



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 17 SEPTEMBER 2014  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 18 June 2014 (previously circulated).

3. **Items of Urgent Business authorised by the Chairman**

4. **Declarations of Interest**

To receive declarations by Members of interests in respect of items on this Agenda.

Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting.)

Whilst not a legal requirement, in accordance with Council Procedure Rule 10 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register at this point in the meeting.

In accordance with Part B, Section 2, of the Code of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **Statement of Accounts 2013/2014** (Pages 1 - 105)

Report of the Chief Officer (Resources)

6. **Financial Regulations** (Pages 106 - 134)

Report of the Chief Officer (Resources)

7. **Local Government Ombudsman - Annual Review 2013/14** (Pages 135 - 140)

Report of the Chief Officer (Governance)

8. **Review of the Effectiveness of Internal Audit** (Pages 141 - 154)

Report of the Internal Audit Manager

9. **Review of Governance and the Annual Governance Statement 2013/14** (Pages 155 - 173)

Report of the Chief Executive

10. **Internal Audit Monitoring** (Pages 174 - 181)

Report of the Internal Audit Manager

**ADMINISTRATIVE ARRANGEMENTS**

**(i) Membership**

Councillors Malcolm Thomas (Chairman), Geoff Knight (Vice-Chairman), Jon Barry, Richard Newman-Thompson, Elizabeth Scott, David Whitaker and Peter Williamson

**(ii) Substitute Membership**

Councillors Roger Dennison, Tim Hamilton-Cox, Geoff Marsland, Sylvia Rogerson, Roger Sherlock and Susan Sykes

**(iii) Queries regarding this Agenda**

Please contact Jane Glenton, Democratic Services - telephone 01524 582068, or email [jglenton@lancaster.gov.uk](mailto:jglenton@lancaster.gov.uk).

**(iv) Changes to Membership, substitutions or apologies**

Please contact Members' Secretary, telephone 01524 582170, or email [memberservices@lancaster.gov.uk](mailto:memberservices@lancaster.gov.uk).

MARK CULLINAN,  
CHIEF EXECUTIVE,  
TOWN HALL,  
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Published on Tuesday, 9 September 2014

**AUDIT COMMITTEE****Statement of Accounts 2013/14  
17 September 2014****Report of Chief Officer (Resources)****PURPOSE OF REPORT**

This report seeks Member approval for the 2013/14 audited accounts, to allow the completion of financial reporting for last year.

**This report is public.**

**RECOMMENDATIONS**

1. That the report for 2013/14 issued by the Council's External Auditors be noted, together with the letter of representation to be signed by the s151 Officer.
2. That the audited Statement of Accounts for the financial year ended 31 March 2014 be approved and that the Accounts be signed and dated by the Chairman.

**REPORT**

- 1.1 In accordance with the Accounts and Audit Regulations, the draft Accounts for 2013/14 were produced by 30 June and certified by the s151 Officer on that date. They were then made available for public inspection and they have also been externally audited.
- 1.2 The outcome of the external audit is set out in the Auditor's formal report at **Appendix A**. The External Audit Manager will be in attendance at the Committee meeting to present the report and answer any questions.
- 1.3 In summary, the results of the audit are as follows:
  - A number of minor presentational changes have been agreed during the audit, but no material adjustments were required.
  - Subject to supporting documentation being completed and reviewed, an unqualified audit opinion is anticipated.
  - An unqualified Value for Money (VFM) conclusion is also expected.

- 1.4 In terms of the Committee's responsibilities, by 30 September the Council must:
- consider the Accounts;
  - following that consideration, approve the Accounts; and
  - following approval, ensure that the Accounts are signed and dated by the Chairman.
- 1.5 Accordingly the adjusted, audited Accounts are attached at **Appendix B** for the Committee's consideration and approval. As background, the financial outturn has previously been reported to both Cabinet and Budget and Performance Panel.
- 1.6 In support of completing the audit, the Auditor requires a 'letter of representation', a draft form of which is included at **Appendix C**. The letter will be signed by the s151 Officer but the Committee is also requested to note it. This is on the basis that those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts. If there are any substantive changes to the wording of the final letter, the Committee will be advised at the meeting.
- 1.7 Once the Accounts have been approved, the letter of representation forwarded and any other outstanding matters resolved, it is expected that the Auditor will issue his opinion on the accounts and on VFM arrangements, with conclusion of the audit following in due course.
- 1.8 The audited Accounts will be published by 30 September. This simply involves a copy being made available at the Town Halls and through the Council's website.

## 2 **Options and Options Analysis (including risk assessment)**

The Accounts approval process represents an opportunity for the City Council to consider the outcome of external audit, to ensure that its financial reporting is appropriate and take any action as needed. Given the results of the audit, no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

## 3 **Conclusion**

- 3.1 The approval of the Accounts by the Committee would ensure that the statutory deadline is met.

<b>CONCLUSION OF IMPACT ASSESSMENT</b>
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<b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b>
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No implications directly arising.
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<b>FINANCIAL IMPLICATIONS</b>
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There are no changes to the financial outturn from that previously reported to Members.
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<b>SECTION 151 OFFICER'S COMMENTS</b>
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This report forms part of the Chief Officer (Resources)' responsibilities, under her role as s151 Officer.
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**LEGAL IMPLICATIONS**

There are no direct legal implications arising.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Accounts and Audit Regulations 2011.

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**Ref:**



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## Report sections

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Timothy Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.



### This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money.

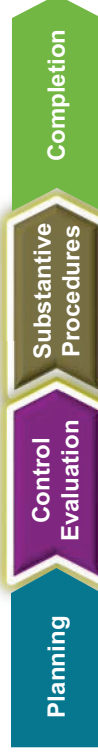
### Scope of this report

This report summarises the key findings arising from:

- our audit work at Lancaster City Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### Financial statements

Our *External Audit Plan 2013/14*, presented to you in June 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during April 2014 (interim audit) and July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

### VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendices 2 and 3.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any significant audit adjustments; however a number of presentational changes have been made to the notes to the Financial Statements which have been agreed with management and changed in the final version of the Financial Statements.
Key financial statements audit risks	<p>We have worked with Officers and performed work in relation to the key areas of audit focus identified during the planning phase of our audit.</p> <p>We have revisited our assessment of risk throughout the year and identified one new significant risk area relating to national non-domestic rates provisions within the Authority's 2013/14 financial statements.</p> <p>We are satisfied that the Authority has appropriate arrangements in place to address the risks and issues that we have identified.</p>
Accounts production and audit process	<p>The quality of the accounts and the supporting working papers has been maintained at a high standard in 2013/14, which assists with the delivery of an effective and efficient audit. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2012/13</i> relating to the Financial Statements.</p>
Control environment	<p>The Authority's organisation and control environment is effective and controls over the key financial systems are sound.</p> <p>We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have again been able to place reliance on their work where this was relevant to our work.</p> <p>We have raised two recommendations that will strengthen the Authority's control environment. These are detailed in Appendix 1.</p>

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p><b>Completion</b></p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ Review of the Annual Governance statement</li> <li>■ Whole of Government Accounts review</li> <li>■ A review of any post balance sheet events up to the date of signing our audit report.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<p><b>VFM conclusion and risk areas</b></p>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.</p>

## Proposed opinion and audit differences

We have not identified any material misstatements during the course of our audit.

The wording of your Annual Governance Statement accords with our understanding.

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2014.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements as a result of our audit work. There are no adjusted or unadjusted audit differences to report in 2013/14.

We identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 (the Code)*. These have been agreed with management and changed in the final version of the Financial Statements.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Explanatory Foreword

We have reviewed the Authority's explanatory foreword and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

## Key financial statements audit risks (continued)

We have worked with Officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.


In our External Audit Plan 2013/14, we identified three areas of audit focus. We have now completed our testing of these areas and set out our evaluation following our substantive work.

We have revisited our assessment of risk throughout the year and identified one new significant risk area relating to national non-domestic rates provisions within the Authority's 2013/14 financial statements.

The table below sets out our detailed findings for each of the areas identified.


Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, covering journal entries, accounting estimates and significant transactions that are outside the normal course of business, did not identify any issues.

