There are 8 audit reports to be considered by Members at this time. Guidance on the grading of audit recommendations, the audit follow up procedure and audit assurance ratings is attached as **Appendix C**.
- 5.2 An abbreviated Management Summary and a copy of the Summary of Recommendations / Action Plan for each completed audit review listed below has been provided within appendices C-J.

*NB. These audits refer to 2012/13 reviews which have been finalised in 2013/14.*

<u>Audit of:</u>	<u>Assurance Evaluation</u>	
Council Tax and Housing Benefits	Substantial	Appendix C
Main Accounting System	Substantial	Appendix D
National Non Domestic Rates	Reasonable	Appendix E
Market Rents	Reasonable	Appendix F
IT Service Desk and Problem Management	Reasonable	Appendix G
Income Management	Reasonable	Appendix H
Debtors	Reasonable	Appendix I
Payroll	Reasonable	Appendix J

## **6 CONSULTATION**

Not applicable

## **7 CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 7.1 It is recommended that Members:
- Receive this report and note the progress made against the agreed 2013/14 Audit Plan referred to in section 2.
  - Note the position of the Customer Services review, as detailed in section 3.
  - Note the position on the follow up of previous audit recommendations as outlined in section 4.

- Receive the 8 completed audit reports referred to in section 5 and attached as **Appendix C to J.**

## **8 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 7.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

**Contact Officer:**                      **Gill Martin**                                      **Ext: 7294**  
**Audit Manager**  
**(Shared Internal Audit Service)**

**Appendices A-J attached to report:**                      **Appendix A – 2013/14 Quarter 1 Monitoring Update**  
**Appendix B - Grading of Audit Recommendations and Assurance Evaluations**  
**Appendix C – Audit of Council Tax and Housing Benefit**  
**Appendix D – Audit of the Main Accounting System**  
**Appendix E – Audit of National Non Domestic Rates**  
**Appendix F – Audit of Market Rents**  
**Appendix G– Audit of IT Service Desk & Problem Management**  
**Appendix H – Audit of Income Management**  
**Appendix I – Audit of Debtors**  
**Appendix J – Audit of Payroll**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- **None**

### **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's** – not applicable

**Community Engagement** – not applicable

**Economic Development** – not applicable

**Governance** – not applicable

**Local Environment** – not applicable  
**Resources** – not applicable





**CARLISLE CITY COUNCIL**  
**AUDIT PLAN 2013/14 – Quarter 1**

Directorate	Audit Area	Audit Days Allocated	Status	Assurance Evaluation
<b><u>High Risk Reviews</u></b>				
Community Engagement	Revenues Recovery (to include Housing Benefit Overpayments)	15	Ongoing	
Community Engagement	Customer Contact Centre	12	Ongoing	
Community Engagement	Leisure Services Contract	10		
Community Engagement / Economic Development	Projects and Partnerships - Stewardship arrangements	20		
Governance	Electoral Payments	10		
Local Environment	Carlisle Cycle Way	10	Draft	
Local Environment	Recycling Contracts	15		
Local Environment	'Clean up Carlisle' - Street Cleaning (education & enforcement)	15		
Resources	Procurement - Tendering and Contracting	20	Draft	
Resources	External Funding - Compliance and Monitoring Arrangements	15	Ongoing	
Corporate	Records Management Arrangements	15		
Corporate	Performance Management - Service Standards	10	Ongoing	
Corporate	Organisational Development & Corporate Training	15	Ongoing	
		<b>182</b>		
<b><u>Value for Money and Efficiency Reviews</u></b>				
Corporate	Improvement, Efficiency and VFM Programme	20		
Corporate	Charging and Trading - income generation	20		
		<b>40</b>		
<b><u>Main Financial System Reviews</u></b>				
Community Engagement	Council Tax	12		
Community Engagement	Housing and Council Tax Benefits	20		

Community Engagement	National Non Domestic Rates	12	
Resources	Main Accounting System	20	
Resources	Fixed Assets	15	Ongoing
Resources	Creditors	10	
Resources	Debtors	10	
Resources	Payroll	12	
Resources	Treasury Management	10	
Resources	Income Management	12	
Local Environment	Car Parking Income	15	
		<b>148</b>	
<b><u>ICT Reviews</u></b>			
Resources - ICT Connect	Project Management	10	
Resources - ICT Connect	IT Developments - use of electronic forms	15	
		<b>25</b>	
<b><u>Project Support</u></b>			
Community Engagement	Welfare Reform Changes	5	
Resources	Procurement - ePurchasing	15	
		<b>20</b>	
<b><u>Fraud</u></b>			
Corporate	National Fraud Initiative	15	Ongoing
Corporate	Counter Fraud Arrangements / Awareness	10	
		<b>25</b>	
<b><u>Other Audit Work</u></b>			
Audit Management, Committee, Planning & Reporting		<b>50</b>	
Follow Up of Previous Recommendations		<b>10</b>	
Contingency		<b>40</b>	
	<b>Total Audit Days 2013-14</b>	<b>540</b>	



## **Grading of Audit Recommendations and Assurance Evaluations**

### **(1) Audit Recommendations**

Each audit recommendation arising from an audit review is allocated a grade in line with the perceived level of risk. The grading system is outlined below:

<b>GRADE</b>	<b>LEVEL OF RISK</b>
A	Lack of or failure to comply with a key control leading to a fundamental weakness and /or non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of or failure to comply with a system control leading to a significant system weakness.
C	Lack of or failure to comply with any other control leading to system weakness.

Where audit recommendations are arising from an audit review, a Summary of Audit Recommendations is attached to the audit report in the form of an Action Plan. This Action Plan is required to be completed by the lead client officer and provide details of proposed action to be taken to address the recommendation, the timescales for implementation and name of the responsible officer.

Internal Audit follow up all audit recommendations 6 months after the issue of the final report, with the exception of the material system reviews which are followed up as part of the next annual audit. When it is considered that insufficient or no action taken has been taken to address audit recommendations and there is no good reason to support the lack of action, the matter is reported to the Audit Committee.

### **(2) Audit Assurance Evaluations**

Audit assurance evaluations are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. Internal Audit's assessment of internal control forms part of the annual assessment of the system of control, which is now a statutory requirement. The assurance evaluation given to an audit area can be influenced by a number of factors including stability of systems, number of significant recommendations made and impact of not applying audit recommendations, non adherence to procedures etc. The levels of assurance are:

<b>Level</b>	<b>Evaluation</b>
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.



## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

**Audit of Housing and Council Tax Benefit.**

Draft Report Issued: 28<sup>th</sup> March 2013  
Second Draft Issued: 15<sup>th</sup> April 2013  
Final Report Issued: 30<sup>th</sup> April 2013.

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of Housing and Council Tax Benefit forms part of the annual programme of material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting System and therefore on the Authority's accounts. The Audit Commission place reliance on the material reviews undertaken by Audit Services as part of their work on the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Paula Norris.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Community Engagement.	Report to be noted.
Director of Resources.	Report to be noted.
Shared Services Partnership Manager (Revenues & Benefits).	Report to be noted.
Community Engagement Directorate.	
Benefits Manager	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Community Engagement Directorate.	
Performance Manager.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Community Engagement Directorate.	
Financial Services Manager.	Report to be noted.
Resources Directorate.	

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 22 <sup>nd</sup> July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. Carlisle City Council's Revenues and Benefits Department, within the Community Engagement Directorate, has been since October 2010 the host Authority of the shared service function with Allerdale Borough and Copeland Borough Councils.

## Section 1 – Management Summary

- 3.2. The Revenue and Benefits Department currently employs 33.8 FTE's specifically covering the Carlisle City element of the processing of Housing and Council Tax Benefits, Benefit Overpayments, Benefit fraud and the Performance and Technical functions.
- 3.3. The ATLAS (Automated Transfers to Local Authorities System) project has increased the amount of information that can be sent automatically to local authorities, in a format that allows direct loading into council systems. ATLAS phase 1 was rolled out to all authorities on 4 July 2011, providing Her Majesty's Revenue and Customs (HMRC) Tax Credits award data. Unfortunately, the quality of the data contained within the extract is of too poor quality to risk automatically loading into the Benefits systems so they are still processed on an individual basis. Phase 2 extended ATLAS to additionally deliver notifications for a range of DWP benefits in January – February 2012. These updates are looked at on a daily basis by the Assessment Team as changes to income from these benefits could influence the claim decision greatly.
- 3.4. The Welfare Reform Act was passed in the House of Lords in March 2012. The provisions of this Act when fully in situ will have a huge impact on how the benefits system is administered and how those in receipt of entitlements will be assessed and paid. Some of the main changes include:-
- **Universal Credit.** – Pilot schemes are due to start in some areas of England on April 29<sup>th</sup>. The new benefit will be rolled out nationally for some new claimants in October 2013, with existing and other new benefit claimants gradually being transferred to Universal Credit over the next few years with ultimate geographical migrations taking on the remaining working age caseload when appropriate. There is currently no clarity on how universal credit will affect persons of pension age who will continue to claim housing benefit until a new Housing Credit is introduced. Universal Credit is a new single benefit for working-age people. It will gradually replace most means-tested benefits such as income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Tax Credits and Housing Benefit.
  - **Benefit Cap.** – Due to be rolled out between 15<sup>th</sup> July and late September 2013. This is the introduction of a cap on cumulative benefits of an annual total of £26,000 (£500 per week) per household for couples and lone parents and £18,000 (£350 per week) for single adult claimants.
  - **Social Sector Under Occupancy Size Related Criteria Changes.** – Due to be introduced in April 2013. This is a reduction to Housing Benefit if the claimant lives in social housing such as Council or Housing Association accommodation. This only applies if the claimant is of working age, has more bedrooms than allowed under the new rules and their circumstances do not cause them to be exempted from the restriction.
  - **Council Tax Reduction Scheme (formerly known as Localised Support for Council Tax).** – Due to be implemented April 2013. This is the abolition of Council Tax Benefit which will be replaced by new schemes run by the Council called Council Tax reduction. The provisions of the schemes are decided locally.
  - **Personal Independence Payment (PIP).** – Pilot schemes are due to start in some areas of Northern England. This will gradually replace Disability Living Allowance (DLA), which is currently paid to people under 64 who have daily care needs or difficulty getting about. Not all recipients of DLA will qualify for PIP.
- 3.5. It is noted the forthcoming introduction of the elements of the Welfare Reform Act from 2013 onwards will have enormous implications, not only on claimants but also on internal systems, controls and procedures, staff – including training, job security and morale and these risks must be internally managed and mitigating actions developed. There has been a number of experienced staff transferring out of the Benefits Section and have not been replaced which has



## Section 1 – Management Summary

meant that a backlog was starting to accrue and there was no spare capacity within the shared service. As a short term measure and until the true position is clarified regarding the future of the service, Management have bought in the services of Capita processing centre services to assist on a short term basis.

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review are:

Section	Area Examined
1.	Benefits Administration.
2.	Post Opening.
3.	Assessment.
4.	Payments & Reconciliations.
5.	Overpayments.
6.	System Security.

- 4.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 4.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Housing and Council Tax Benefits and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Operational Risk Register should be made. If risks are of a strategic nature, these should be reviewed by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Housing and Council Tax Benefit was previously carried out in March 2012. This review awarded a *reasonable* Assurance level and resulted in 12 recommendations. Appendix A lists the recommendations made and the actions which have been taken to address these.
- 5.2. It is concluded that sufficient action has been taken to effectively implement all the previously agreed audit recommendations.

No further action is required.

### 6. RECOMMENDATIONS

- 6.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system

## Section 1 – Management Summary

	weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

6.2. There are 2 recommendations arising from this review :

- 1 at grade B
- 1 at grade C

## 7. STATEMENT OF ASSURANCE

7.1. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Housing and Council Tax Benefits provide **substantial** assurance.

## 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

8.1. The substantial assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.

8.2. Areas of good practice noted:

- well established staff knowledge base.
- department well versed in the preparations for the Welfare Reforms.

8.3. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.

8.4. The key issue arising from this review is:

- For long term claims, benefits may have been awarded based on out-of-date and insufficient information. This therefore represents a risk that out-of-date assessment could potentially result in benefit overpayments.



## COMMUNITY ENGAGEMENT DIRECTORATE

### Audit of Housing and Council Tax Benefit

#### SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	<p>In Internal Audit's opinion 5 out of the 10 benefit claims tested highlight that there is a <i>risk</i> that benefits may have been awarded based on out-of-date and insufficient information.</p> <p>At the time of this review, it cannot be said that the assessment is inaccurate until up to date information is provided.</p>	<p>Benefit Assessment Staff when inputting a claim should always consider the elements of the claim that are likely to change in the future e.g. earnings are likely to have an annual wage increase, national minimum wage will be updated annually private pensions are likely to be uprated annually etc. Assessors should always set a diary date on the claim to review these events in the future and ensure claim details remain relevant.</p> <p>These diary dates can spark a telephone call to obtain the data or a postal review specifically relating to the event but also asking for any other changes to be reported.</p> <p>Any claims without future diary dates could be checked by Team Leaders to ensure quality of Assessment and decide if a postal review or intervention visit is appropriate.</p> <p>With regard to current caseloads, the performance Team could work with</p>	B	Agreed.	Performance Manager/ Benefits Manager	31 <sup>st</sup> August 2013.

## APPENDIX B

		<p>Team Leaders to identify groups categories of claims that may need postal intervention e.g. all claims with a certain employer all claims with a private pension in payment, all claims with shares etc and the timing.</p> <p>Ultimately, they could set up a reference database of local employers and annual wage increase dates and note recurring annual changes on the control sheets. Also a guidance sheet for circumstances requiring a diary date.</p>				
R2	<p>Audit testing of the one benefit claim form, noted it had not been completed in full by the Hostel staff and the Assessment Officer had to query this information before they could proceed with assessment.</p>	<p>Council Hostel staff should be reminded to complete all of the necessary information on the Housing Benefit Claim form (subject to availability) when completing them for new claimants.</p>	C	Agreed.	Benefits Manager.	Immediate May 2013



## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

### **Audit of Main Accounting System and Budgetary Control**

Draft Report Issued: 28<sup>th</sup> March 2013  
Final Report Issued: 9th July 2013

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of the Main Accounting System and Budgetary Control forms part of the annual programme of material system reviews. External Audit place reliance on the work undertaken by Audit Services on the material reviews to support the audit of the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Pauline Connolly.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources.	Report to be noted.
Financial Services Manager Resources Directorate	Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan.
Chief Accountant Resources Directorate	Report to be noted.
Development & Support Manager Resources Directorate	Report to be noted.
Principal Finance/Systems Officer Resources Directorate	Report to be noted.

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider at its next meeting on 22nd July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. The Civica Financials accountancy package, which was implemented in April 2004, incorporates the main accounting system and 3 subsidiary systems - Debtors, Creditors and Purchasing. ICON Bank Reconciliation and Cash Receipting are also fundamental to the Main Accounting System and processes. The Main Accounting System is vital in the production of timely financial management information and the production of the annual financial statements.
- 3.2. The provision of this service is maintained and managed by Financial Services, which is part of the Resources Directorate.

## Section 1 – Management Summary

- The Accountancy Services team ensure that all financial information entered into the Main Accounting System on a daily basis is exact and available at year-end in order to produce the annual accounts.
- The Systems and Controls team ensure the system administration and controls are in place so that the Main Accounting System is able to produce the information required in the accounting format defined by Service Reporting Code of Practice.

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review are:

Section	Area Examined
1.	Policies and Procedures.
2.	Budgetary Control.
3.	Coding Structure.
4.	Feeder Systems.
5.	Journals and Internal Transfers.
6.	Suspense and Holding Accounts.
7.	Bank Reconciliation.
8.	Security of Data.

- 4.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 4.3. The scope and testing undertaken as part of this review reflects inherent risks specific to main accounting and budgetary control systems. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to operational risk register should be made. If risks are of a strategic nature, these should be reviewed by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Main Accounting and Budgetary Control Systems was previously carried out in March 2012. This review awarded a Substantial Assurance level and resulted in no recommendations, therefore no follow up was required.

### 6. RECOMMENDATIONS

- 6.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.



## Section 1 – Management Summary

C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

6.2. There is one recommendations arising from this review.

- 1 at grade C

## 7. STATEMENT OF ASSURANCE

7.1. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Main Accounting System and Budgetary Control provide **SUBSTANTIAL** assurance.

## 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

8.1. The **Substantial** assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations and non adherence to procedures.

8.2. Areas of good practice noted:

- a team of very experienced staff; and
- clear and transparent record keeping.

8.3. There are no significant issues arising from this review.

## RESOURCES DIRECTORATE

## Audit of Main Accounting and Budgetary Control

## SUMMARY OF RECOMMENDATIONS &amp; ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	Audit testing noted that on the 6 paper journals there is no documented evidence of the approval date. After further discussions it was noted that on some instances an "old" journal template had been used that had no requirement to provide an approval date and on other instances the new journal template had been used however the approval date was not recorded.	Financial Services staff involved in approving journals should be reminded of the need to record the approval date.	C	Agreed, staff will be reminded.	Financial Services Manager	Immediate





## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

**Audit of National Non Domestic Rates (NNDR)**

**Draft Report Issued: 28<sup>th</sup> March 2013**  
**Final Report Issued: 4<sup>th</sup> July 2013**

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of NNDR forms part of the annual programme of material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting System and therefore on the Authority's accounts. External Audit place reliance on the material reviews undertaken by Audit Services as part of their work on the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Debbie O'Brien.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Revenues Manager (RBS Shared Service, Community Engagement)	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Director of Community Engagement.	Report to be noted.
Shared RBS Partnership Manager (RBS Shared Service, Community Engagement)	Report to be noted.
Financial Services Manager (Resources Directorate)	Report to be noted

- 2.3. Other recipients of the final report:

Chief Executive Deputy Chief Executive	Report to be noted.
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at the next meeting on 22nd July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. Business Rates is the commonly used name of National Non-Domestic Rates (NNDR) which is a tax on the occupation of a non-domestic property. The Local Government Act 1988 introduced business rates in England and Wales from 1990, repealing its immediate predecessor, the General Rate Act 1967. The Act also introduced business rates in Scotland, but as an amendment to the existing system which had evolved separately to the rest of that in Great Britain.
- 3.2. All non-domestic properties are 'rated' by the Valuation Office Agency (VOA), which is a UK Government Executive Agency. With the exception of exempt properties, each non-domestic property, known as a "hereditament", is given a rateable value and the tax liability is calculated by multiplying the rateable value by the 'poundage' set by Government. This usually varies annually as it increases in line with inflation.
- 3.3. A number of reliefs are available, such as those for charities and small businesses.
- 3.4. Rating lists can be altered either to reflect changes in properties, or as valuations are appealed against. New valuation lists are created every five years and a transitional relief is applied to ease any valuation change.



## Section 1 – Management Summary

- 3.5. Billing and collection is the responsibility of the local collecting authorities who receive funding from the government through the national 'pool' and are then redistributed by Government according to a variety of factors including population size. The rateable value is multiplied by a centrally set fraction to produce the annual bill.
- 3.6. The NNDR function operates as part of the Shared Revenues and Benefits Service and is a component of the Community Engagement Directorate at Carlisle City Council.
- 3.7. The Local Government Finance Bill which has now received Royal Assent, became the Local Government Finance Act 2012 on 31/10/12. It made it obligatory for the Authority to formally calculate the estimated level of Business Rates (the Business Rates tax base / baseline) it anticipates collecting for 2013-2014 and pass this information to precepting authorities. As of 2013-14, local authorities are required to provide details of expected Business Rates income for the following year and this is done on the form NNDR1, business rates income will become part of the new funding system for Local Government, where councils will retain a percentage of the income and will pass the rest to Central Government into a general pool.

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Detailed findings are contained within Section 2 - Matters Arising: The key areas for review are:

Section	Area Examined
9.1.	Valuation
9.2.	Liability
9.3.	Billing
9.4.	Collections
9.5.	Data Security

- 4.2. Note that Recovery has not been examined in detail as part of this review. There are two outstanding recommendations which refer to recovery processes which have not been fully implemented date. These have been incorporated into Appendix B – Summary of recommendations and Action Plan.
- 4.3. The scope and testing undertaken as part of this review reflects inherent risks specific to NNDR. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any key risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to operational risk registers should be made. If risks are of a strategic nature, these should be review by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of NNDR was previously carried out in 2011/12. Appendix A lists the 8 recommendations arising from this previous audit review and the actions which have been taken to address these.

## Section 1 – Management Summary

- 5.2. Sufficient action has been taken to effectively implement most of the previous audit recommendations made; the two outstanding issues have been re-instated in the 2012-2013 action plan.

### 6. RECOMMENDATIONS

- 6.1. Each recommendation has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

*\*A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Council as a whole (e.g. reputation, financial etc).*

- 6.2. There are 3 recommendations arising from this review :

- 3 at grade B

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

- 7.2. The assurance level given to an audit area can be influenced by a number of factors: including stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.
- 7.3. From the areas examined and tested as part of this audit review, we consider the current controls operating within National Non Domestic Rates provide **Reasonable** assurance.

## Section 1 – Management Summary

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. The **Reasonable** assurance level provided by this audit has been influenced by a number of factors: including stability of systems audited, adherence to procedures and that the level and number of recommendations which have been made.
- 8.2. Opportunities to further enhance controls have been identified and these are shown in Appendix B – Summary of Audit Recommendations and Action Plan.
- 8.3. As part of the Shared Services alignment process, there will be changes that will directly affect Carlisle City operations during 2013/14, as improvements to working practices, based on best practice methods across the three sites are implemented. Management is encouraged to keep the Audit Shared Service aware of progress made on the alignment process, particularly any proposed changes to existing control measures.
- 8.4. The key issues arising from this review are summarised below:
  - 8.4.1. Documentation to support certain types of reliefs and exemptions still needs to be improved upon – this concerns documentation for 'pre-flood' applications and applications for small business rate relief which were found to have been allowed to lapse in some instances.
  - 8.4.2. Debt recovery resources need to focus on the outstanding audit recommendations regarding the management of aged debts in the system.





## COMMUNITY ENGAGEMENT DIRECTORATE

## Audit of NNDR

## SUMMARY OF RECOMMENDATIONS &amp; ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	There is no documentary evidence to support some pre 2005 rate relief cases as this information was destroyed in the flood	Management should continue to improve the evidence on file to support reliefs.	B	Agreed to examine what further evidence can be obtained, noting the difficulty which exists regarding pre – flood cases.	Revenues Team Leader	31 Aug 2013
R2	There are a number of aged debts that appear unrecoverable and remain on the system.	Recommendation agreed. Work to commence to re-examine whether these aged debts can still be recovered or need to be written off.	B	Agreed to review old aged debts to determine prospects for recovery or write off.	Senior Recovery Officer	31 Aug 2013
R3	The six year contractual debt legislation outlined in under the Limitation Act 1980 could be breached.	Under the Limitation Act, the six year period runs not from the year the debt relates to, but from when the first bill for it was issued. Therefore it is unlikely that a breach would occur, due to the regular nature of the recovery cycle which is in place. A report will be run periodically to check this.	B	Agreed to run periodic report to examine aged debt profile.	Senior Recovery Officer	31 Aug 2013





## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council  
and Copeland Borough Council*

### **Audit of Market Hall Rents**

**Draft Report Issued: 7<sup>th</sup> March 2013**

**Final Report Issued: 24<sup>th</sup> June 2013**

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of Market Rents was identified for review as part of the agreed Audit Plan for 2012/13.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Beverley Fisher.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources	Report to be noted.
Property Services Manager	Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan.

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix A) at its next meeting on 15 <sup>th</sup> April 2013.

### 3. BACKGROUND INFORMATION

- 3.1. The Market Hall, Carlisle is one of the few covered Victorian Markets remaining in the Country. It has a wide variety of stalls selling fresh meat, vegetables, haberdashery, stationery, flowers etc and various cafes for refreshments.

There are over a hundred units available to let. Access to TK Maxx and Wilkinson's is also available via the Market Hall.

The Market is open from Monday to Sunday from 8am till 5pm.

- 3.2. The Market Hall property and rentals are managed by the Property Services Manager within the Resources Directorate and income is reconciled by the council's finance team on a monthly basis.
- 3.3. Carlisle City Council leases the Market Hall 'complex' which incorporates the original market hall, TK Maxx, Wilkinsons and the Market Arcade to BAE Systems Ltd. BAE Systems Ltd lease directly to TK Maxx, Wilkinson's and other 8 other smaller retailers in the Market Arcade of which they retain 80% of the lease rent.
- 3.4. The original Market Hall is leased back to the City Council from BEA Systems – this arrangement enables the City Council to fulfil its Market Charter obligations by maintaining control of the historic market "charter" rights.

## Section 1 – Management Summary

- 3.5. The Council's share of the rents is derived from a share of the total rents for the whole of the original market hall and all the other retail sub lettings. Lettings in the Market Hall may consist of leases and licences. It is broadly calculated as follows:

Gross rent received from all sources

Less - Management costs (management, insurance, repairs and maintenance etc)

Equals - Net rent received

The City Council's equity share is 20% of the net rent, whereas the tenant, BAE Systems Ltd, retains the majority 80% share.

The maintenance is undertaken through a service charge regime, proportioned depending on size of unit / occupancy although capped for some.

- 3.6. BAE System Ltd and Carlisle City Council jointly instructed Ryden Commercial Property Consultants as the managing agents for Carlisle Market Hall.
- 3.7. The Market Hall is approximately 96% let (Market Management Group figures October 2012), with regular take up of stall for short term lettings. Stalls can be vacated on a regular basis; the stalls in the 'conservatory aisle' are proving difficult to let due to poor footfall and poor visibility.