Significant risk	Issue identified during our audit	Findings
	<p>The introduction of the Business Rates Retention Scheme in April 2013 means local authorities are liable for the cost of successful business rates appeals, up to the level of the annual safety net. For Lancaster this was £376,000 in 2013/14.</p> <p>The Authority is therefore required to recognise a provision within the financial statements which estimates the potential cost of outstanding appeals up until 31 March 2014.</p> <p>Within Lancaster, two of the hereditaments under appeal relate to power stations for which there is little comparable data available.</p> <p>As the calculation of the provision requires management to make significant assumptions and judgements, there is a high level of estimation uncertainty in relation to this balance within the financial statements.</p>	<p>In line with the new arrangements, the Authority has included a provision of £9.042M for appeals against NDR valuations in the collection fund, with the Authority's share of this in the balance sheet being £3.617M (40%).</p> <p>The Authority has chosen to use an expert, Inform-CPI, to assist them in calculating this estimate.</p> <p>Our initial review highlighted that the vast majority of the provision balance (£7.228M) relates to the Heysham power station sites. However we were unable to establish how Inform-CPI's estimate had been calculated and the assumptions that had been used.</p> <p>Due to the unique nature of the power station, the lack of appeals data for similar properties and the significant impact this balance has on the financial statements, we requested that the Authority contact Inform-CPI to obtain the detailed calculations and a method statement.</p> <p>Following receipt of this additional information and discussions between KPMG and Inform-CPI, we are satisfied with the basis of estimate for the NDR provision included within the financial statements.</p> <p>In future, it is important that management are able to assure themselves that all key assumptions and balances within the financial statements, including those made by third parties, are materially accurate, and can be supported by a clear audit trail. We have included a recommendation in Appendix 1 to reflect this.</p>


## Key financial statements audit risks (continued)

We have worked with Officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.

Area of Audit Focus	Issue as reported in our plan	Update and findings
	<p>As at February 2014, the Authority has achieved £243,000 (80%) of the £303,000 savings required to meet its 2013/14 budget and is projecting an under spend of £13,000 which will be transferred into balances. This is after identifying growth opportunities worth £213,000 and after allowing for planned contributions to reserves of £367,000.</p> <p>The Authority estimates it will need to make savings of £260,000 in 2014/15 and will need to find savings of £1.0m in 2015/16 and £2.5m in 2016/17. Against a backdrop of continued demand pressures, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p>	<p>The final outturn for 2013/14 represented an under-spend of £277,000 against the budget, which was updated and revised in January 2014.</p> <p>During the year, the Authority has achieved its savings targets in order to manage the reductions in Local Government funding. In total, efficiencies and savings of approximately £513,000 have been achieved mainly from service restructures (£197k), vehicle procurement savings (£60k) and the surrender of the Lancaster Market headlease (£167k).</p> <p>The Council has established and implemented a savings plan to achieve the required savings over the next 3 years.</p> <p>For 2014/15, savings of £1,053,000 have already been identified which will bridge the Authority's budget gap. These have been achieved again mainly through service restructures (£658k), vehicle procurement savings (£167k) and the surrender of the Lancaster Market head lease (£145k).</p> <p>Our detailed budgetary control testing found the Authority has robust procedures in place to monitor budget variances and implement remedial action as necessary.</p> <p>We will continue to monitor the Authority's financial position going forward to ensure that savings targets are being achieved and performance with expectations and budget.</p>

## Key financial statements audit risks (continued)


We have worked with Officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.

Area of Audit Focus	Issue as reported in our plan	Update and findings
	<p><u>Lancaster Market</u></p> <p>The Lancaster Market Lease was surrendered in May 2013. The surrender resulted in a significant payment of £11.7m to break the lease and this transaction will be accounted for in full in the 2013/14 financial statements.</p> <p>This will involve the de-recognition of the market hall asset and related lease liability but there will be a requirement to recognise the surrender payment.</p> <p><u>Luneside East</u></p> <p>During our 2012/13 audit, the Authority appealed against the Land Tribunal's compensation award in respect of the Luneside East project, where the Authority exercised compulsory purchase order powers to purchase land. The Authority was successful in its appeal to the Court of Appeal on three of the four heads of the compensation claim. As such, the Lands Tribunal are required to re-determine the associated compensation award and the liability for costs.</p> <p>Officers believe that the revised costs award should be known before the end of the financial year and therefore they will be required to reflect this updated position within the 2013/14 financial statements.</p>	<p><u>Lancaster Market</u></p> <p>As part of our year-end substantive testing, we have reviewed the accounting entries relating to the Lancaster Market Lease surrender and we are satisfied that this transaction has been accounted for in accordance with the <i>Code of Practice on Local Authority Accounting in the UK</i>.</p> <p>As a result of the lease surrender, the Council no longer has any financial liability in respect of the market and all corresponding assets have also been removed from the accounts.</p> <p><u>Luneside East</u></p> <p>Since the conclusion of the Upper Tribunal (Lands Chamber) case in 2012/13, the land owner has made an application to the Court of Appeal to seek permission to appeal the Upper Tribunals decision relating to compensation on the grounds that new information has come to light.</p> <p>The Authority's legal counsel considers that there is no merit to the appeal in this application, however the Authority will be required to defend their position before the case is concluded.</p> <p>As such, the Authority is unable to determine the cost award at this stage and continues to include a related contingent asset and liability within the Financial Statements.</p>



## Key financial statements audit risks (continued)

We have worked with Officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.

Area of Audit Focus	Issue	Findings
	<p>During the year, the Local Government Pension Scheme for Lancashire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the IAS 19 position based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council who administer the Pension Fund.</p>	<p>During 2013/14, the Authority's pension deficit has decreased by £11.5m as a result of the following movements in pension assets and liabilities:</p> <ul style="list-style-type: none"> <li>■ The current valuation of pension liabilities has decreased from £178.8million at 31 March 2013 to £162.6million at 31 March 2014.</li> <li>■ This has been offset by an decrease in the asset value of £4.7million.</li> <li>■ There has been an actuarial gain of £14.1m in relation to the changes in actuarial assumptions used to value the Scheme's liabilities.</li> </ul> <p>As part of our audit, we have reviewed the Authority's IAS 19 assumptions as at 31 March 2014 against KPMG's acceptable range and consider these to fall within our acceptable range.</p> <p>In addition, we have agreed the data provided by the Authority to the actuary back to the systems and reports from which it was derived, to ensure the accuracy of this data.</p> <p>Throughout the audit process, we have liaised with Grant Thornton, who are the auditors of the Pension Fund, to gain assurance over accuracy and completeness of source data provided by the Pension Fund to the scheme actuary.</p> <p>We have also reviewed the accounts to ensure they include appropriate disclosures and have reviewed the accounting treatment for annual pension charges included in the Income and Expenditure account.</p>



## Section three Accounts production and audit process

The Authority has prepared high quality accounts and supporting working papers.

Officers dealt with audit queries efficiently and the audit process was completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained the good quality of its financial reporting process. We consider that accounting practices are appropriate. We have also reviewed key areas of judgement applied by management in preparing the financial statements and are satisfied that these are appropriately supported. We have made a recommendation in relation to verification of information provided by third parties, details of which are included in Appendix 1.
Completeness of draft accounts	We received a complete set of draft accounts on 7 July 2014. The accounts were signed by the Chief Officer (Resources) before the 30 June deadline.
Quality of supporting working papers	Our <i>Prepared by Client List</i> set out our working paper requirements for the audit. The quality of working papers provided was high and met our requirements.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*. Appendix 2 provides further details.  
The Authority has implemented all of the recommendations outstanding from our *ISA 260 Report 2010/11*. Appendix 3 provides further details.

**We confirm that we have complied with requirements on objectivity and**

**independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lancaster City Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Financial Services Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

### Work completed

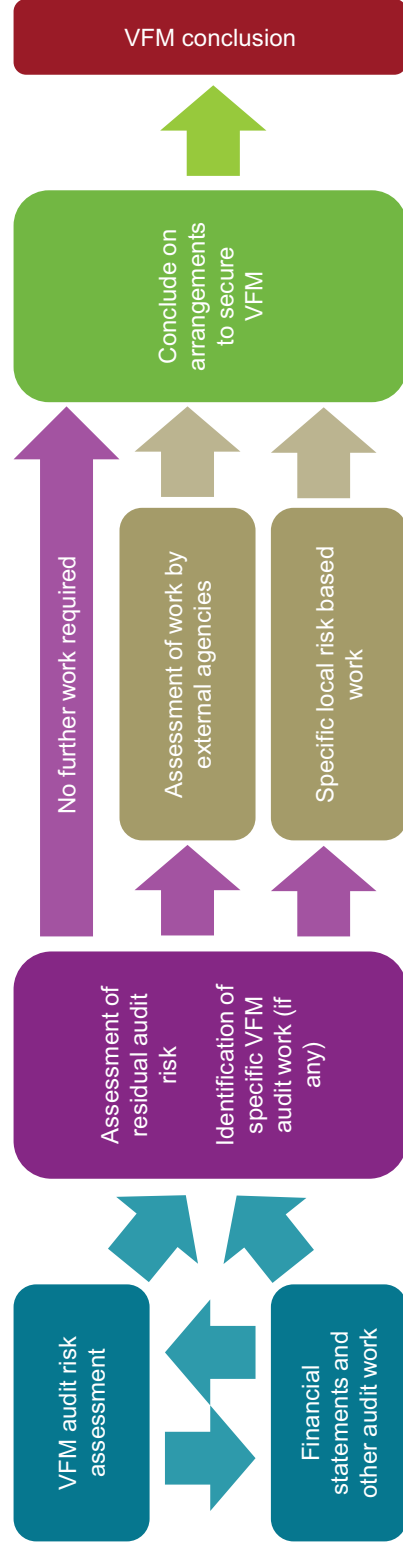
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
<b>Securing financial resilience</b>	✓
<b>Securing economy, efficiency and effectiveness</b>	✓



We identified two VFM risks within our audit plan.