## 4. SCOPE

- 4.1. There are inherent risks associated with Market Rents. These are appropriately reflected upon in the operational risk register and appropriate control strategies are in place to reduce these risks.
- Failure to maintain the Council's asset value / income flow. Oversee all property, ensure that it is fit for purpose. Regularly review and monitor flow of rental income and asset value. Current impact description – High, Current likelihood description – Remote and Risk Score – 6.
- Also;
- Loss of income due to unauthorised sellers without agreements.
  - Loss of income due to stall holders being in rent arrears.
- 4.2. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a detailed findings are shown in Section 2 of this report - Matters Arising:

Section	Area Examined
1.	Procurement & Contract Arrangements
2.	Performance Data & Reporting Arrangements
3.	Payments
4.	Reconciliations

- 4.3. The scope and testing undertaken as part of this review reflects identified risks specific to Market Rents which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Operational risk register(s) should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

## Section 1 – Management Summary

### 5. RECOMMENDATIONS

- 5.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outline below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

*\*A fundamental weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).*

- 5.2. There are two grade C recommendations arising from this review.

### 6. STATEMENT OF ASSURANCE

- 6.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts the system of internal control, which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

- 6.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Market Hall Rents provide **Reasonable** assurance.

## **7. KEY FINDINGS ARISING FROM THE AUDIT REVIEW**

- 7.1. A number of opportunities to further enhance controls have been identified and these are shown in Appendix A – Summary of Audit Recommendations and Action Plan.
- 7.2. The arrangements surrounding Market Hall Rents are robustly applied via BAE Systems, Rydens and Carlisle City Council. However, consideration should be given to:
- locating a copy of the signed Managing Agent agreement between the Council, BAE System 2000 Pension Plan Trustees Ltd and Rydens for reference and monitoring purposes;
  - raising the matter of the rolling contractual arrangements with the existing managing agent with the Market Management Group; and
  - verifying that the performance monitoring information received from Managing Agent's Rydens is in accordance with the Managing Agent agreement.





## SUMMARY OF RECOMMENDATIONS & ACTION PLAN

## APPENDIX A

### RESOURCES DIRECTORATE

#### Audit of Market Hall Rents

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	The signed Managing Agent agreement between Council, BAE System 2000 Pension Plan Trustees Ltd and Rydens could not be located for audit review.	A copy of the signed Managing Agent agreement between the Council, BAE System 2000 Pension Plan Trustees Ltd and Rydens should be located for reference and monitoring purposes.	C	Locate existing Managing Agent Agreement or replace with new document drafted by Property and Legal Services.	Property Services Manager	30/09/13
R2	The managing agent agreement for Carlisle Market Hall is considered a 'rolling contract' which can be drawn to a close by the Market Management Group. It was not subject to the Council's expected procurement / tendering process. As the agreement has been rolled forward for numerous years, consideration should be given to reviewing these contractual arrangements.	The Property Services Manager should raise the matter of the rolling contractual arrangements of the existing Managing Agents with the Market Management Group.	C	Discuss the current procurement/contractual arrangements within the Market Management Group at next convenient meeting and consider whether a review is appropriate or necessary or endorse current arrangements.	Property Services Manager	31/10/13





## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

## **FINAL REPORT**

**Audit of IT Service Desk, Incident  
& Problem Management**

**Draft Report Issued: 12th March 2013**

**Final Report Issued: 29th April 2013**

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of IT Service Desk, Incident and Problem Management was identified for review as part of the agreed Audit Plan for 2012/13.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Iain Atkinson.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Resources/Shared ICT Service Manager	Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan.
ICT Lead Officer	Action required. Please refer to Appendix A - Summary of Recommendations / Action Plan.

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix A) at its next meeting on 22 <sup>nd</sup> July 2013

### 3. BACKGROUND INFORMATION

- 3.1. Allerdale Borough Council and Carlisle City Council launched a shared ICT service (branded ictCONNECT) on 1st April 2010. The service is a partnership approach to the management and provision of all ICT services across both councils. Under the shared service agreement, Allerdale Borough Council is the 'discharging council' and Carlisle City Council is the 'arranging council'.

#### How this review assists the Council to achieve its goals

- 3.2. The IT Service Desk is a vital element of the ICT Service. It is the Single Point of Contact (SPOC) for IT users and its efficient and effective functioning is fundamental to the provision of services across all directorates. It deals with all incidents, access requests and service requests. Service events may be generated by phone, internet or email.
- 3.3. The primary purpose of a service desk is to restore "normal service" to users as quickly as possible - "normal service" refers to what has been defined in the Service Level Agreement (SLA) - this may be resolving a technical error, fulfilling a service request or answering a query.
- 3.4. To evaluate the performance of the Service Desk at regular time intervals, metrics must be established. This way the maturity, efficiency, effectiveness and potentials can be established and the Service Desk actions can be improved.
- 3.5. Annually, the service receives approximately 8700 incidents and requests across both councils.

## Section 1 – Management Summary

- 3.6. In addition to following "hard" metrics in the performance of the Service Desk it is also important to use "soft" metrics such as user satisfaction; service providers can tell a great deal about how a service desk is perceived by its customers through this type of feedback. A recent SOCITM survey of user satisfaction has confirmed that the majority of users are generally satisfied with the service.
- 3.7. This review has been performed in accordance with ISACA audit and assurance standards.

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review are:

Section	Area Examined
1.	Framework and Procedures
2.	Recording
3.	Impact Assessment, Prioritisation and Authorisation
4.	Monitoring and Reporting

- 4.2. The scope and testing undertaken as part of this review reflects inherent risks specific to IT Service Desk, Incident and Problem Management and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Operational Risk Register should be made. If risks are of a strategic nature, these should be reviewed by the Corporate Risk Management Group.

#### Scope Limitations

- 4.4. Due to the volume of calls handled by the Service Desk and the time constraints of the audit testing was undertaken on a sample basis focussing on service desk calls logged between January 2012 and June 2012.
- 4.5. Improvements to the Provision of ICT Services was approved by the Executive on 19/11/2012. Report RD52/12 outlines the key changes to the provision of ICT through the shared service arrangement. From 1<sup>st</sup> April 2013 only the IT infrastructure (virtual servers, networks and shared storage arrangements) will be shared service areas. All other functions will revert back to the respective 'home' councils. Staff resources will also transfer back and a time recording system will operate to provide the basis of any necessary recharging of staff resources to each council. Whilst the impact of this revised service provision is beyond the scope of this review, the possible implications on any recommendations made in this review have been considered.

#### Standards and best practice guides considered as part of this review

- 4.6. The following external standards were considered during the undertaking of this review:
- Information Technology Infrastructure Library (ITIL v3)
  - ISO/IEC 20000;
  - ISACA IT Assurance Framework (ITAF);
  - CIPFA Matrices for IT.

## Section 1 – Management Summary

### 5. RECOMMENDATIONS

- 5.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

- 5.2. There are 8 recommendations arising from this review :

- 4 at grade B
- 4 at grade C

### 6. STATEMENT OF ASSURANCE

- 6.1. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

- 6.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within IT Service Desk, Incident & Problem Management provide **Reasonable** assurance.

### 7. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 7.1. The Reasonable assurance level given to an audit area has been influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations and non-adherence to procedures.
- 7.2. There were a number of good practice measures noted during the course of the review:
- The ICT Shared Service has procured an ITIL compliant service desk application to record and manage events. This includes a self-service portal which allows users to log their own issues via the intranet.
  - Details of IT assets are held within an asset database



## Section 1 – Management Summary

- A variety of service improvements have been realised through the partial adoption of IT Infrastructure Library v3 (ITIL) standards. ITIL is a set of practices for IT Service Management that focuses on aligning IT services with the needs of business.
- Key ICT staff are to attend the IT Service Management Foundation (v3 Ed. 2011) training in support the implementation of ITIL standards across the ICT Shared Service.

7.3. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix A. The key issues arising from this review are:

- The ictCONNECT SLA is a high level document which contains no formally defined level of service for the IT Service Desk function such as methods of contact, hours of operation, responsibilities of users and IT staff or priorities and response times.
- The Service Desk possesses a number of guidelines and procedures but there is an overall lack of formal documentation in place to back up the ITIL framework and support ICT staff in its application.
- ictCONNECT does not have a formally defined change process. Badly executed changes have the potential to impact severely on the ICT service affecting the day-to-day operations of the Council. Phase 3 of the ITIL implementation was supposed to oversee the introduction of a change process but this phase is currently suspended whilst changes to the structure of the Shared Service are finalised.
- The implementation of ITIL standards has stalled following the approval of the Council Executive to sanction major changes to the structure of the ICT Shared Service. The Council needs to reaffirm its commitment to implementing the remainder of the ITIL framework once the new IT Service structure is in place. At the time of this draft report, the Senior ICT Officer for Carlisle has confirmed that ITIL is now back on the agenda with change management being a fundamental to how the “shared service” will progress in the future.





## RESOURCES DIRECTORATE

## Audit of IT Service Desk, Incident &amp; Problem Management

## SUMMARY OF RECOMMENDATIONS &amp; ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	There is currently a lack of documented procedures.	<p>The current lack of formally documented procedures needs to be addressed in order to support the implementation of ITIL governance and possible application for ISO2000 accreditation. This should be addressed at two levels:</p> <p>(1) Service desk, incident and problem service management framework and procedures should provide a definition of, and guidance procedures for dealing with:</p> <p>(a) standard service requests – for example:</p> <ul style="list-style-type: none"> <li>o setting up or amending/deleting user accounts,</li> <li>o restoring data,</li> <li>o moving/removing equipment etc</li> </ul> <p>(b) non-standard service Requests for Changes – for</p>	B	Full documentation to be created supported by business process maps to address recommendation one.	Lead ICT Officer	31.3.14

[illegible]

R2	The SLA does not define a level of service for the service desk function.	<p>The SLA should track to the Information Technology Infrastructure Library (ITIL) specifications.</p> <p>The SLA should include a common understanding of the services, priorities, responsibilities, guarantees and warranties offered by the service. When referring to the Service Desk function, this should include matters concerning :</p> <ul style="list-style-type: none"> <li>• methods of contact</li> <li>• hours of operation</li> <li>• responsibilities of users and IT staff</li> <li>• priorities and response times</li> <li>• monitoring and reporting (KPI's)</li> </ul>	B	Create an SLA for the service desk function incorporating all elements of recommendation two for agreement of the SMT.	Lead ICT Officer	31.3.14
R3	The level of information recorded for calls is inconsistent	<p>The quality of call log data could be improved if a more consistent approach was adopted by service desk staff when recording information.</p> <p>Specifically:</p> <ul style="list-style-type: none"> <li>• All incidents or requests should have adequate summaries and descriptions entered against them i.e. no blank fields.</li> <li>• All actions taken to resolve a call and all interactions made with users should be recorded to provide a full audit trail of</li> </ul>	C	Best practise within the service desk to be adopted by the whole of D & IS to ensure consistency in approach.	Lead ICT Officer	01.09.13

			<p>the incident or request.</p> <ul style="list-style-type: none"> <li>• Requests for access to network resources such as folders or drives, should show evidence that line manager authorisation was sought and approval gained before being processed.</li> <li>• Where call resolution has identified the need to amend existing documents and procedures or involved an update to an asset, this should be recorded in the call log.</li> </ul>				
R4	Call closure does not always indicate whether the helpdesk operative sought user approval prior to closing the call.	<p>Incidents or requests should only be closed following user approval (where user is contactable).</p> <p>Call closure should be indicated as such by using the appropriate operation i.e. 'Customer Agreed Resolution'.</p>	B	Procedures and practise to be introduced to ensure that incidents are only closed after authorisation from the user. Details of this authorisation to be included within the incident record.	Lead ICT Officer	1.9.13	
R5	There is currently no formal Change Management process in place. Badly executed changes have the potential impact severely on the Council's day-to-day operations.	<p>The Service should sign off and implement a formally documented Change Management process.</p> <p>The change management process must:</p> <ul style="list-style-type: none"> <li>• Use standardised methods and procedures</li> <li>• Record all changes</li> <li>• Take account of risks to the Council business.</li> </ul>	B	Formal change management to be implemented.	Lead ICT Officer	31.3.14	
R6	The current level of monitoring and reporting against service levels and	The Service should consider increasing the level of monitoring against achieved service levels and	C	Formal reporting and performance monitoring to be introduced against agreed service level targets.	Lead ICT Officer	1.11.13	

	service level targets is minimal.	comparison against the agreed service level targets.				
R7	There is no documentary evidence that performance reports are reviewed by senior management.	There should be documentary evidence that performance reports are monitored and reviewed on a regular basis by IT management and that key performance indicators are regularly reported to senior managements.	C	Monitoring and performance to be reviewed quarterly by the D & IS's management team. Reports to be produced for the shared service operations board.	Lead ICT Officer	1.11.13
R8	There is currently no formal lessons learned approach in place to review the outcome of major problems or incidents.	The Service should consider introducing a formal lessons learned approach following major problems or incidents.	C	Major incidents to be recorded in a formal lesson log. This is to be incorporated and with reference to business continuity and disaster recovery planning.	Lead ICT Officer	1.11.13





## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

### **Audit of Income Management**

Draft Report Issued: 21<sup>th</sup> March 2013  
Final Report Issued: 9<sup>th</sup> July 2013

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of Cash Collection & Income Management forms part of the annual programme of material reviews, which focus on the fundamental systems of the Authority. These systems have a high impact on the Main Accounting System and therefore on the Authority's accounts. External Auditor place reliance on the material reviews undertaken by Audit Services as part of their work on the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Pauline Connolly.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Community Engagement	Report to be noted.
Director of Resources	Report to be noted.
Financial Services Manager	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Chief Accountant	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Customer Services Manager	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Service Support Team Leader	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Principal Finance/Systems Officer	Report to be noted.

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 22 <sup>nd</sup> July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. ICON, the corporate cash receipting system, is used to record all income received by the Authority.
- 3.2. Cash Collection and Income Management duties are split between front and back office functions. The cashiers in the Customer Contact Centre primarily deal with the receipt of income on a face to face basis. The Service Support and Development Support Teams deal with income collected from postal remittances, telephone and internet payments.

## Section 1 – Management Summary

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a detailed findings are shown in Section 2 of this report - Matters Arising:

Section	Area Examined
1.	Policies & Procedures
2.	Transactions
3.	Postal Remittance
4.	Income Reconciliation
5.	Security & Banking

- 4.2. The scope and testing undertaken as part of this review reflects identified risks specific to Income Management which have been raised through the Authority's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.3. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Directorate's Operational Risk Registers should be made. If risks are of a strategic nature, these will be review by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Cash Collection & Income Management was previously carried out for 2011/12; there were 4 recommendations arising and a *substantial* assurance was provided. Appendix A lists the recommendations made and the actions which have been taken to address these.
- 5.2. Insufficient progress has been made in implementing the previous recommendations; one out of 4 recommendations has been implemented. The 3 outstanding recommendations (grade Cs) have been incorporated into the 2012-13 Summary of Recommendations/Action Plan attached as Appendix B.

### 6. RECOMMENDATIONS

- 6.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a fundamental weakness as a result of non-compliance to stator requirements and/or unnecessary exposure of risk to the Authority as a whole e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

- 6.2. There are 8 recommendations arising from this review:

- 3 at grade B; and
- 5 at grade C.

## Section 1 – Management Summary

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control, which put the system objectives at risk.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

- 7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Income Management provide **REASONABLE** assurance.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. The **reasonable** assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.
- 8.2. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.
- 8.3. There were no significant control weaknesses identified however there were a number of minor control weaknesses identified relating to:
- lack of complete documented procedures;
  - enhancements to existing income reconciliation procedures;

## RESOURCES DIRECTORATE Audit of Income Management

### SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	<p>Audit reviewed Financial Services' Cashup Banking for Daily Reconciliation Procedures and Daily Income Collection Reconciliation &amp; Banking Procedures and noted the following:</p> <ul style="list-style-type: none"> <li>there is no evidence of who prepared and reviewed the procedures neither is there evidence of the date when they were prepared and reviewed;</li> <li>the procedures omit to detail the officer responsible for performing each task, the review process followed and how it is evidenced; and</li> <li>omit to detail the process followed for postal remittance unreferenced cheques,</li> </ul> <p>The updated procedures should be signed and dated by the preparer and reviewer.</p>	<p>The Financial Services' procedures for staff involved in Banking, Income Collection and Bank Reconciliations should be updated to document:</p> <ul style="list-style-type: none"> <li>all tasks including postal remittance unreferenced cheques, etc and the officer(s) responsible for performing each task; and</li> <li>the review process in place and how it is evidenced.</li> </ul> <p>The updated procedures should be signed and dated by the preparer and reviewer.</p>	B	Major system upgrade due to go live in October 2013. Procedures will be reviewed to incorporate changes arising.	Chief Accountant	October 2013
R2	<p>It was noted that the Customer Services' Cash Office procedures includes Financial Procedures Rules from the</p>	<p>Customer Services' Cash Office procedures should be updated to include the latest Financial Procedures Rules</p>	B	The Customer Service procedure file has been updated to include the	Customer Services Manager	July 2013



## APPENDIX B

	Council's Constitution dated June 2011; this is out-of date as the latest procedures are dated January 2012.	from the Council's Constitution dated January 2012.		relevant sections of the Financial Procedure Rules from the Council's Constitution dated 2012.  The file has also been updated to include a link to the Financial Procedures Rules within the Intranet to ensure up to date versions are always available.		
R3	Follow up of the previous audit recommendation R1 " <i>Debtor Invoices should remind payees that a receipt should be obtained for any cash payments.</i> " Internal Audit where advised that the debtors invoices have been redesigned and the audit recommendation has incorporated into the changes made. Once it has been approved by management it will be issued.	Debtor invoices should remind payees that a receipt should be obtained for any cash payments.	C	Incorporate into new design awaiting bank approval	Financial Services Manager	October 2013 but depending upon bank agreement
R4	For 2 of the 5 bank paying-in-slips of cheques which Internal Audit verified to the Service Support CD file of scanned cheques, there was a record of the reference number of each cheque and the total value of cheques agreed to the amount banked. For the remaining 3 bank pay-in slips Internal Audit was unable to verify the total value of cheques banked to the cheques scanned on the CD file. Further investigation identify that in some instances there was an insufficient audit trail of the cheques	Service Support staff should check the CD file after all cheques have been scanned to ensure that:  (i) all cheque numbers and the total values agree to the bank paying-in-slip. (ii) The image of each cheque is clear and readable.  The above checks should be evidence i.e. initialed and dated, on the ICON schedule of cheques.	C	Actioned  Major system upgrade due to go live in October 2013. Procedures will be reviewed to incorporate changes arising.	Service Support Team Leader	July 2013

## APPENDIX B

	reference numbers and values as a number of cheques had overlapped while being scanned, thus not providing a clear image.	Service Support should document these procedures.				
R5	For all 5 bank paying-in-slips, Internal Audit was unable to verify these to an ICON schedule of all cheques banked as the schedule is sent to the bank attached to the paying- in-slip and cheques.	Service Support staff should scan and retain on CD file the ICON schedule of all cheques to be banked along with the cheques collected prior to passing to Financial Services and thereafter banked. The ICON schedule should be scanned and retained.	C	Actioned	Service Support Team Leader	July 2013
R6	The Cashier had a handbag and refuse bin in the cash office during the day when collecting and cashing up cash	In accordance with good practice, Cashiers' handbags and other personal belongings and a refuse bin should not be present in the Cash Office.	C	Staff have been informed that no Cashiers bags or personal belongings are allowed in the Cash Office. The bin has been removed to outside the cash office door.	Customer Services Manager	July 2013
R7	For a sample of 5 Cash & Deposit Daily reconciliations and Card Reconciliations it was noted that there is no evidence that preparer and reviewer signs and dates the reconciliations.	Cash & Deposit Daily reconciliations and card reconciliations undertaken by Financial Services should be signed and dated by the preparer and reviewer.	B	Actioned as part of the daily bank reconciliation	Chief Accountant	July 2013
R8	For a sample of 5 daily reconciliations of cash balances on ICON reports to the General Ledger and to the Bank Statement file, there was one exception where there was no evidence of who performed the reconciliation.	The daily reconciliations of cash balances on ICON reports to the General Ledger undertaken by Financial Services should always be signed and dated by the preparer and reviewer.	C	Actioned as part of the daily bank reconciliation and controls work	Chief Accountant	July 2013





## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

### **Audit of Debtors**

**Draft Report Issued: 28<sup>th</sup> March 2013.**

**Final Report Issued: 9th July 2013**

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of the Debtors forms part of the annual programme of material system reviews. External Audit place reliance on the work undertaken by Audit Services on the material reviews to support the audit of the Statement of Accounts.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Paula Norris.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources	Report to be noted.
Financial Services Manager Resources Directorate	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Development and Support Manager Resources Directorate	Report to be noted.
Director of Economic Development	Please refer to recommendation R1.
Neighbourhood and Green Spaces Manager	Please refer to recommendations R3 & R4.

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 22 <sup>nd</sup> July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. The Financial Procedure Rules outlined within the Council's Constitution designates responsibility to the Director of Resources to establish effective and properly controlled procedures to support the recovery of income due to Carlisle City Council arising from work done, goods supplied or services rendered and not paid for at the time of delivery.
- 3.2. Day to day responsibility for administering the Debtors system is within the remit of the Resources Service Support Team (Debtors). Invoices are raised within services although periodic invoices are raised centrally by the Service Support Team (Debtors)
- 3.3. There are two part time members of staff responsible for overseeing the day to day function of the debtors service, with technical and professional supported provided by Financial Services.

## Section 1 – Management Summary

### 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review are:

Section	Area Examined
1.	Debtors General.
2.	Raising Invoices.
3.	Amendments to Invoices.
4.	Payments.
5.	Debt Recovery.
6.	Write-offs.
7.	Reconciliations.
8.	Monitoring and Reporting.
9.	Security of Data.

- 4.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 4.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Debtors. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to operational risk register should be made. If risks are of a strategic nature, these should be reviewed by the Corporate Risk Management Group.

### 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Debtors was previously carried out in 2011/12. This review provided a *reasonable* assurance level and resulted in 3 recommendations.
- 5.2. Appendix A lists the previous recommendations made and the actions which have been taken to address these.
- 5.3. There is one matter outstanding which has been re-examined as part of the 2012/13 audit review.

### 6. RECOMMENDATIONS

- 6.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

## Section 1 – Management Summary

6.2. There are 8 recommendations arising from this review :

- 5 at grade B
- 3 at grade C

### 7. STATEMENT OF ASSURANCE

7.1. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Debtors provide **REASONABLE** assurance.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

8.1. The reasonable assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations and non adherence to procedures.

8.2. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.

8.3. The key issues arising from this review are:

8.3.1. Raising Invoices.

There continues to be problems with the raising of invoices within the service directorates; this concerns the continuation of services to bad debtors, accuracy of charges applied and VAT Implications. Similar matters have been highlighted in previous audit reviews.

8.3.2. Amendments to Invoices/Cancellations.

The authorised signatory list requires updating; this is an issue which has raised in many of the financial systems audits. This is an important control document which helps to ensure that authorised staff are not exceeding their delegated limits of authority.

8.4.5 Debt Recovery.

Staff are aware of debt recovery procedures and what correct remedial action to take when the recovery process hits the manual decision making stage. These decisions often accelerate

## Section 1 – Management Summary

recovery. Effective decision making is reliant on the expertise and experience of the Debtors staff.

### 8.4.6 Write-offs.

The controls surrounding write-offs are working well; no problems were found within the sample tested.

The issue surrounding the clarification of the treatment of the outstanding ground rent invoices is important as the land is more valuable to the Council than ground rent income.



RESOURCES DIRECTORATE

Audit of Debtors

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	No specific monitoring exists corporately to ensure that persistent bad debtors are prevented from obtaining further credit from the Council.	Corporately, all directorates should endeavour not to allow those with invoice arrears to continue to receive the services provided unless required to by legislation or local agreement (i.e. Environmental Health).  Management (Economic Development) should seek to resolve the issue highlighted regarding continuous tenant arrears and the resulting recovery action.	B	Assistance will be provided to clarify procedures for persistent bad debts upon request but the provision and charging of services will need to be reviewed on an individual basis	Financial Services Manager (in conjunction with Legal Services)	On-going
R2	Prepayment for services should be encouraged where appropriate.	Prepayments should be encouraged wherever able however, management should specifically consider requesting payment in advance for any room bookings to both secure that booking and make sure that income is received and not lost through late cancellation.	C	Agreed with prepayment for services being actively encouraged.  Will continue to form part of future training sessions	Director of Economic Development  All Managers and users of the debtors system	July 2013  March 2014
R3	Control totals are not being used when inputting invoices into the system. There is no method of knowing that the amounts entered into the Debtors	When invoices are raised in multiples within the sections, then an independent person should calculate a 'batch header total before passing for input so that this can be checked prior to authorisation that the	B	This is an internal training issue.	Financial Services Manager  (All Managers and users of the	March 2014



## APPENDIX B

	system matches the expected income.	information entered into the system is correct.			debtors system)	July 2013
R4	Incorrect VAT indicators are being applied to services.	Debtors users should ensure that the VAT indicator that they apply to supplies and services is correct. If they are unsure, they should contact Financial Services for appropriate VAT advice.  A standard rate VAT invoice should be issued to the debtor for the provision of refreshments in Talkin Tarn Boatroom.	C	Will continue to form part of future financial training sessions	Financial Services Manager  (All Managers and users of the debtors system)  Neighbourhoods and Green Spaces Manager	March 2014  July 2013
R5	Invoices are not being raised within 14 days of supply and on occasion there is insufficient detail contained within the invoice description.	System users must ensure that the information entered on the debtors system is adequate so that it is clear as to the nature of the supply and the date and location of the supply.  All invoices should be raised within 14 days of supply.	B	Will continue to form part of future financial training sessions	Financial Services Manager  (All Managers and users of the debtors system)	March 2014
R6	The Debtors Authorised Signatory List is out of date.	The Debtors Authorised Signatory list should be updated as soon as possible.	B	Agreed	Service Support Team Leader	On-going
R7	The Debt Collection Procedure has not been reviewed for a number of years.	The Director of Resources in conjunction with Debtors staff should review the current debt collection procedure to assure its effectiveness.	C	Debt recovery collection procedures will be reviewed for effectiveness	Financial Services Manager	October 2013

## APPENDIX B

R8	Redundant ground rent invoices are not being progressed by Property Services.	Debtors Section should liaise with Property Services to come to a decision regarding the redundant ground rent invoices.	B	To agree current position, as appropriate	SST Team Leader/ Property Services Manager	January 2014
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## **AUDIT SERVICES**

*A Shared Service between Cumbria County Council, Carlisle City Council and  
Copeland Borough Council*

### **Audit of Payroll**

Draft Report Issued: 19<sup>th</sup> March 2013  
Revised Draft report 5<sup>th</sup> July 2013  
Final Report Issued: 9<sup>th</sup> July 2013

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## Section 1 – Management Summary

### 1. REASON FOR THE AUDIT

- 1.1. The audit of Payroll forms part of the annual programme of the material audit reviews which focus on the Council's key financial systems. External Audit place reliance on these reviews undertaken by Internal Audit as these systems have a high impact on the Main Accounting System and therefore on the Financial Statements.