In both cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current

arrangements in relation to these risk areas are adequate.


### Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;


- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas. Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The systems and processes used by the Authority to manage effectively financial risks and opportunities, and the ability of the Authority to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Throughout the year we have reviewed the Authority's budget and financial plans to ensure they accurately reflect the Authority's financial position. The Authority has robust budgetary control procedures in place and key variances are reviewed by senior management and reported to the Budget and Performance Panel.</p> <p>Once again, the Authority has had to make significant savings during the year as a result of Local Government funding cuts. The Authority has over performed on its savings target, achieving £513,000 of efficiencies and savings during 2013/14, and a further £277,000 at outturn. However additional savings of £260,000 will be required in 2014/15 and £1.0m in 2015/16.</p> <p>The Authority has developed and Implemented Savings Plans which cover a rolling three year period. As part of the annual budgeting process, after quarter 1, management review current year performance against savings targets and identify savings for future years. Individual services are required to identify new savings for future years, all of which is fed into the Medium Term Financial Strategy review in September.</p> <p>The Authority achieved a £277,000 under-spend against its revised budget for the year ended 31 March 2014 demonstrating it is able to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>

Section four  
**Specific VFM risks (continued)**

We have identified a number of specific VFM risks. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The prioritisation of resources within tighter budgets, for example the achievement of cost reductions and improvements in efficiency and productivity.</p>	<p>The arrangements in place for identifying, implementing and monitoring savings and efficiency reviews were sufficient to ensure the Authority achieved its financial budget in 2013/14.</p> <p>The Council finalised the surrender of the Lancaster Market lease in May 2013. Through our discussions with management and review of related executive minutes, we obtained evidence that the Council has assessed and understood the implications of surrendering the lease from both a financial and VFM perspective. Management ensured that the transaction was concluded in an efficient manner.</p> <p>We have gained assurance throughout the audit process that the Authority has implemented appropriate measures to secure economy, efficiency and effectiveness in the Authority's use of resources.</p>

## Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Bank Reconciliations</b></p> <p>As part of our audit of bank reconciliations, we were unable to assess whether the bank reconciliations tested had been prepared and reviewed in a timely manner. This was because the preparer and reviewer had not recorded the date of preparation and review respectively.</p> <p>Whilst the reconciliations tested had been accurately completed, to ensure alignment with best practice, reconciliations should be dated when signed as prepared and reviewed, to demonstrate that they have been completed in a timely manner.</p>	<p><b>Management response:</b></p> <p>Whilst all reconciliations had been reviewed and signed off, a number had not been dated.</p> <p>In future, all reconciliations will be signed and dated correctly.</p> <p><b>Officer Responsible:</b></p> <p>Financial Services Manager</p>



## Appendix 1: Key issues and recommendations

We have given each

recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	②	<p><b>Verification of Third Party Information</b></p> <p>Under the new arrangements for NNDR collection and distribution through the collection fund, the Authority has had to include a provision for appeals against NNDR valuations. The Authority has chosen to use an expert to assist them in calculating this estimate, Inform-CPI.</p> <p>Inform-CPI provided a report to the Authority which included their estimate of the appeals provision value, but this report did not set out any of the details of the assumptions or methodology that Inform-CPI had used to produce their estimate.</p> <p>When asked, Authority officers could not fully explain the basis for Inform-CPI's estimate. Following a number of request made by the Authority, evidence was provided to support the estimate however this took a significant amount of time and caused delays to the audit process.</p> <p><b>Recommendation</b></p> <p>Where the Authority engages a third party to provide information to be included within the financial statements it should ensure that that the methodology is fully understood and that it is possible to easily obtain evidence to support the balance, thus providing a strong audit trail.</p>	<p><b>Management response:</b></p> <p>Inform-CPI has been developing NNDR software systems alongside the Institute of Rating, Revenues and Valuation (IRRV) since 1999, and utilises the complete rating history of every hereditament that has existed in rating since 1990. Based on this background information, officers were happy that the estimates provided by Inform-CPI would be more accurate than those calculated in-house.</p> <p>Whilst officers understand and were able to explain the basis of the estimates, it was not possible to provide the exact data used to calculate them. This was because the estimates were produced from Inform-CPI's own software programme and due to commercial sensitivity were initially only prepared to provide a statement on the methodology used.</p> <p>Subsequent discussions resulted in further data being provided which was used to substantiate the calculations for the two particular appeals relating to the power stations.</p> <p>It should also be noted that the council relies on third parties to provide information in respect of the pension figures included within the financial statements. Officers are solely reliant on that information provided and would not realistically be able to develop a full understanding due to the complexities of actuarial valuations, which is a very specialist area.</p> <p>It should be noted that the basis of the appeals provision calculation was no different to that applied by officers in previous years. The only difference is that Inform-CPI are able to draw on a greater volume and more specific historical data associated with individual appeals nationally, thus enabling a more accurate estimate to be calculated.</p> <p>It is acknowledged, however, that unlike Inform-CPI, there is a well established audit framework for the Pension Fund to ensure evidence is available to auditors. In conclusion, from a management perspective, this recommendation has implications for future years' closure of accounts, and even more so if statutory completion timescales were to be brought forward.</p> <p><b>Officer Responsible:</b> Financial Services Manager</p>



## Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and reiterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2014
1	3	<p><b>Budget Monitoring</b></p> <p>On a quarterly basis, the Council's Corporate Financial Monitoring plan should be presented to the Budget and Performance panel. This is presented to allow the panel to monitor current performance against budget and additionally, to inform decisions relating to budget setting for the next financial year.</p> <p>From our review of Budget and Performance panel meeting minutes, we identified one instance when this did not happen. Management has explained that whilst the monitoring report had been completed, it was unfortunately omitted from the Corporate Performance Monitoring update provided to the panel.</p> <p>There is a risk that if members don't receive timely financial information, they will not be able to make decisions in relation to the budget position.</p> <p>The Council should ensure that all relevant reports are presented to members.</p>	<p>The Financial Services Manager has already put in place measures to ensure that future reports are reported to the panel.</p> <p><b>Officer responsible:</b> Financial Services Manager</p> <p><b>Due date:</b> N/A</p>	<p>From our review of Budget and Performance panel meeting minutes, we have not identified any instances where this plan was not presented.</p> <p><b>Status:</b> Implemented.</p>

## Appendix 3: Follow up of 2010/11 outstanding recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and found to be still outstanding in our *ISA 260 2011/12* and *ISA 260 2012/13*.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	0

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012 and 2013	Status as at August 2014
1	3	<p><b>System access rights to financial systems</b></p> <p>There is no periodic review of system access rights for financial systems. As a result there is a risk that employees have inappropriate access to the financial systems.</p> <p>Management should review the access rights to its financial systems on a periodic basis to ensure that access rights remain appropriate.</p> <p><b>Officer responsible:</b> Systems Support Accountant</p> <p><b>Due date:</b> November 2011</p>	<p>No further reviews of access rights have been undertaken during the year.</p> <p><b>Status:</b> Partially Implemented.</p>	<p>We have ascertained that a review of access rights has been undertaken during the year.</p> <p><b>Status:</b> Implemented.</p>

## Appendix 3: Follow up of 2010/11 outstanding recommendations (cont.)

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11*.

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2013	Status as at August 2014
2	<p><b>3</b></p>	<p><b>Posting and authorising of journals</b>            From our controls testing of journals we discovered that Principal Accountants at the Authority are able to post and authorise their own journals.             There should be segregation of duties between those that can post journals and those that can authorise them to ensure that journals are not incorrectly/inappropriately posted.   <b>Officer responsible:</b>            Accountancy Services Manager  <b>Due date:</b>            N/A</p>	<p>As issues relating to segregation of duties were once again identified as part of our 12/13 journals controls testing, we followed up the implementation of the recommended compensating control. However, testing confirmed that no formal sign off of monthly journal summaries is undertaken.   <b>Status:</b>            Outstanding</p>	<p>As part of our 13/14 journals controls testing, we have identified that the monthly journal report summaries have been formally reviewed and signed off by the Financial Services Manager.   <b>Status:</b>            Implemented.</p>

## Appendix 3: Follow up of 2010/11 outstanding recommendations (cont.)

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11*.