### 2. AUDIT CONTACT & REPORT DISTRIBUTION

- 2.1. The lead auditor for this review was Paula Norris.
- 2.2. The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources	Report to be noted.
Financial Services Manager Resources Directorate	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Development & Support Manager Resources Directorate	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Service Support Team Leader Resources Directorate	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Director of Local Environment Local Environment Directorate	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
City Engineer Local Environment Directorate.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan

- 2.3. Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 22 <sup>nd</sup> July 2013.

### 3. BACKGROUND INFORMATION

- 3.1. The Payroll Section is situated within the Service Support Team, a part of the Resources Directorate.
- 3.2. The IT payroll system 'Trent' provides a direct interface with the Council's Main Accounting System. The Trent payroll system has been in place since April 2007
- 3.3. The Service Support Team Leader has main operational control of the payroll system and it is supported by 1.2 FTE staff. HR and ICT staff also provide technical support.

## Section 1 – Management Summary

- 3.4. There are inherent risks associated with operating the in-house payroll service. These are appropriately reflected upon in the operational risk register and appropriate control strategies are in place to reduce these risks.
- Loss of key people during a time of difficulty/change. Inadequate resources to deliver our full range of services.
  - Payment to 'bogus individuals'.
  - Information Systems dysfunction/Payroll not paid in the event of failure of IT systems.
- 3.5. The service manages the payroll for all contracted and casual City Council based staff, and member expenses. External payroll services are also provided for Community Centres and Tullie House Trust.

## 4. SCOPE

- 4.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review are:

Section	Area Examined
1.	General Controls
2.	Starters
3.	Deductions
4.	Variations
5.	Leavers & Transfers
6.	Payments
7.	Reconciliations
8.	Data Security

- 4.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 4.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Payroll and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.
- 4.4. Please note that on conclusion of the audit, any risks highlighted by the audit review should be assessed by the relevant Director and necessary updates to Operational Risk Register should be made. If risks are of a strategic nature, these should be reviewed by the Corporate Risk Management Group.

## 5. FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

- 5.1. An audit of Payroll was previously carried out in March 2012. There were 6 audit recommendations arising from this review. Appendix A lists the recommendations made and the actions which have been taken to address these.
- 5.2. Sufficient action has been taken to implement the majority of the audit recommendations within the timescales agreed. There are two unactioned recommendations; one that is reliant on the completion of workforce structuring through the Transformation programme which is ongoing, and the other which involves necessary action taken whereby the request for the repayment for an outstanding pay advance has been made, but payment had not at the time been



## Section 1 – Management Summary

pursued/received within a reasonable timescale. A further recommendation has been made in this report regarding this matter.

### 6. RECOMMENDATIONS

- 6.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	For consideration only - action at manager's discretion.

- 6.2. There are 7 recommendations arising from this review :

- 4 at grade B
- 3 at grade C

### 7. STATEMENT OF ASSURANCE

- 7.1. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Restricted	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

- 7.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within the Payroll provides **Reasonable** assurance.

### 8. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 8.1. The **reasonable** assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.

- 8.2. The following areas of good practice were noted:

- In house expertise with extensive legislative knowledge.
- Sound reconciliation procedures.
- Satisfactory arrangements in place for processing deductions from pay.

## Section 1 – Management Summary

8.3. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.

8.4. The key issues arising from this review are:

- General Controls

The controls with regards to Payroll functioning arrangements are generally sound but these are weakened in parts due to the availability of resources in the payroll team which impacts on division of duties in some areas and the ongoing restructuring within Council services which impacts on the availability of up to date centralised information e.g. signatory lists, verification arrangements of the full payroll.

- Starters

The controls surrounding the establishment of new starters are in the main satisfactory. There is evidence of weaknesses surrounding the general housekeeping of staff records, which is the responsibility of the recruiting directorates. Examples include the completion of a new starter checklist and retention of documentation to support the verification of qualifications and evidence held on file.

- Variations

There are issues surrounding the authorisation of payment of overtime claims in Local Environment. Service managers in this area must ensure that the payments they are authorising are complete, timely and correct.

- Leavers & Transfers

The controls surrounding Leavers and Transfers are not as robust as they could be. Managers are overlooking the importance of completing the Staff Leavers Form correctly and there is a lack of evidence to show that the Leaver's checklist is being applied properly and consistently throughout the organisation. Testing of this area highlighted a high level of non compliance to agreed procedure. For payroll, non compliance exposures the Council to potential risks concerning unauthorised personnel on the payroll.



## RESOURCES DIRECTORATE

## Audit of Payroll

## SUMMARY OF RECOMMENDATIONS &amp; ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	Signatory lists require regular updating.	The authorised signatory list should be updated for each service area annually or on conclusion of restructuring within the service area as appropriate.  Staff leavers should be struck off the signatory list.	B	This is currently with Directors PAs with a request for completion when restructuring finished  Agreed	Service Support Team Leader	October 2013
R2	High net pay value reports are not signed as being checked.	That the Finance Assistant lists a brief description of any non-standard payments identified on the high net pay values then signs as being verified to assure a comprehensive audit trail.	C	An electronic signature will be included on the spreadsheet and this will be filed electronically. No hard copy will be retained and filed as it contains sensitive information.	Financial Services Manager	July 2013
R3	There is a separation of duties issue with regard to payroll staff being able to set up new employees on Trent and also pay them.	As an additional control, the Service Support Team Leader should discuss the possibility of producing an exception report to show any new casual starter appointed and attached by the same member of staff.	C	Casual starters are usually appointed and attached by the same member of staff. This has been ongoing for a very long time. It would be better to look at a report showing if a non-casual starter has been appointed and attached by the same member of staff	Service Support Team Leader	July 2013
R4	The 'New Entrant Documentation' form is not completed in all instances.	The 'New Entrant Documentation' form should continue to be signed off as completed by the inputting HR staff	C	Agreed, as previously stated this will be resolved by the imminent	Service Support Team Leader	July 2013



## APPENDIX B

		in each case to ensure the approach taken is consistent. It is understood that the new EDMS system that is currently being developed in conjunction with ICT should eliminate the need for these forms but until these are in place the use of these forms should continue.		introduction of the EDMS.		
R5	<p>Overtime claim forms are not being reconciled to other systems to prove attendance before authorisation.</p> <p>Overtime claim forms are not being processed in a timely manner.</p> <p>There was an overpayment of overtime identified.</p> <p>Lieu time had been transferred to overtime at enhanced rates.</p> <p>There is an unacceptable level of staff taking leave days when allocated shifts that attract enhanced rates.</p>	<p>Highways Services Management should verify all hours and time claimed prior to authorisation. Specific attention should be paid to the following areas:-</p> <ul style="list-style-type: none"> <li>• Management should check back and ensure that the hours claimed were actually worked by verifying that:               <ul style="list-style-type: none"> <li>a) the overtime was authorised beforehand</li> <li>b) the flexi system shows attendance (unless working off site)</li> <li>c) that the hours claimed had been productive.</li> </ul> </li> <li>• Management should investigate the instance where enhanced pay was claimed but there was no evidence of working.</li> <li>• Claims for overtime should be completed and submitted for authorisation by the line manager as soon as possible,</li> </ul>	B	<p>As well as checking weekly rota sheets in future the time recording system will also be referred to. The number of PCN's issued is not necessarily a check of attendance as not all days worked are productive (e.g. cash collection). Checking the Chipside system to see if staff have logged onto a handheld device would be useful as a further check.</p> <p>Any overtime is always authorised prior to the shift.</p> <p>In order to provide clarity for the staff</p>	<p>Car Parking Team Leader/City Engineer/ Director of Local Environment.</p>	<p>July 2013</p>

## APPENDIX B

		<p>with reference to the payroll timetable, bearing in mind departmental requirements i.e. opportunity to get form checked and authorised.</p> <ul style="list-style-type: none"> <li>Any overpayment of overtime should be recovered from the employee.</li> <li>Lieu time should not be paid at enhanced pay rates.</li> <li>Management in conjunction with HR should make a decision what is an acceptable level of leave taken on days that are paid at enhanced rates.</li> </ul>	<p>in future they will only claim on a monthly basis for Premia payments between the 15<sup>th</sup> of the month until the 14<sup>th</sup> of the following month. This should stop any duplication of claims. The CEO's are already provided with a photocopy of their previous months claim form to assist them in completion of their claims and this will also continue.</p> <p>The staff involved will be made aware of the amounts.</p> <p>The CEO's were not aware that they were not allowed to claim Premia payment for Lieu time as they think/treat it as leave. When explained that it is earned at plain time and should be used in the same manner it was accepted that this was logical.</p> <p>The Car Parking Team Leader had previously questioned this loophole in the system with HR when Single Status was introduced and again with Payroll when staff were given the opportunity to buy annual leave. HR and Management need to define <u>exactly</u> how many days are allowed to be taken and still claim Premia payment and close this loophole.</p>	
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## APPENDIX B

R6	Leavers forms were not complete.	Managers should ensure that the Leavers form is fully completed by both the Manager and the member of staff in all cases and that the actions stated on it have been performed (i.e., annual leave balance/flexi etc)  When it is not possible to have the employees signature due to absence from work this should be clearly indicated on the form	B	Flexi balances and Annual Leave are checked by Payroll staff as a matter of course although this may not be indicated on the form.	Service Support Team Leader	July 2013
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## APPENDIX B

R7	Anomalies have been left outstanding for a considerable length of time.	There should be a reasonable timescale between the identification and the correction of any anomalies after reconciliation.	B	Agreed	Service Support Team Leader	July 2013
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## Audit Committee

Agenda  
Item:

**A.10**

Meeting Date: 22<sup>nd</sup> July 2013

Portfolio:

Key Decision:

Within Policy and  
Budget Framework

Public / Private      Public

Title: **Internal Audit Out-turn Report 2012-13 and Review of the Effectiveness of Internal Audit Services**

Report of: Director of Resources

Report Number: RD25/13

### **Purpose / Summary:**

This report summarises the work carried out by the Internal Audit Shared Service during 2012/13 and provides the annual audit opinion on the adequacy of the control environment for that period.

It also provides information to Members relating to the effectiveness of Internal Audit, in the format agreed at the meeting of this Committee on 23<sup>rd</sup> January 2007.

### **Recommendations:**

**Members are requested to:**

- **Note the outturn position for 2012/13 and progress made against the Strategic Audit Plan;**
- **Note the Internal Audit opinion provided on the adequacy of the control environment.**
- **Note and agree the information relating to the effectiveness of Audit Services.**

**Tracking**

Audit Committee:	22 July 2013
Overview and Scrutiny:	Not applicable
Council:	Not applicable



## 1 INTRODUCTION

1.1 This report should be considered in 3 parts:

- Section 2 - 2012/13 Outturn  
This provides a summary of the work undertaken by Audit Services during 2012/13.
- Section 3 - Adequacy of Internal Control 2012/13  
This provides Internal Audit's opinion on the adequacy of the control environment during 2012/13.
- Section 4 - Review of the Effectiveness of Internal Audit  
This provides Members with performance information to enable a view to be taken on the effectiveness of Internal Audit Services.

## 2 2012/13 OUTTURN

- 2.1 The Strategic and Annual Audit Plans for 2012/13 were presented to the Audit Committee on 16th April 2012 – Report RD03/11 refers.
- 2.2 Members have received regular quarterly progress reports detailing the position of the Audit Plan. A full breakdown of the 2012/13 Audit Plan showing position of each audit review is shown in **Appendix A**.
- 2.3 The 2012/13 Audit Plan called for 540 direct audit days and a further 19 days were purchased to support unplanned work. A total of 559 audit days has been delivered in year by the Shared Internal Audit Service.
- 2.4 It was necessary to make some adjustments to the Audit Plan in year to accommodate 3 areas of unplanned work and defer a further 6 audits at the request / approval of the management. 4 audits were also ongoing.

Total audits in original 2012/13 Audit Plan	40
Less: audits deferred to allow time for unplanned work	3
deferred - due to insufficient time to complete	4
deferred - postponed until quarter 1 2013/14	1
cancelled - time direct at other planned areas	1
ongoing reviews	4
Total audits delivered	<u>27</u>

Appendix A reflects the above changes in the Audit Plan.

### 2.4.1 Material Systems

As in previous years, priority is given to the completion of the material audits. These focus on the fundamental systems of the Authority which have a high impact on the Authority's accounting systems and therefore on the Statements of Accounts.

There were 12 material systems scheduled for completion in the 2012/13 Audit Plan but it was necessary to rescheduled one of these (fixed assets) into 2013/14 (quarter 1) in order to have access to the required information.

Much of the audit work on the material systems falls in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the financial year and, as in previous years, there was a drive to complete all material reviews before 31 March 2013.

All 11 material system reviews were completed to at least draft report stage by the end of March 2013.

### **3 ADEQUACY OF INTERNAL CONTROL DURING 2012-13**

- 3.1 Management is responsible for the system of internal control and should put in place policies and procedures to ensure that systems are functioning correctly.
- 3.2 Internal Audit examine, appraise and report on the effectiveness of financial and other management controls concerning risk management, corporate governance and other internal controls, to enable it to provide an opinion on the adequacy of the control environment and report any significant control issues.
- 3.3 There is a requirement under the Accounts and Audit Regulations (England) 2011 to maintain an adequate and effective system of internal audit of the Council's accounting records and of its system of internal control. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK 2006 requires that the Head of Internal Audit provides a formal annual report to support the Annual Governance Statement.
- 3.4 Following the review of the adequacy of internal control, the Committee must then approve an Annual Governance Statement, which has been prepared in accordance with proper practices in relation to internal control.
- 3.5 Opinion on the Adequacy of Internal Control 2012/13
  - 3.5.1 It is not possible to give an opinion on the overall system of control within the Authority, as any such opinion can only be expressed in relation to the audit reviews which were undertaken during the year, the findings and recommendations made and the remedial actions taken by management.
  - 3.5.2 Based on the breadth and depth of the work undertaken by Internal Audit during 2012/13 outlined in section 3.6 above and the additional supporting information provided in 3.7 and 3.8, **Internal Audit has reached the opinion that that the Authority's system of internal control is operating satisfactorily and this opinion should be reflected in the Annual Governance Statement.**
- 3.6 Completed Audit Reviews and Key Areas of Significance 2012/13
  - 3.6.1 A range of audits were undertaken during 2012/13 in accordance with the agreed audit Plan, details of which were reported to the Audit Committee throughout the year. The outcome of these audits supports the overall opinion of the adequacy of internal control as each audit is given an assurance evaluation on its completion.

3.6.2 **Appendix B** lists the 27 audits undertaken during the year – all of which have reached the final report stage for which the assurance evaluation is agreed.

5 substantial assurance  
17 reasonable assurance  
5 partial assurance  
27

81% of all audited systems have been assessed as substantial / reasonable assurance.

3.6.3 A summary of those 5 audits categorised as partial assurance and the arrangements in place to address the issues raised is provided below.

Contract Monitoring Arrangements:

This covered the audits of:

- Recycling
- Leisure Time Client
- Bring Sites

These audits highlighted a ‘themed’ weakness in the area of client monitoring of key service contracts. Additional measures have been put in place to address the contract monitoring concerns, which includes adequate staff resourcing and performance reporting arrangements. This matter has also been considered by the Corporate Risk Management Group.

Records Management

This audit raised awareness to the shortfalls in corporate records management arrangements. In response to this audit review, a project was initiated to strengthen the existing records management arrangements and improvements to processes are expected to be introduced in 2013/14.

External Funding

This review raised some concerns over the central grant monitoring arrangements. A key area for improvement was the responsibility placed upon individual directorates to keep Financial Services informed of external funding arrangements in their respective service areas. Also, it was considered that the records maintained by Financial Services for 2011-12 were not as up to date as they should have been.

3.7 Other Supporting Information

3.7.1 There is an agreed practice for bringing any of the following issues to Members’ attention:

Issue	Action required in 2012/13
Any instances where it is not possible to reach agreement on a grade “A” recommendation	There were no such occurrences during 2012/13.

Any instances where no action has been taken on an agreed recommendation and no reasonable explanation has been provided – all follow ups have been undertaken.	Of the audit follow ups which were undertaken, it was not necessary to report any instances of unactioned recommendations in year
Any matters which are likely to have an adverse effect on the Annual Governance Statement;  Any matters which Audit Services has needed to feed into the Governance Statement Action Plan during the course of the year, including any significant issues arising from audit work.	Matters concerning actions required to ensure that effective arrangements are in place to manage significant contracts is recognised in the Annual Governance Statement and the resulting action plan.
Any other matters relating to the adequacy of systems, controls etc, to which it is deemed necessary to draw Members' attention.	<p>The audit of Creditor Payments is at draft report stage as there are some outstanding concerns around adherence to procedures and adequacy of internal controls which require further discussion with management before this report can be finalised.</p> <p>The audit of ICT Service Continuity has been completed. There are some concerns raised within this report which, in line with agreed audit reporting practice, require further discussion with senior management in order to bring this audit to a close.</p> <p>The two audits referred to above do not affect the overall opinion referred to in section 3.5 above.</p>

### 3.8 Fraud Summary

#### Counter Fraud and Fraud Awareness

- 3.8.1 The Council has documented counter fraud arrangements and a response plan in place to deal with instances of suspected fraud and/or irregularities, however these need to be more effectively communicated and understood by officers to help raise general awareness to fraud matters and ensure a wider understanding of the fraud investigating and reporting arrangements which are in place.
- 3.8.2 Training on Counter Fraud awareness and reporting arrangements, which is aimed at key officers, has not taken place in year. Members are reminded that fraud awareness training was also raised as a matter for report in last year's annual report.
- 3.8.3 Management have been reminded of key contacts to whom concerns about suspected fraud and other irregularities should be reported to and the Council is considering the use of e-learning as a mechanism to roll out future training in this area, but this matter is still to be progressed.

- 3.8.4 Internal Audit has been involved in investigating matters of suspected fraud and irregularities during the year and all matters referred for investigation were actioned in line with the agreed formal reporting procedures as detailed in the Fraud, Theft and Corruption Response Plan. There was one instance of fraud which was investigated in year.

#### National Fraud Initiative (NFI)

- 3.8.5 The NFI is a data matching exercise led by the Audit Commission and is carried out every other year. The last completed exercise was 2010/11.
- 3.8.6 The exercise matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector organisations involved in the exercise includes local authorities, police authorities, probation, fire and rescue authorities and hospitals. This helps to identify potentially fraudulent claims, errors and overpayments as data matches may warrant further investigation.
- 3.8.7 The data is hosted on a secure website which allows for secure authorised contacts to be made if required.
- 3.8.8 Internal Audit investigates the matches for creditors and payroll whilst Revenues and Benefits investigate the matches in relation to Council Tax and Housing Benefit.
- 3.8.9 The most recent data matches were released at the end of January 2013. Internal Audit will report the outcome of this piece of work later in 2013/14.

### **4 REVIEW OF THE EFFECTIVENESS OF AUDIT SERVICES 2012/13**

#### 4.1 CIPFA Code of Practice for Internal Audit - Checklist

- 4.1.1 The Accounts and Audit (England) Regulations 2011 make it a requirement upon local authorities to carry out an annual review of the effectiveness of the system of internal audit.
- 4.1.2 The findings of this review of effectiveness are considered by the Members of the Audit Committee and, at its meeting in January 2007, Members agreed that in order to meet this requirement they would rely on the completion of the detailed checklist provided in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. This checklist is still regarded as the CIPFA benchmark for internal audit evaluation in 2012/13.
- 4.1.3 The Internal Audit Shared Service complies with the CIPFA Code of Practice for Internal Audit in Local Government and assesses its arrangements on an annual basis. It is therefore appropriate for the Audit Committee to receive the 2012/13 assessment, noting the local arrangements in place for Carlisle City. This assessment is attached as **Appendix C**.
- 4.1.4 It should be noted that the Public Sector Internal Audit Standards became mandatory for all internal audit service providers within the public sector from 1<sup>st</sup> April 2013. The Standards replace the CIPFA Code of Practice for Internal Audit in Local Government (2006) as 'proper audit practices' as required by the Accounts and Audit Regulations

2011. Future reviews of Internal Audit will be undertaken to ensure conformance to the Public Sector Internal Standards

## 4.2 In Year Improvements

### Client Evaluation Forms

- 4.2.1 A key in year improvement to the Internal Audit service provided at Carlisle City was the introduction of Client Evaluation forms. The draft evaluation form was considered by the Audit Committee at its meeting on 26th September 2012 (RD 37/12 refers) and it was agreed that a summary of completed client evaluation feedback would be considered along side the effectiveness of internal audit CIPFA Checklist referred to in section 4.1 above.
- 4.2.2 Completed Client Evaluation forms are not always received back and managers will be further encouraged to complete these for all audit reviews undertaken in their respective areas. Of the completed evaluation forms received – based on the 7 forms received:
- 92% of management were either very satisfied / satisfied with the Internal Audit Service received.
  - Feedback indicated 3 areas where improvements could be made:
    - Timing of audits
    - Significance and fair presentation of the findings of the audit
    - Receipt of ongoing updates provided on progress of the audit
- 4.2.3 The Shared Internal Audit Service will consider these findings within the planned work streams for improvement to be undertaken in 2013/14 as part of its own evaluation of service delivery against the new Public Sector Internal Audit Standards.

### Assurance Evaluations and Recommendations

- 4.2.4 Developments to risk based audit planning have been achieved through further buy in from senior management into the audit planning process for the 2013/14 Audit Plan.
- 4.2.5 Audit Progress Report (Ref 05/13 - section 6), which was received by the Audit Committee meeting on 15th April 2013, highlighted other improvements to audit reporting arrangements including further clarification over the assurance evaluations in use and the grading of audit recommendations.

## 4.3 Conclusion

- 4.3.1 Internal Audit Outturn Report for 2012/13, detailed in section 2 of this report, highlights effective performance in terms of service delivery. The 2012/13 Audit Plan was substantially completed and where it was necessary to defer audit work in 2012/13, this was done with the approval of the Director of Resources and arrangements have been made to incorporate deferred audits into the 2013/14 Audit Plan.
- 4.3.2 The self assessment undertaken against the CIPFA Checklist shows that the Shared Internal Audit Service is substantially compliant to the requirements of the CIPFA Code of Practice for Internal Audit in Local Government and further service improvements were also made at Carlisle City in year.

4.3.3 Overall, it is considered that the Internal Audit Shared Service has delivered an effective service in 2012/13. Delivery of Internal Audit through the Shared Service arrangement continues to directly benefit the Authority and its position and role has been greatly strengthened, allowing for the service to be more resilient as a result of this arrangement.