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2013	Status as at August 2014
3	3	<p><b>Physical verification of property, plant and equipment</b>                      The Authority does not perform a formal annual physical verification of its plant and equipment to confirm existence of those assets. Property is typically verified through the asset valuation process.</p> <p>Management should introduce a process to ensure that its fixed asset records remain accurate.</p> <p><b>Officer responsible:</b> Internal Audit Manager</p> <p><b>Due date:</b> March 2012</p>	<p>The Council's Financial Services Manager is currently producing a standardised asset inventory template which will be rolled out across all services. This will be accompanied by written guidelines for each service area to adhere to and will ensure that the Council's asset inventories are up to date.</p> <p><b>Status:</b> Partially Implemented.</p>	<p>Further progress on this issue had been put on hold, due to other work priorities, pending officers determining whether one of the Authority's current asset software packages could be utilised.</p> <p>Officers within accountancy and the Property Group are now taking this forward again. It should be noted that in terms of plant and equipment, of any significant value, e.g. refuse vehicles, the existence of those assets is verified through operational and supporting practices.</p> <p>The risk is therefore considered to be comparatively low, hence the prioritisation of this work.</p>

## Appendix 4: Audit differences

No significant audit differences have been identified during our audit.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

We are pleased to say that we have not identified any corrected audit differences during our audit work.

### Uncorrected audit differences

We are pleased to say that we have not identified any uncorrected audit differences during our audit work.

## Appendix 5: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

## Appendix 5: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.





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City | Coast | Countryside

# Statement of Accounts

## For the year ended 31 March 2014



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## 1 Introduction

This document sets out the City Council's annual accounts for the financial year ended 31 March 2014. The format follows the requirements for publication of financial information as prescribed by the Code of Practice on Local Authority Accounting (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The document includes a statement of the accounting policies adopted by the Authority, together with a brief explanation of the purpose of and links between the main accounting statements.

The purpose of this foreword is to provide an overall summary of the Council's financial position for 2013/14 and assist in the interpretation of the accounting statements.

## 2 Revenue Position

### 2.1 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing (see section 2.2 below). The General Fund Revenue Budget for 2013/14 (including parish precepts) was originally approved by Council on 27 February 2013 at £20.301M, representing net revenue expenditure of £21.130M less general government grants of £829K. It assumed that Balances would be just over £3M at 31 March 2014, though these were increased by a further £547K following the 2012/13 outturn.

Between 2012/13 and 2013/14 the General Fund budget reduced by £371K or 1.8%, primarily as a result of Government funding reductions.

The table below summarises the General Fund revenue income and expenditure for 2013/14. It shows the actual variances for each service area but excludes any notional charges included within the formal financial statements, as these can distort the position in terms of understanding where actual spending and income variances have occurred.

	2013/14		Variance from	
	Original Budget	Revised Budget	Actual	Revised Budget
	£000	£000	£000	£000
<b>Expenditure:</b>				
Environmental Services	3,862	2,386	2,403	17
Governance	2,026	1,640	1,631	(9)
Health & Housing	3,784	3,415	3,473	58
Management Team	213	631	629	(2)
Regeneration & Planning	3,724	3,798	3,353	(445)
Resources	3,777	3,516	3,203	(313)
Corporate Accounts	1,819	3,556	4,376	820
<b>Net Cost of General Fund Services</b>	<b>19,205</b>	<b>18,942</b>	<b>19,068</b>	<b>126</b>
Interest Payable & Similar Charges	1,076	1,076	1,055	(21)
Parish Precepts	482	482	482	0
Contribution to General Fund Balance	367	254	531	277
<b>NET REVENUE EXPENDITURE</b>	<b>21,130</b>	<b>20,754</b>	<b>21,136</b>	<b>382</b>
<b>Funded by:</b>				
General Government Grants	(829)	(1,437)	(1,451)	(14)
Revenue Support Grant	(7,533)	(7,533)	(7,533)	0
National Non Domestic Rates	(5,011)	(4,027)	(4,395)	(368)
Council Tax	(7,757)	(7,757)	(7,757)	0
<b>TOTAL FUNDING</b>	<b>(21,130)</b>	<b>(20,754)</b>	<b>(21,136)</b>	<b>(382)</b>



At outturn for 2013/14 there has been a net underspending of £277K against the Revised Budget. Some of the main areas where underspending has occurred are shown below, and in addition further contributions to provisions have been provided for, in connection with the recovery of debt and other legal matters:

	£'000
Savings on Employees/Transport & Premises	-136
Revenues Shared Service Savings	-71
Other Net Savings on Supplies & Services	-334
Additional Planning Fee Income	-168
Other Additional Income	-133
Icelandic Investments Recoveries	-143
Additional Contribution to Provisions	+708

As a result of the outturn, General Fund unallocated Balances stand at £3.7M as at 31 March 2014, which is well in excess of the minimum £1M level. This is before consideration of any requests by services to carry forward underspends; if any are approved this will effectively reduce available amounts. It should be noted that a contribution of £457K is already budgeted to be transferred out to support the revenue budget during 2014/15. The use of Balances is an important element in addressing the Council's financial challenges and establishing a sustainable budget.

## 2.2 Housing Revenue Account (HRA)

The Local Government and Housing Act 1989 requires Councils to maintain a separate ring-fenced account for the provision of local authority housing, which cannot be subsidised by the General Fund. This account, known as the Housing Revenue Account (HRA), deals with all the transactions involving the management of the Council's housing stock. Full details of this are included later within these accounts.

The net underspend for 2013/14 on the HRA was £51K, which has been transferred into HRA unallocated Balances. As at 31 March 2014 the HRA unallocated Balance amounted to £401K, which is £51K above the £350K minimum approved level. The main areas of over(+) / underspending(-) in the HRA in 2013/14 were as follows:

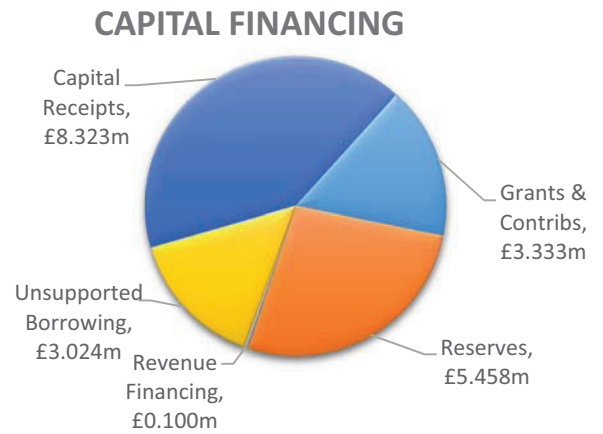
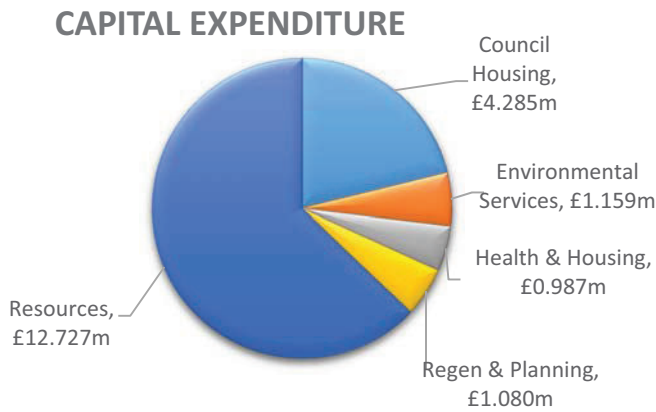
	£'000
Reduction in Contribution to Bad Debts Provision	-38
Reduced Capital Financing from Revenue	-546
Repairs & Maintenance	+521

## 3 Capital Position

In 2013/14 the City Council spent £20.238M on capital schemes, summarised as follows:

### Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£000	Capital Financing	£000
Council Housing	4,285	Grants & Contributions	3,333
Environmental Services	1,159	Reserves	5,458
Health & Housing Services	987	Revenue Financing	100
Regeneration & Planning	1,080	Unsupported Borrowing	3,024
Resources	12,727	Capital Receipts	8,323
<b>Total</b>	<b>20,238</b>	<b>Total</b>	<b>20,238</b>



The Council's revised Capital Programme for 2013/14 was £22.159M, and slippage of £1.7M is expected to be rolled forward into 2014/15, due to various changes and programming delays. Capital expenditure incurred in 2013/14 included one material item relating to the cost of surrendering the Council's leasehold interest in the Lancaster Market building (£11.7M).

The Capital Programme was financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. With regard to the latter, the Council can borrow money for capital purposes provided it can meet certain criteria, linked to affordability, sustainability and prudence, as determined by the Prudential Code Framework.

In 2013/14 the net cost of financing external borrowing (i.e. interest charges) was £3.134M, and the value of long term debt owed as at 31 March 2014 amounted to £67.572M, of which £239K relates to finance lease liabilities and £67.333M relates to PWLB long term borrowing. A further £1.229M is included within short term borrowing as it is due for repayment over the next 12 months. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £227M as at 31 March 2014.



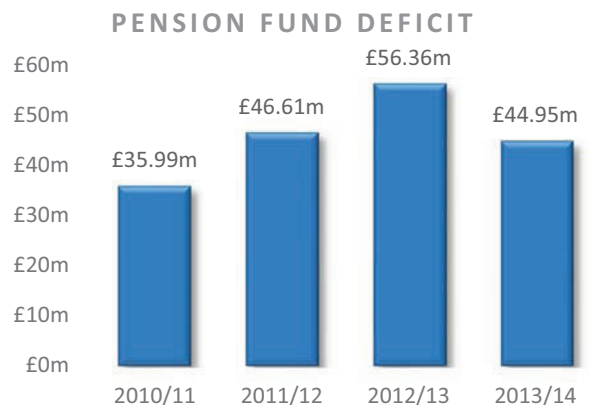
The increase from 2010/11 to 2011/12 is due to taking on additional debt associated with HRA self-financing.

## 4 Pension Liabilities

In accordance with accounting practice, the Council must show the present surplus or deficit position for its share of the Pension Fund. The Local Government Pension Scheme administered by Lancashire County Council underwent a full valuation as at March 2013, the results of which were published in March 2014. This valuation saw an increase in net deficit on the Fund to £1,377M (£993M in 2010).

For Lancaster, the net position as at 31 March 2014 showed a net liability of £44.945M compared to £56.360M for the previous financial year. This represents a reduction in net liabilities of £11.415M. This is largely due to an increase in gilt yields.

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, taking account of assumptions about mortality rates, salary levels etc., although clearly these may vary over time.



Also, it is emphasised that such estimated liabilities will not become due immediately or all at once, as they relate to estimated pensions payable to current scheme members on their normal retirement



dates. The position represents simply a snapshot as at the end of the financial year, based on prevailing market and other economic conditions and assumptions. As such, it may fluctuate markedly from one year to the next.

## **5 Changes in Accounting Policies**

There have been no changes to accounting policies that affect the 2013/14 Statement of Accounts.

## **6 Other Changes**

2013/14 saw a major change in Local Government funding with the introduction of the Business Rates Retention Scheme. Previously, business rates were collected and administered by local government but then paid over to Central Government for redistribution to local authorities. With the new scheme income is still collected and administered locally, however, an element is now retained by the local authority. The aim being to give Councils a greater incentive to grow businesses but it also increases the financial risk due to volatility, appeals and non-collection rates. Further details are contained within Note 4 on page 28 and Collection Fund Note 2 on page 63.

## **7 Conclusion**

Although the Council's General Fund budget and associated Government funding reduced again in 2013/14, it managed these reductions well, and has again strengthened its financial standing as at 31 March 2014. Balances are therefore higher than forecast, and the Council has other substantial earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years, in delivering against its corporate priorities. These challenges include getting to grips with more technical financial matters, such as the recent introduction of the Business Rates Retention Scheme.

Nonetheless, given funding prospects the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings are still needed for General Fund services, in order to balance future years' budgets and ensure financial stability, whilst still ensuring Value for Money. As a result, the Council will be undertaking a significant programme of service reviews over the medium term.

In terms of Council Housing provision the HRA remains in a strong position financially and is therefore well placed to undertake small scale expansion to its housing stock, in response to local social housing needs.



## THE CORE FINANCIAL STATEMENTS

### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” and other reserves. The Surplus or (Deficit) on the Provision of Services shows the true economic cost of providing the Council’s services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Housing Revenue Account and the General Fund for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfer to or from earmarked reserves undertaken by the Council.

### **Comprehensive Income and Expenditure Statement**

This statement shows the cost of providing services in the year 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.

### **Balance Sheet**

This is fundamental to the understanding of the Council’s year end financial position. It shows the balances and reserves at the Council’s disposal and its long term indebtedness, the net current assets employed in operations, and summarises information on fixed assets held. (It excludes Trust Funds, however).

### **Cash Flow Statement**

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

## THE SUPPLEMENTARY FINANCIAL STATEMENTS

### **Housing Revenue Account Income and Expenditure Account**

This is prepared on the same accounting basis as the main Comprehensive Income and Expenditure Account mentioned above. It reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents and other income.

### **Collection Fund**

This shows the transactions of the Council as a charging authority in relation to Non Domestic Rates and Council Tax. It illustrates the way in which these have been distributed to precepting authorities (such as Central Government, Lancashire County Council, Fire and Police Authorities) and the Council’s own General Fund.

This financial year the local government finance regime has been revised, to allow for the introduction of the Business Rates Retention Scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the district. It does, however, also increase the financial risk due to non-collection, the outcome of appeals, and the volatility of the NNDR tax base.

### **Group Accounts**

This statement consolidates any material interests the Council may have in subsidiary and associated companies within one set of accounts.

It should be noted that Lancaster has no material interest in any companies and as such, there are no Group Accounts included in the Statement. Details of the Council’s minority interests in any companies are shown in the notes to the Balance Sheet.

### **Bequests, Endowments and Trust Funds**

These show the accounts of various Funds for which the Council is Trustee and administrator.

To be completed after Audit Committee.

To be completed after Audit Committee.

To be completed after Audit Committee.

## 1 The Authority's Responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Officer (Resources), as Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the audited Statement of Accounts.

## 2 The Chief Officer (Resources)' Responsibilities

The Chief Officer (Resources) as Section 151 Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Chief Officer (Resources) has:

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

The Chief Officer (Resources) has also:

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

## 3 Chief Officer (Resources)' Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority as at 31 March 2014 and the income and expenditure for the year then ended.



Nadine Muschamp, CPFA  
Chief Officer (Resources)

Date: 30 June 2014

Nadine Muschamp, CPFA  
Chief Officer (Resources)

Date: 17 September 2014

## 4 Audit Committee Chairman's Certificate

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was considered and approved by Audit Committee on 17 September 2014.

Cllr Malcolm Thomas

Date: 17 September 2014

The Movement in Reserves Statement is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income
- the increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets
- movements between reserves to increase or reduce the resources available to the Council according to statutory provisions.

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Usable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31/3/2013</b>	<b>3,182</b>	<b>6,545</b>	<b>776</b>	<b>10,657</b>	<b>0</b>	<b>32</b>	<b>223</b>	<b>21,415</b>	<b>103,518</b>	<b>124,933</b>
<b>Movements in 2013/14</b>										
Surplus/(deficit) on the provision of services	(23,306)	0	(690)	0	0	0	0	(23,996)	0	(23,996)
Other Comprehensive Income and expenditure	0	0	0	0	0	0	0	0	14,107	14,107
Total comprehensive income and expenditure	(23,306)	0	(690)	0	0	0	0	(23,996)	14,107	(9,889)
Adjustments between accounting & funding basis under regulations	25,023	0	1,065	0	(1,980)	(32)	(84)	23,992	(15,500)	8,492
Net Increase/Decrease before transfers to earmarked reserves	1,717	0	375	0	(1,980)	(32)	(84)	(4)	(1,393)	(1,397)
Transfers (to)/from earmarked reserves	(1,186)	1,186	(750)	750	1,980			1,980	0	1,980
<b>Increase/(decrease) in 2013/14</b>	<b>531</b>	<b>1,186</b>	<b>(375)</b>	<b>750</b>	<b>0</b>	<b>(32)</b>	<b>(84)</b>	<b>1,976</b>	<b>(1,393)</b>	<b>583</b>
<b>Balance at 31/03/2014</b>	<b>3,713</b>	<b>7,731</b>	<b>401</b>	<b>11,407</b>	<b>0</b>	<b>0</b>	<b>139</b>	<b>23,391</b>	<b>102,125</b>	<b>125,516</b>



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## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by the Council during the financial year. As the Council does not have any equity in the Balance Sheet, these gains and losses should reconcile to the overall movement in net worth.

The CIES has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.
- Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

2012/13				2013/14			
Gross Exp £000	Gross Inc £000	NET £000	NOTES	Gross Exp £000	Gross Inc £000	NET £000	
<i>Continuing Operations:</i>							
12,728	(11,477)	1,251	Central Services to the Public	11,270	(3,076)	8,194	
11,241	(5,084)	6,157	Cultural and Related Services	11,798	(5,227)	6,571	
10,829	(4,479)	6,350	Environmental and Regulatory Services	12,454	(6,114)	6,340	
8,047	(4,290)	3,757	Planning Services	6,257	(3,001)	3,256	
1,842	(2,695)	(853)	Highways and Transport Services	3,413	(4,279)	(866)	
18,495	(22,146)	(3,651)	Local Authority Housing (HRA)	32,290	(25,182)	7,108	
45,040	(43,814)	1,226	Other Housing Services	45,413	(43,978)	1,435	
2,055	(192)	1,863	Corporate and Democratic Core	1,967	(154)	1,813	
975	(56)	919	Non Distributed Costs	1,197	(72)	1,125	
<b>111,252</b>	<b>(94,233)</b>	<b>17,019</b>	<b>Cost of Services</b>	<b>126,059</b>	<b>(91,083)</b>	<b>34,976</b>	
1,036	(457)	579	Other Operating Expenditure	8	9,279	(8,521)	758
21,401	(14,152)	7,249	Financing and Investment Income and Expenditure	9	14,338	(9,272)	5,066
0	0	0	(Surplus) / Deficit on discontinued operations	28	11,834	(4,903)	6,931
0	(21,799)	(21,799)	Taxation and Non Specific Grant Income	10	20,425	(44,160)	(23,735)
		<b>3,048</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>23,996</b>	
	(1,533)		(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets		0	(10,472)	(10,472)
	8,746		Actuarial (Gains)/Losses on Pension Assets/Liabilities	40	0	(14,107)	(14,107)
		<b>7,213</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(24,579)</b>	
		<b>10,261</b>	<b>Comprehensive Income and Expenditure</b>			<b>(583)</b>	

## Balance Sheet

The Balance Sheet summarises the Council's financial position as 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As the Council does not have equity, the bottom half is comprised of reserves that show the disposition of the Council's net worth, falling into two categories:

- Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and
- Unusable Reserves, which include:
  - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve)
  - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pension Reserve).