## 5 CONSULTATION

5.1. Not applicable

## 6 CONCLUSION AND REASONS FOR RECOMMENDATIONS

**Members are requested to:**

- **Note the outturn position for 2012/13 and progress made against the Strategic Audit Plan;**
- **Note the Internal Audit opinion provided on the adequacy of the control environment.**
- **Note and agree the information relating to the effectiveness of Audit Services.**

## 7 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

7.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

**Contact Officer:** Gill Martin                                  Ext: 7294  
Audit Manager  
(Shared Internal Audit Service)

**Appendices**  
**attached to report:**

- A – Audit Plan 2012/13**
- B – Record of Completed Assignments 2012/13**
- C – Checklist on Compliance with the CIPFA Code of Practice for Internal Audit in Local Government**

**CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – not applicable**

**Community Engagement – not applicable**

**Economic Development – not applicable**

**Governance – not applicable**

**Local Environment – not applicable**

**Resources – not applicable**



# CARLISLE CITY COUNCIL

## Audit Plan 2012/13

## APPENDIX A

Directorate	Service Area	Audit Area	Days Allocated	Status	Assurance Evaluation	Date Received by Audit Committee
<b><u>High Risk Reviews</u></b>						
Chief Executive's Office	Policy & Performance	Data Quality			Reasonable	
Community Engagement	Community, Housing & Health	Records Management	12	Completed	Partial	26-Sep-12
Community Engagement	Community, Housing & Health	Supporting People	15	Ongoing	-	
Community Engagement	Community, Housing & Health	HB Overpayments	10	Completed	Reasonable	11-Jan-13
Community Engagement	Community, Housing & Health	Leisure Time Client	10	Completed	Partial	15-Apr-13
Community Engagement	Customer Services	Customer Services	12	Completed	-	15-Apr-13
Community Engagement	Museums and Gallery	Tullie House	5	Completed	Reasonable	11-Jan-13
Economic Development	Planning	Development Management	15	Completed	Reasonable	26-Sep-12
Governance	Democratic Services	Electoral Registration & Administration	10	<i>Deferred 13-14</i>		
Governance	Governance	Gifts & Hospitality	5	Completed	Reasonable	26-Sep-12
Local Environment	Bereavement Services	Cemeteries & Crematorium	12	Completed	Reasonable	15-Apr-13
Local Environment	Highways	Highways - Contract & Claimed Rights	15	Completed	Substantial	11-Jan-13
<i>Local Environment</i>	<i>Highways</i>	<i>Street Cleaning</i>	<i>0</i>	<i>Deferred 13-14</i>		
Local Environment	Highways	CCTV	10	Completed	Reasonable	26-Sep-12
Local Environment	Waste Services	Recycling	20	Completed	Partial	15-Apr-13
	Waste Services	Bring Sites	10	Completed	Partial	15-Apr-13
<i>Local Environment</i>	<i>Waste Services</i>	<i>Refuse Collection</i>		<i>Cancelled</i>		
Resources	Corporate	Grants Protocol / Procedures	10	Completed	Partial	11-Jan-13
Resources	Corporate	Transformation	15	<i>Deferred 13-14</i>		
Resources	Corporate	Early Retirement & Redundancy	10	Completed	Reasonable	26-Sep-12
Resources	Corporate	Systems Administration	10	Completed	Reasonable	15-Apr-13
Resources	Corporate	Market Rents	5	Completed	Reasonable	22-Jul-13
Resources	Financial Service	Procurement	15	Ongoing	-	
Resources	Corporate	Tendering & Contracting	10	<i>Deferred 13-14</i>	-	

Directorate	Service Area	Audit Area	Days Allocated	Status	Assurance Evaluation	Date Received by Audit Committee
<b><u>Material Reviews:</u></b>						
Community Engagement	Revenues & Benefits	Council Tax	12	Completed	Substantial	15-Apr-13
Community Engagement	Revenues & Benefits	Housing and Council Tax Benefits	16	Completed	Substantial	22-Jul-13
Community Engagement	Revenues & Benefits	National Non Domestic Rates (NNDR)	12	Completed	Reasonable	22-Jul-13
Community Engagement	Community, Housing & Health	Improvement Grants	8	Completed	Reasonable	11-Jan-13
Local Environment	Highways	Car Parking Income	10	Completed	Reasonable	15-Apr-13
Resources	Financial Services	Asset Management / Fixed Assets	15	Deferred 13-14	-	
Resources	Financial Services	Income Management	12	Completed	Reasonable	22-Jul-13
Resources	Financial Services	Main Accounting System	14	Completed	Substantial	22-Jul-13
Resources	Financial Services	Treasury Management	10	Completed	Substantial	15-Apr-13
Resources	Service Support	Creditors	10	Ongoing	-	-
Resources	Service Support	Debtors	10	Completed	Reasonable	22-Jul-13
Resources	Service Support	Payroll	12	Completed	Reasonable	22-Jul-13
<b><u>ICT Reviews:</u></b>						
		Service Continuity,	10	Ongoing	-	
		Project Management	10	Deferred 13-14	-	
		Service Desk, Incident & Problem Management	10	Completed	Reasonable	22-Jul-13
<b><u>Other:</u></b>						
		Audit Management, Committee, Planning & Reporting	45			
		Follow Ups	10			
		Counter Fraud	10			
		Contingency	48			
		Other unplanned work (investigations)	20			
		<b>Total Days as per Agreed Audit Plan</b>	<b>540</b>			
		Additional days purchased	19			
		<b>Total Audit Days to be Delivered</b>	<b>559</b>			

**CARLISLE CITY COUNCIL**  
**Record of Completed Assignments 2012/13**

**APPENDIX B**

<b>Audit Area</b>	<b>Original Risk Rating</b>	<b>Draft Report Sent</b>	<b>Final Report Sent</b>	<b>Assurance Evaluation</b>
Highways - Contract & Claimed Rights	Medium Risk	29/11/2012	19/12/2012	Substantial
Council Tax	Material System	20/03/2013	03/04/2013	Substantial
Housing and Council Tax Benefits	Material System	28/03/2013	30/04/2013	Substantial
Main Accounting System	Material System	28/03/2013	09/07/2013	Substantial
Treasury Management	Material System	28/03/2013	03/04/2013	Substantial
Car Parking Income	Material System	19/02/2013	03/04/2013	Reasonable
Data Quality	High Risk	16/07/2012	04/09/2012	Reasonable
HB Overpayments	Medium Risk	18/09/2012	08/11/2012	Reasonable
Tullie House	Medium Risk	26/07/2012	19/12/2012	Reasonable
Development Management	Medium Risk	24/07/2012	30/08/2012	Reasonable
Cemeteries & Crematorium	Medium Risk	13/03/2013	03/04/2013	Reasonable
CCTV	Medium Risk	20/08/2012	06/09/2012	Reasonable
Payroll	Material System	19/03/2013	09/07/2013	Reasonable
National Non Domestic Rates (NNDR)	Material System	28/03/2013	04/07/2013	Reasonable
Improvement Grants	Material System	16/11/2012	21/11/2013	Reasonable
Income Management	Material System	21/03/2013	09/07/2013	Reasonable
Debtors	Material System	28/03/2013	09/07/2013	Reasonable
Gifts & Hospitality	Low Risk	22/08/2013	17/09/2012	Reasonable
Early Retirement & Redundancy	Low Risk	01/08/2012	17/09/2012	Reasonable
Systems Administration	Low Risk	29/01/2013	14/03/2013	Reasonable
Market Rents	Low Risk	07/03/2013	24/06/2013	Reasonable
Service Desk, Incident & Problem Management	ICT	12/03/2013	29/04/2013	Reasonable
Bring Sites	Unplanned	21/12/2012	27/03/2013	Partial
Leisure Time Client	Low Risk	17/12/2012	11/03/2013	Partial
Records Management	High Risk	16/07/2012	04/09/2012	Partial
Recycling	High Risk	21/12/2012	27/03/2013	Partial
Grants Protocol / Procedures	High Risk	04/09/2012	26/11/2012	Partial

## CHECKLIST – COMPLIANCE WITH THE CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT IN LOCAL GOVERNMENT

Updated by Gill Martin, Audit Manager – 9<sup>th</sup> July 2013

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Note: Ref numbers relate to the Standards in the Code of Practice and are not always in chronological order.

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
1	Scope of Internal Audit					
1.1	Terms of Reference					
1.1.1	Do terms of reference: (a) establish the responsibilities and objectives of Internal Audit? (b) establish the organisational independence of Internal Audit? (c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and: (i) those charged with governance? (ii) those parties to whom the Head of Internal	√ √  √ √			See Internal Audit Shared Service contract  Audit Committee Rules of Governance agreed by Audit Committee 17 <sup>th</sup> July 2006.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
1.1.1 cont'd	<p>Audit may report?</p> <p>(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?</p> <p>(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>Financial Procedure Rules C22 (Page 56) set out the responsibilities and access rights of Internal Audit.</p> <p>Detailed in the Fraud Theft and Corruption Response Plan.</p>	
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	√			<p>Terms of reference for Internal Audit are in shared service contract.</p> <p>The Audit Strategy is agreed by the Audit Committee annually.</p>	
1.1.3	Have the terms of reference been formally approved by the organisation?	√			<p>Included in the Shared Service contract.</p> <p>Audit Strategy approved by Audit Committee in April 2012.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
1.1.3	Are terms of reference regularly reviewed?	√			Terms of reference for Internal Audit are in shared service contract. Audit Strategy is agreed by the Audit Committee annually.	

<b>1.2</b>	<b>Scope of Work</b>					
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	√			Annual risk assessment of auditable areas. See RD3/12 on 16 April 2012.  This includes a review of the corporate Strategic and Operational Risk Registers.	
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	√ √			Carlisle City has entered into an Internal Audit Shared Service – arrangements established to ensure that proper assurance processes are established and access rights agreed.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>1.3</b>	<b>Other Work</b>					
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	√ √			Shared Internal Audit Service can access necessary skills and resources as required. Specialist counter fraud support is provided by NHS Cumbria.  There is also a dedicated Fraud Team in Revenues & Benefits. They largely deal with Benefits fraud but also investigate other potential fraud, as part of the National Fraud Initiative exercise.	
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	√ √			In Shared service contract	
<b>1.4</b>	<b>Fraud and Corruption</b>					
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	√			Instructions to managers /employees are set out in the Fraud theft and Corruption Response Plan. There is a Counter Fraud and Corruption Policy and Confidential Reporting Policy, both of which Audit has	

					an involvement. Audit Manager is one of the named contacts.	
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Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>2</b>	<b>Independence</b>					
<b>2.1</b>	<b>Principles of Independence</b>					
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	√ √			Internal audit is independent of the activities it audits and is free from any non-audit duties.	
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	√			Audit may have been consulted but it would be clear that such consultation would not prejudice any future comment / review of that area.	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
2.2	<b>Organisational Independence</b>					
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	√			<p>Internal Audit reports directly to the s.151 Officer - the Director Resources.</p> <p>Independence is gained via Internal Audit being provided by non-Carlisle City staff via a shared service arrangement.</p> <p>The Financial Procedure Rules also give the Head of Audit direct access to the Chief Executive and to the Chairman of the Audit Committee.</p>	
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	√ √			See 2.2.1 above	
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?		√		<p>Outturn reports are in the name of the Audit Manager.</p> <p>Progress reports remain in the name of the Director of Resources although the</p>	

					Audit Manager is the Key Contact.	
2.2.3	<p>(a) Is there an assessment that the budget for Internal Audit is adequate?</p> <p>(b) Does any budget delegated to service areas ensure that:</p> <p>(i) Internal Audit adherence to the Code is not compromised?</p> <p>(ii) the scope of Internal Audit is not affected?</p> <p>(iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>(a) Reviewed annually, but subject to arrangements in shared service contract. This includes an efficiency factor which Carlisle City may choose to take as reduced cost or additional audit days.</p> <p>(b) Not applicable – budget for IA held corporately.</p>	
<b>2.3</b>	<b>Status of the Head of Internal Audit</b>					
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?		✓		Reporting line is to the Director of Resources (S151)– a member of the Senior Management Team delegated to the Financial Services Manager (deputy S151).	
<b>2.5</b>	<b>Independence of Internal Audit Contractors</b>					
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?				Not applicable – no non-audit services provided.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>2.6</b>	<b>Declaration of Interest</b>					
2.6.1	Do audit staff make formal declarations of interest?	√			Annual declarations made by all members of Audit Shared Service and independently reviewed by line manager noting any actions required, such as restrictions on where work can be done to avoid any potential conflict of interest.	
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	√			See 2.6.1.	
<b>3</b>	<b>Ethics for Internal Auditors</b>					
<b>3.1</b>	<b>Purpose</b>					
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	√			Audit Standards covered at induction and when codes updated. Most staff are also members of professional bodies with their own ethics code. All audit work is quality-checked to ensure objectivity and that report points	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					are evidence-based.	
<b>3.2</b>	<b>Integrity</b>					
3.2.1	Has the internal audit team established an environment of trust and confidence?	√				
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	√			As 3.1.1 - each audit report is independently reviewed.	
<b>3.3</b>	<b>Objectivity</b>					
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	√			As 2.1.1 & 2.1.2 Auditors adhere to relevant professional guidelines on ethical compliance.	
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	√			Audit staff may not undertake audit work in an area in which they have had direct involvement until at least two years has passed.	
3.3.4	Are staff rotated on regular/annually audited areas?	√			Every effort is made to ensure that all audit staff undertake a variety of duties commensurate with their grade.	