*Note – the 2012/13 bank overdraft and short term creditors figures have been restated by £729K to take account of an increase in the NNDR pool creditor for that year. This adjustment has been carried through to all the main statements and associated notes.*

31 March 2013 £000		NOTES	31 March 2014 £000
<b>Restated</b>			
208,512	Property, Plant & Equipment	11	197,841
7,926	Heritage Assets	12	7,926
26,846	Investment Property	13	19,063
129	Intangible Assets	14	114
57	Assets Held for Sale	19	1,957
382	Long Term Investments	15	0
9	Long Term Debtors	15	6
<b>243,861</b>	<b>Long Term Assets</b>		<b>226,907</b>
18,103	Short Term Investments	15	22,016
389	Inventories	16	376
6,198	Short Term Debtors	17	7,679
<b>24,690</b>	<b>Current Assets</b>		<b>30,071</b>
(1,083)	Bank Overdraft	18	(660)
(1,389)	Short Term Borrowing	15	(1,229)
(10,440)	Short Term Creditors	20	(12,722)
<b>(12,912)</b>	<b>Current Liabilities</b>		<b>(14,611)</b>
(223)	Long Term Creditors	15	(223)
(422)	Provisions	21	(4,111)
(73,701)	Long Term Borrowing	15	(67,572)
(56,360)	Other Long Term Liabilities	23	(44,945)
<b>(130,706)</b>	<b>Long Term Liabilities</b>		<b>(116,851)</b>
<b>124,933</b>	<b>Net Assets</b>		<b>125,516</b>
21,415	Usable Reserves	22	23,391
103,518	Unusable Reserves	23	102,125
<b>124,933</b>	<b>Total Reserves</b>		<b>125,516</b>

## Cash Flow Statement

The Cash Flow Statement summarises the flows of cash that have taken place into and out of the Council's bank accounts over the financial year. It separates the flows into:

- those that have occurred as a result of the Council's operations
- those arising from the Council's investing activities (including cash flows related to non-current assets), and
- those attributable to financing decisions.

2012/13 £000		NOTES	2013/14 £000
<i>Restated</i>			Money (Out) / In
(3,048)	Net surplus or (deficit) on the provision of services	27	(23,996)
11,201	Adjustments to net surplus or deficit on the provision of services for non-cash movements		42,086
(1,512)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(11,227)
<b>6,641</b>	<b>Net cash flows from Operating Activities</b>		<b>6,863</b>
(5,649)	Investing Activities	25	988
(1,798)	Financing Activities	26	(7,428)
<b>(806)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>423</b>
(277)	Cash and cash equivalents at the beginning of the reporting period		(1,083)
<b>(1,083)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(660)</b>

The notes to the accounts have three significant roles:

- presenting information about the basis of preparation of the financial statements and the specific accounting policies used
- disclosing the information required by the Code that is not presented elsewhere in the financial statements
- providing information that is not provided elsewhere in the financial statements, but is relevant to an understanding of any of them.

A list of the notes provided is as follows:

- Note 1** Accounting Policies
- Note 2** Accounting Standards that have been issued but have not yet been adopted
- Note 3** Critical Judgements in Applying Accounting Policies
- Note 4** Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
- Note 5** Events After the Balance Sheet Date
- Note 6** Adjustments between Accounting Basis and Funding Basis under Regulations
- Note 7** Transfers to/from Earmarked Reserves
- Note 8** Other Operating Expenditure
- Note 9** Financing and Investment Income and Expenditure
- Note 10** Taxation and Non-Specific Grant Income
- Note 11** Property, Plant and Equipment
- Note 12** Heritage Assets
- Note 13** Investment Properties
- Note 14** Intangible Assets
- Note 15** Financial Instruments
- Note 16** Inventories
- Note 17** Short Term Debtors
- Note 18** Cash and Cash Equivalents
- Note 19** Assets Held for Sale
- Note 20** Short Term Creditors
- Note 21** Provisions
- Note 22** Usable Reserves
- Note 23** Unusable Reserves
- Note 24** Operating Activities
- Note 25** Investing Activities
- Note 26** Financing Activities
- Note 27** Amounts Reported for Resource Allocation Decisions
- Note 28** Acquired and Discontinued Operations
- Note 29** Trading Operations
- Note 30** Agency Services
- Note 31** Members' Allowances
- Note 32** Officers' Remuneration
- Note 33** External Audit Costs
- Note 34** Grant Income
- Note 35** Related Parties
- Note 36** Capital Expenditure and Capital Financing
- Note 37** Leases
- Note 38** Impairment Losses
- Note 39** Termination Benefits
- Note 40** Defined Benefit Pension Schemes
- Note 41** Contingent Liabilities
- Note 42** Contingent Assets
- Note 43** Nature and Extent of Risks Arising from Financial Instruments

## 1 ACCOUNTING POLICIES

### 1.1 General

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at 31 March 2014. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards.

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

The purpose of this section is to explain the basis of the figures included in the accounts, as the view that they present can only be properly appreciated if these policies are explained fully and understood. Where estimation techniques are used they implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

### 1.2 Impact of future Changes to Accounting Policies

There are no future changes to accounting policies which affect the 2013/14 Statement of Accounts.

### 1.3 Accruals of Income and Expenditure

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

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

### 1.4 Acquisitions and Discontinued Operations

#### Acquired operations

Additional policy detail is required where an authority has acquired operations (or transferred operations under machinery of government arrangements) during the financial year.

#### Discontinued operations

Additional policy detail is required where an authority has discontinued operations (or transferred operations under machinery of government arrangements) during the financial year.

### 1.5 Cash and Cash Equivalents

Cash and cash equivalents are made up purely of the Council's current bank account balance. Investment balances are at their lowest at the year end and so any residual balances in short notice deposit accounts are assumed to be investing activities and not in support of short term cash management.

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.

### 1.6 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 the 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.

### 1.7 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the movement in Reserves Statement for the difference between the two.

### 1.8 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 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 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 salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the 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, they are charged on an accruals basis to the Non Distributed Costs 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 provision 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.

### The Local Government Pension Scheme

Employees of the Council are members of the Local Government Pension Scheme, which is administered on our behalf by Lancashire County Council. It is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 8.7%.
- The assets of Lancashire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - **quoted securities** – current price bid
  - **unquoted securities** – professional estimate
  - **united securities** – current bid price
  - **property** – market value
- The change in the net pensions liability is analysed into seven components:
  - **current service cost** – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
  - **contributions paid to the Lancashire County pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners on any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve 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 that are earned by employees.

## **Discretionary Benefits**

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

### **1.9 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.

### **1.10 Financial Instruments**

#### **Financial Liabilities**

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in the active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

**Loans and Receivables**

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

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 or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market prices.
- other instruments with fixed and determinable payments – discounted cash flow analysis.
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**1.11 Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange

rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.12 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 authority 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 the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants or 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 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.

### 1.13 Heritage Assets

Where reliable information is available, heritage assets have been recognised in the balance sheet at valuation. Operational heritage assets have been classified within the relevant class of property, plant and equipment and valued in line with the measurement bases for the relevant class. Heritage assets will be subject to the general provisions of capital accounting for additions, disposals, revaluations and capital charges where relevant, in line with the Code.

### 1.14 Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Authority. The Scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority collects the levy in respect of the BID and pays this across to North & Western Lancashire Chamber of Commerce as managing body for the Scheme.

### 1.15 Intangible Assets

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

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.

### **1.16 Inventories and Long term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is shown in the accounts at the latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of the net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **1.17 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 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 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.

### **1.18 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 building 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 the specific assets.

#### **The Council as Lessee**

##### **Finance Leases**

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.



Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down for lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services 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 Authority as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carry value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premium received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid on 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.

### 1.19 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 CIPFA *Service Reporting Code of Practice 2013/14* (SeRCOP). The total absorption costing principle is used – the full costs of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- **Corporate and Democratic Core** – costs relating to the Council's status as a multi-functional, democratic organisation
- **Non Distributed Costs** – the cost of discretionary benefits awarded to employers 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.

### 1.20 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 the 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 or 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 the 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.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The costs of assets acquired other than by purchase are 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 by 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 the 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 basis:

- 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 historic cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly (but as a minimum every five years) to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or 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 an 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 carry 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 sympathetic allocation of their depreciable amounts over the time of 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 basis:

- **dwelling and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer;
- **vehicles, plant, furniture and equipment** – straight-line allocation over 10 to 15 years depending on the type of asset;
- **infrastructure** – straight-line allocation over 10 to 40 years depending on the type of asset.

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 the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **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 continual 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 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 or 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 (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under the separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **1.21 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 authority 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 authority 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 authority 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.

## **1.22 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 and 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.

## **1.23 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 is 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.

## **1.24 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The codes require authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code.

**IAS 1 Presentation of Financial Statements** – The changes clarifies the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

**IAS 32 Financial Instruments Presentation** – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

## **3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 1 the Authority 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 still a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

#### **4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There are no material estimated items to report.

##### **Business Rates**

Since the introduction of the Business Rates Retention Scheme from 01 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2013/14 and earlier financial years in proportion to their share. Therefore, a provision has been recognised, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2014. The estimate has been calculated using data provided by an external software provider who utilises the Valuation Office (VOA) ratings list of appeals and its own extensive property list and historic rating information.

##### **Pensions**

The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

#### **5 EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Chief Officer (Resources) on 30 June 2014. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 30 June 2014 and they provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted as appropriate in all material respects to reflect the impact of this information.

No other events have arisen after 31 March 2014 that require separate disclosure to aid understanding of the Council's financial position.

#### **6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION**

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

NOTE 6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS  
AND FUNDING BASIS UNDER REGULATION

2013/14

	Usable Reserves						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets (exc MRA)	(6,371)	(9,519)					15,890
Revaluation losses on Property Plant and Equipment							0
Movements in the market value of Investment Properties							0
Amortisation of intangible assets	(34)	(18)					52
Capital grants and contributions applied							0
Movement in the Donated Assets Account							0
Revenue expenditure funded from capital under statute	(1,564)						1,564
Reversal of Icelandic bank impairment							0
HRA self financing payment							0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(8,189)	(303)					8,492
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							0
Statutory provision for the financing of capital investment	1,563	1,041					(2,604)
Capital expenditure charged against the General Fund and HRA balance	(10,396)	55					10,341
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(84)					84	0
Application of grants to capital financing transferred to the Capital Adjustment Accounts	3,333						(3,333)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	8,157	426	(8,583)				0
Use of the Capital Receipts Reserve to finance new capital expenditure			8,322				(8,322)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		(13)	13				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool		(292)	292				0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	10	2	(12)				0
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							0
Reversal of Major Repairs Allowance credited to the HRA		(4,285)					4,285
Use of the Major Repairs Reserve to finance new capital expenditure		4,107					(4,107)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	49						(49)
<b>Adjustments primarily involving the Pension Reserve:</b>							0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	14,134	12					(14,146)
Employer's pension contributions and direct payments to pensioners payable in the year	(2,392)	(340)					2,732
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							0
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(1,149)						1,149
<b>Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure</b>	2,144	8,370					(10,514)
<b>Adjustments relating to other comprehensive income and expenditure</b>							0
Appropriations to/from earmarked reserves	1,186	375			(1,561)		0
Adjustments to employee absences account	33	4					(37)
<b>Total Adjustments</b>	430	(378)	32	0	(1,561)	84	1,393
<b>Total adjustment to Comprehensive Income and Expenditure</b>	52						



NOTE 6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS  
AND FUNDING BASIS UNDER REGULATION

## 2012/13 Comparative Figures

	Usable Reserves						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	(5,175)	(913)					6,088
Revaluation losses on Property Plant and Equipment							0
Movements in the market value of Investment Properties	(1,277)	34					1,243
Amortisation of intangible assets	(45)	(22)					67
Capital grants and contributions applied	1,003	14					(1,017)
Movement in the Donated Assets Account							
Revenue expenditure funded from capital under statute	(1,031)						1,031
Reversal of Icelandic bank impairment	0						0
HRA self financing payment		0					0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(91)	(220)					311
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	1,660	1,042					(2,702)
Capital expenditure charged against the General Fund and HRA balance	1,363	45					(1,408)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	28					(28)	
Application of grants to capital financing transferred to the Capital Adjustment Accounts							0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	186	280	(466)				0
Use of the Capital Receipts Reserve to finance new capital expenditure			442				(442)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		(9)	9				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(193)		193				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(2)				2
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA		(3,248)		3,248			
Use of the Major Repairs Reserve to finance new capital expenditure		(3,435)		3,435			
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		161					(161)
<b>Adjustments primarily involving the Pension Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(7,170)	220					6,950
Employer's pension contributions and direct payments to pensioners payable in the year	(2,409)	(320)					2,729
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
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	40						(40)
Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure	0	1,533					(1,533)
Adjustments relating to other comprehensive income and expenditure							0
Appropriations to/from earmarked reserves	(630)	7,810			(7,180)		
Adjustments to employee absences account	0	0					0
<b>Total Adjustments</b>	<b>(13,741)</b>	<b>2,972</b>	<b>176</b>	<b>6,683</b>	<b>(7,180)</b>	<b>(28)</b>	<b>11,118</b>
<b>Total adjustment to Comprehensive Income and Expenditure</b>	<b>(10,769)</b>						

## 7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14.

	Balance at 31 March 2012	Transfers Out	Transfers in	Balance at 31 March 2013	Transfers Out	Transfers in	Balance at 31 March 2014
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Municipal Buildings	464	(258)	180	386	0	0	386
Open Spaces Commuted Sums	204	(58)	58	204	(40)	0	164
Other Commuted Sums	1,635	(343)	30	1,322	(312)	223	1,233
Restructuring	586	(154)	0	432	(399)	570	603
Renewals	699	(216)	382	865	(362)	428	931
Capital Support	1,005	(657)	78	426	(187)	230	469
Performance Reward Grant	224	(98)	0	126	(86)	0	40
Market Reserve	648	(29)	0	619	(659)	50	10
Invest to Save Reserve	1,229	(7)	325	1,547	(33)	0	1,514
Business Rates Retention Reserve	0	0	0	0	0	1,699	1,699
Welfare Reforms Reserve	200	0	0	200	0	57	257
Other Reserves £100K and under	281	(185)	322	418	(162)	169	425
<b>Total</b>	<b>7,175</b>	<b>(2,005)</b>	<b>1,375</b>	<b>6,545</b>	<b>(2,240)</b>	<b>3,426</b>	<b>7,731</b>

<b>HRA: Restated 2012/13</b>							
Hsg Mgt System Replacement	357	(13)	57	401		190	591
Flats Planned Maintenance	997	(37)	136	1,096	(19)	133	1,210
Central Control Equipment	88	0	5	93	(93)		0
Fixed Lifeline Equipment	46	(15)	15	46	(23)	5	28
Sheltered Housing Reserves	828	(93)	63	798	(72)	155	881
Business Support Reserve	0	0	8,102	8,102		511	8,613
Other Reserves £100K and under	101	0	20	121	(40)	3	84
<b>Total</b>	<b>2,417</b>	<b>(158)</b>	<b>8,398</b>	<b>10,657</b>	<b>(247)</b>	<b>997</b>	<b>11,407</b>

## 8 OTHER OPERATING EXPENDITURE

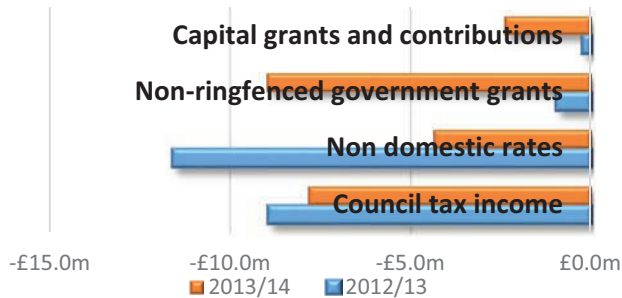
	2012/13	2013/14
	£000	£000
Parish council precepts	542	482
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	193	292
(Gains)/losses on the disposal of non-current assets	(156)	(16)
	<b>579</b>	<b>758</b>

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012/13	2013/14
	£000	£000
Interest payable and similar charges	3,867	3,206
Pensions interest cost and expected return on pensions	1,429	2,357
Interest receivable and similar income	(245)	(227)
Income and expenditure in relation to investment properties and changes in their fair value	1,057	(1,873)
Other investment income and expenditure	1,141	1,603
	<b>7,249</b>	<b>5,066</b>

## 10 TAXATION AND NON SPECIFIC GRANT INCOME

	2012/13	2013/14
	£000	£000
Council tax income	(8,954)	(7,925)
Non domestic rates	(11,593)	(4,395)
Non-ringfenced government grants	(990)	(8,984)
Capital grants and contributions	(262)	(2,431)
	<b>(21,799)</b>	<b>(23,735)</b>