<b>3.4</b>	<b>Competence</b>					
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	√ √ √ √			Competencies are set out in individual job descriptions for each grade of staff. The County Council's appraisal process incorporates a review of training needs and all staff are encouraged to become professionally qualified and continually update their skills by attending specific training or undertaking new areas of work.	
<b>Ref</b>	<b>Adherence to the Standard</b>	<b>Y</b>	<b>P</b>	<b>N</b>	<b>Evidence</b>	<b>Reasons for non-compliance / Compensating measures in place / Action Required</b>
<b>3.5</b>	<b>Confidentiality</b>					
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	√			Internal audit staff understand their obligations in respect of confidentiality.	
<b>4</b>	<b>Audit Committees</b>					
4.1	<b>Purpose of the Audit Committee</b>					

4.1.1	Does the organisation have an independent audit committee?	√			Yes	
<b>4.2</b>	<b>Internal Audit's Relationship with the Audit Committee</b>					
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	√			Yes, Audit Manager attends all briefings and committee meetings and has direct access to the Chair.	
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	√			Yes – Audit Committee approves annual plan alongside strategy and receives quarterly monitoring reports throughout the year.	
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	√			As 4.2.2	

4.2.4	<p>Does the Head of Internal Audit:</p> <p>(a) attend the committee and contribute to its agenda?</p> <p>(b) participate in the committee's review of its own remit and effectiveness?</p> <p>(c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives?</p> <p>(d) report on the outcomes of internal audit work to the committee?</p> <p>(e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa?</p> <p>(f) present the annual internal audit report to the committee?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>The Audit Manager contributes to the agenda, attends briefings and Committee meetings, reports on the outcome of internal audit work. She identifies necessary changes to the audit plan, and presents an annual report, including an opinion on the internal control and risk management framework</p>	
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	√			Yes, if required	
<b>5</b>	<b>Relationships</b>					
<b>5.1</b>	<b>Principles of Good Relationships</b>					
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with:					





5.2.2	Is the timing of audit work planned in conjunction with management?	√			General timing of planned audits discussed at liaison meetings with Directors (at audit annual planning stage) and with individual Service Managers for individual audits.	
<b>5.3</b>	<b>Relationships with Other Internal Auditors</b>					
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	√			Evidence of joint working with other districts outside the Internal Audit shared service – example joint ICT working undertaken with Allerdale BC	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>5.4</b>	<b>Relationships with External Auditors</b>					
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	√			<p>The Triennial Review of Internal Audit by the Audit Commission (Sept 2009) confirmed that Internal Audit complied with the CIPFA standards for internal audit.</p> <p>External Audit places reliance on the work of Internal Audit, particularly for the work undertaken on the main</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					financial systems.	
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	√			Regular dialogue is maintained	.
5.4.3	Are the internal and external audit plans co-ordinated?	√			Yes – fundamental systems work is carried out towards end of year so that external auditor can place reliance on Internal Audit work. System flowcharts and key controls documentation is also shared so a common understanding of main systems and key controls is developed. The Audit Commission is consulted on the Internal Audit plan each year.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
5.5	<b>Relationships with Other Regulators and Inspectors</b>					
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	√			Would do so if and /when necessary.	
5.6	<b>Relationships with Elected Members</b>					
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	√			Financial Procedure Rules give access to Chair of Audit Committee.	
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	√			Only contact is via the Audit Committee and contribution to portfolio holder's report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6	<b>Staffing, Training and Continuing Professional Development</b>					
6.1	<b>Staffing Internal Audit</b>					
6.1.1 (a)	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	√			Head of Audit maintains an appropriate staffing structure for Internal Audit Shared Service.	
6.1.1 (b)	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	√			Where skills are not available in-house these are purchased from elsewhere e.g. counter fraud/investigatory skills.	
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	√			Head of Internal Audit is CIPFA qualified with significant Internal Audit experience.  Audit Manager is MIIA qualified with substantial internal audit experience.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	√			Both Head of Internal Audit and Audit Manager have wide experience of internal audit management.	
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	√ √			All staff have up-to-date job descriptions.	
<b>6.2</b>	<b>Training and Continuing Professional Development</b>					
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	√  √ √ √			Training needs are assessed on an annual basis via appraisals and following this an annual training & development plan is produced, which links training to the objectives of the Unit. Completed training is documented in the training & development plan.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	√			Completed training is documented in the training & development plan.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>7</b>	<b>Audit Strategy and Planning</b>					
<b>7.1</b>	<b>Audit Strategy</b>					
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	√ √			Audit Strategy is reviewed annually and approved by the Audit Committee.	
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally,	√ √ √ √			Yes	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	√				
7.1.3	Has the strategy been approved by the audit committee?	√			See 7.1.1	.
<b>7.2</b>	<b>Audit Planning</b>					
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	√			Annual plan is based on risk assessment which includes due consideration of Carlisle City's strategic and operational risk registers.	
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	√			Risk assessment for setting annual plan takes into account Audit Manager's risk assessment which includes materiality, previous audit assessments and consultation with managers.	
7.2.1	Are stakeholders consulted on the audit plan?	√			Individual Directors comment upon the strategic plan for their respective areas. The Plan will be considered by SMT in future years.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					Audit Committee is consulted on the draft audit plan. Also copied to the external auditor for comments.	
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	√			Yes.	
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	 √ √ √ √ √			 An annual plan is produced. Yes Yes Yes Yes Yes – contingency included	
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	√			Yes – quarterly reports may advise Audit Committee of any resources issues.	
7.2.5	Has the plan been approved by the audit committee?	√			Annual plan is approved by Audit Committee. 2012/13 plan was approved in April 2012.	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
7.2.6	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	√			Yes	

<b>8</b>	<b>Undertaking Audit Work</b>					
<b>8.1</b>	<b>Planning</b>					
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	√ √			An audit brief is prepared for each audit which is agreed with the Audit Manager and the relevant service manager. This provides an opportunity to request additional work if there are areas of concern.	
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	√ √ √ √ √			Template used which covers all of these areas.	

8.2	Approach					
8.2.1	Is a risk-based audit approach used?	√			Annual risk assessment exercise assesses risks associated with each system. Also use CIPFA Matrices guide to risks for individual system audits.	
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	√			Audit approach raises key issues with managers in advance of the draft report	
8.2.4	Does the audit approach include a quality review process for each audit?	√			<p>Audit Manager undertakes a review of the draft report and working papers.</p> <p>A review checklist held on each file which is completed the auditor who has carried out the audit. Auditor independent of the audit review undertakes final file quality check as part of closure.</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
<b>8.3</b>	<b>Recording Audit Assignments</b>					
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	√			Standard documentation and working papers used.	
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	√			Review includes a check that the standard file and report format has been used.	
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	√ √ √			All tests have a testing summary sheet which describes the testing undertaken for each area and the results. This is cross-referenced to the supporting working papers.	
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	√			Corporate retention guidelines.	
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	√			Corporate retention guidelines are based on national standards.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
8.3.3	Is there an access policy for audit files and records?	√			Freedom of Information policy. Audit reports are presented to Audit Committee and therefore in the public domain.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
9	<b>Due Professional Care</b>					
9.2	<b>Responsibilities of the Individual Auditor</b>					
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>			All internal auditors are aware of their individual responsibilities for due professional care.	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	√			Confidential Reporting Policy and Counter Fraud and Corruption Policy.	
<b>10</b>	<b>Reporting</b>					
<b>10.1</b>	<b>Principles of Reporting</b>					
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	√			Contained in the management summary of the report.	
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?  <i>(note – there is no 10.1.2)</i>	√			Standard format report issued following each audit to relevant Director, Service Manager and key auditees.  The key findings are considered by the Audit Committee along with the agreed action plan for each review.  Annual report on Internal Control to the Audit Committee.	
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	√			Standard format report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.1.5	Are there laid-down timescales for reports to be issued?	√			Protocol in place for the issue of reports.	
<b>10.2</b>	<b>Reporting on Audit Work</b>					
10.1.4 10.1.4 10.2.2 10.2.1 10.1.4 10.2.1	Do the reporting standards include: (a) format of the reports? (b) quality assurance of reports? (c) the need to state the scope and purpose of the audit? (d) the requirement to give an opinion? (e) process for agreeing reports with the recipient? (f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	√ √ √ √ √ √			Standard format for report. Quality assurance of report included in review checklist Retained on relevant audit file. Process for agreeing reports included in audit procedures. An action plan detailing issue raised, action to be taken, responsible officer and timescale is included with each report which has recommendations arising.	
10.2.3	Does the audit reporting process include discussion and agreement of reports?	√			If this is a routine annual audit, often simply agreed by email. Alternatively a meeting can be arranged with the relevant service manager.	
10.2.4	Has the Head of Internal Audit determined a	√			Detailed in the management	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	process for prioritising recommendations according to risk?				summary of the report.	
10.2.5	Are areas of disagreement recorded appropriately?	√			Recorded in the “Action Agreed” column of the action plan.  Where agreement can not be reached this would be discussed with the Director of Resources. Failure to agree at that level would lead to a report to the Audit Committee.	
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention of senior management?	√			As 10.2.5 above. Senior management receive a copy of the report. Also copied in to Quarterly Monitoring Report to the Audit Committee. S.151 Officer attends the Audit Committee plus other members of the Senior Leadership Team, as available and depending upon agenda items.	
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	√			Standard circulation is known at the start of the audit – as 10.1.3	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
					above. Finalised when the audit is complete, as test results may result in an action for an employee that has not been foreseen at the start of the audit.	
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	√  √			Included in the covering report distribution email.  Key contacts included on Audit Brief.	
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	 √  √			Appendices to all audit reports ensure that recommendations are brought to the attention of all relevant parties including the Audit Committee.  Any specific risks noted by the audit review would be brought to the attention of management and if necessary the Corporate Risk Management Group. The Audit Manager attends Group meetings.	
10.3	Follow-up Audits and Reporting					

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	√			There is a standard follow up procedure for all Audit reports.	
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	√			Any un-actioned recommendations for which there is no acceptable reason are reported to the Audit Committee.	
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	√			As above – further action would be taken if the results of the follow up were not satisfactory.	
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	√			Previous audit assessments form part of as part of the annual risk assessment exercise used to draw up the annual Audit Plan.	
<b>10.4</b>	<b>Annual Reporting and Presentation of Audit Opinion</b>					
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control “SIC”? [“SIC” replaced by Annual Governance Statement	√			Annual report on Internal Control submitted to the Audit Committee –this forms part of the annual outturn report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(AGS) in 2008/09.]					
10.4.2	<p>Does the Head of Internal Audit's annual report:</p> <p>(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? ✓</p> <p>(b) disclose any qualifications to that opinion, together with the reasons for the qualification? ✓</p> <p>(c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? ✓</p> <p>(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control [ Annual Governance Statement] ? ✓</p> <p>(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? ✓</p> <p>(f) comment on compliance with the standards of the Code? ✓</p> <p>(g) communicate the results of the internal audit quality assurance programme? ✓</p>				<p>As 10.4.1 above</p> <p>Yes</p> <p>Summary is attached as appendix to annual report</p> <p>Significant issues are highlighted</p> <p>Yes</p> <p>Yes</p> <p>Quality assurance built into the standard process. Client Evaluation feedback forms were introduced in 2012/13</p>	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11	Performance, Quality and Effectiveness					
11.1	Principles of Performance, Quality and Effectiveness					
11.1.1	Is there an audit manual?		√		<p>Original policies and procedures (many of which are still current and therefore remain unchanged following transferred to the County Council as part of the shared service arrangement) are defined in the Internal Audit Manual which comprises the CIPFA manual and a set of local procedures.</p> <p>It is recognised that some updates are required, but these will be progressed for the shared service as a whole, rather than specifically for the Carlisle City team.</p>	It is recognised that elements of the 'local' Audit Manual require updating; this is on hold pending a wider reconfiguration of the "Audit Manual" for the Internal Audit Shared Service.
11.1.1	Does the audit manual provide guidance on:					

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(a) carrying out day-to-day audit work? (b) complying with the Code?	√ √			See 11.1.1	
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?		√		See 11.1.1	
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	√ √			Quality review of each audit undertaken.	
<b>11.2</b>	<b>Quality Assurance of Audit Work</b>					
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	√			Audits are assigned according to the skills required.	
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?	√			All auditors work in the same office. Ongoing supervision and monitoring of progress and quality reviewed at the end of each audit, prior to issue of the draft audit report.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11.2.3	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work? (c) coaching staff?	√ √ √			As 11.2.2 above	
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service</b>					
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	√			Monthly performance monitoring within Shared Service. Quarterly performance monitoring to the Director of Resources and to the Audit Committee.	
11.3.2	Does the performance management and quality assurance framework include as a minimum: (a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties?  (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	√  √  √			Performance measures are included in the quarterly monitoring report to the Audit Committee. These have been discussed at the Internal Audit Shared Service Operational Board.	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	<p>(b) user feedback obtained for each individual audit and periodically for the whole service?</p> <p>(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>(c) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>(e) an action plan to implement improvements?</p>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>			<p>Client surveys were introduced at Carlisle City in 2012/13 although managers need to be encouraged to complete and return</p> <p>Quarterly monitoring report to Audit Committee. Cumulative PI's show progress during the year and corrective action is taken.</p> <p>Annual review of compliance with Code.</p> <p>Actions are identified to implement improvements where appropriate.</p>	See 11.1.1
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	√			Performance indicators and targets monitored with previous years, together with feedback received more generally.	
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives?	√			Yes	

Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
	(b) compliant with the Code?  (c) meeting internal quality standards?  (d) effective, efficient, continuously improving?  (e) adding value and assisting the organisation in achieving its objectives?	✓  ✓  ✓  ✓			Yes  Yes  Yes – efficiencies gained from shared service shared with all participants. These include a 2% cost saving per audit day and access to a broader skill base/greater resilience etc.  Provide assurance over fundamental systems, which is essential for external audit; identify risks in key systems/processes and make recommendations to improve these; contribute to fraud deterrence/identification and also value for money/efficiency agenda.	
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			Annual report on Internal Control to the Audit Committee . Review of the Effectiveness of the Audit Committee reports the opinion, based on the Audit Manager's self-assessment and supporting evidence.	



Ref	Adherence to the Standard	Y	P	N	Evidence	Reasons for non-compliance / Compensating measures in place / Action Required
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	√			This checklist provides the evidence for consideration by Corporate Team and then the Audit Committee.	