## 11 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Heritage assets	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost/Valuation</b>									
<b>Balance as at 1 April 2013</b>	<b>144,561</b>	<b>73,783</b>	<b>13,476</b>	<b>41,529</b>	<b>8,470</b>	<b>7,926</b>	<b>2,719</b>	<b>8,388</b>	<b>300,852</b>
additions	4,272	739	1,269	195	194	0	0	215	6,884
donations									0
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,672	1,149	0	0	0	0	0	0	9,821
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(3,621)	0	0	0	0	0	0	0	(3,621)
derecognition - disposals	(309)	0	(738)	0	0	0	0	(76)	(1,123)
derecognition - other	0	0	0	0	0	0	0	(44)	(44)
assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	(2,398)	0	(2,398)
other transfers	0	0	0	73	0	0	0	(73)	0
<b>Balance as at 31 March 2014</b>	<b>153,575</b>	<b>75,671</b>	<b>14,007</b>	<b>41,797</b>	<b>8,664</b>	<b>7,926</b>	<b>321</b>	<b>8,410</b>	<b>310,371</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>Balance as at 1 April 2013</b>	<b>(39,800)</b>	<b>(24,251)</b>	<b>(7,281)</b>	<b>(13,003)</b>	<b>(3)</b>	<b>0</b>	<b>(76)</b>	<b>0</b>	<b>(84,414)</b>
depreciation charge	(1,980)	(976)	(1,308)	(1,530)	(2)	0	(18)	0	(5,814)
impairment losses/(reversals) recognised in the Revaluation Reserve	(999)	0	0	0	0	0	0	0	(999)
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(7,410)	(6,579)	0	0	0	0	0	0	(13,989)
derecognition - disposals	6	0	606	0	0	0	0	0	612
<b>Balance as at 31 March 2014</b>	<b>(50,183)</b>	<b>(31,806)</b>	<b>(7,983)</b>	<b>(14,533)</b>	<b>(5)</b>	<b>0</b>	<b>(94)</b>	<b>0</b>	<b>(104,604)</b>
<b>Net Book Value</b>									
<b>at 31 March 2013</b>	<b>104,761</b>	<b>49,532</b>	<b>6,195</b>	<b>28,526</b>	<b>8,467</b>	<b>7,926</b>	<b>2,643</b>	<b>8,388</b>	<b>216,438</b>
<b>at 31 March 2014</b>	<b>103,392</b>	<b>43,865</b>	<b>6,024</b>	<b>27,264</b>	<b>8,659</b>	<b>7,926</b>	<b>227</b>	<b>8,410</b>	<b>205,767</b>

**Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings: depreciated using Major Repairs Allowance as a proxy
- Other Land and Buildings: 5 - 40 years
- Vehicles, Plant, Furniture and Equipment: 5 - 15 years
- Infrastructure: 10 - 40 years

**Capital Commitments**

At 31 March 2014, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 anticipated to cost £1,143K. Similar commitments at 31 March 2013 were £509K. The major commitments are:

- Lancaster Square Routes £634K
- Disabled facilities grants £329K
- Municipal Building Works £129K
- Sea and Flood defence £15K
- Warmer Homes Scheme £36K

## Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years, with Investment property being revalued annually. All valuations were carried out internally by professionally qualified valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Carrying values of vehicles, plant, furniture and equipment are based on depreciated cost.

The significant assumptions applied in estimating the fair values are:

- Values are given as at 01 April for the given year.
- Existing Use Market values are used except where items are of a specialist nature when depreciated historic cost is used as a proxy, or for investment properties where the highest and best consideration is used.

	Council Dwellings £000	Other Land and Buildings £000	Heritage assets £000	Total £000
Adjustments to fair value by year:				
31 March 2014	(3,358)	(5,430)	0	(8,788)
31 March 2013	(1,133)	2	0	(1,131)
31 March 2012	(4,772)	(7,520)	0	(12,292)
31 March 2011	(36,000)	(1,598)	0	(37,598)
31 March 2010	(19,006)	2,636	7,926	(8,444)
<b>Net valuation over 5 year cycle</b>	<b>(64,269)</b>	<b>(11,910)</b>	<b>7,926</b>	<b>(68,253)</b>

## 12 HERITAGE ASSETS

Reconciliation of transactions and carrying value of Heritage Assets held by the Council.

	2012/13 £000	2013/14 £000
<b>Opening Balance</b>		
Civic Regalia and other donated items	609	609
Museum Collections	7,132	7,132
Public Art Works	168	168
Art Collection	17	17
	<b>7,926</b>	<b>7,926</b>
<b>Cost of Acquisitions</b>	<b>0</b>	<b>0</b>
<b>Value of Assets Acquired by Donation</b>	<b>0</b>	<b>0</b>
<b>Disposal of Collectable Assets</b>	<b>0</b>	<b>0</b>
<b>Impairment of Assets Recognised in Period</b>	<b>0</b>	<b>0</b>
<b>Closing Balance</b>		
Civic Regalia and other donated items	609	609
Museum Collections	7,132	7,132
Public Art Works	168	168
Art Collection	17	17
	<b>7,926</b>	<b>7,926</b>



The Code recommends a five year summary, however, it is not practical to do so at present therefore a two year summary has been provided.

### Further information on Heritage Assets

#### Civic Regalia and other donated assets

There are 82 pieces of civic regalia and other donated assets, with some of the more valuable items including the mayoral chains, and the Lancaster and Morecambe maces. In addition to these are numerous items of silverware, china and glassware. The majority of these items are held at Lancaster Town Hall and can be viewed at the annual Heritage Open Day held every September in addition to guided town hall tours held throughout the year.

#### Museums Collection

The Council owns over 3,500 items which are either on display or stored at the Maritime, Cottage and City museums in Lancaster. The museums themselves are managed through a partnership arrangement

with Lancashire County Council. Some of the more valuable items include paintings of Sir Richard Owen dating back to the early 1800's, in addition to a Roman cavalry tombstone circa 80 AD which was discovered in an archaeological dig at Aldcliffe Road in 2005. The museum collections account for 90% of the value represented on the balance sheet.

#### Public Artwork

The Council has commissioned numerous pieces of public art as part of the Tern and River Lune Millennium Park projects. The most famous and valuable of these is the Eric Morecambe statue which was sculpted by Graham Ibbeson and unveiled by HM Queen in July 1999, and is one of the centre pieces of the Tern project in Morecambe.

#### Works of Art

The Council also owns over 50 pieces of artwork, the majority of which are held in the Ashton Memorial at Williamson Park. In addition, several pieces of artwork are on display at Lancaster Town Hall in various meeting and function rooms.

Further details of the nature and scale of the collections is available on the Council's website within the 'History of Lancaster Town Hall' and Williamson Park sections, as well as via the County Council museums service website.

The Council is not actively seeking material additions to the collections; material additions would need to be considered on a case by case basis as part of the wider capital programme. The museums partnership makes additions in accordance with its development policy although these have been below de-minimis for recognition as non-current assets in recent years.

The records in relation to both the museum catalogues and town hall collections are in development; there is not currently a full listing of all heritage assets and their current values available. As such, the insurance valuations have been used as a proxy for the value of the collections.

The Council also owns the Queen Victoria monument in Dalton Square and various items of ornate wooden furniture held in Lancaster Town Hall such as the oak Gillow table in the mayor's parlour. Valuations for these items have not been obtained as the Council does not deem it practicable to do so.

### 13 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2012/13	2013/14
	£000	£000
Rental income from investment property	(706)	(578)
Direct operating expenses arising from investment property	516	364
<b>Net (gain)/loss</b>	<b>(190)</b>	<b>(214)</b>

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

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

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>27,638</b>	<b>26,846</b>
Additions:		
- Purchases	73	7
Disposals:	0	(7,981)
Net gains/losses from fair value adjustments	(1,061)	191
Transfers:		
- to/from Property, Plant & Equipment	196	0
<b>Balance as at 31 March</b>	<b>26,846</b>	<b>19,063</b>

## 14 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.

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. The useful life assigned to the major software suites used by the Council is 5 years.

Software licenses are held for the Salt Ayre income management system, Local Land and Property Gazetteer, Housing Rents and Repairs system, Cash Receipting system, National Non Domestic Rating system, Asset Management system, PC based software and Customer Relationship Management System.

	2012/13 <i>Restated</i> £000	2013/14 £000
<b>Balance at start of year:</b>		
- Gross carrying amounts	222	276
- Accumulated amortisation	(80)	(147)
<b>Net carrying amount at start of year</b>	<b>142</b>	<b>129</b>
Additions:		
- Purchases	54	37
Amortisation for the period	(67)	(52)
<b>Net carrying amount at the end of year</b>	<b>129</b>	<b>114</b>
<b>Comprising:</b>		
- Gross carrying amounts	276	313
- Accumulated amortisation	(147)	(199)
	<b>129</b>	<b>114</b>

In line with the Code, Intangible assets are carried at amortised cost.

## 15 FINANCIAL INSTRUMENTS

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
<b>Investments</b>				
Loans and receivables	382	0	18,103	22,016
<b>Total investments</b>	<b>382</b>	<b>0</b>	<b>18,103</b>	<b>22,016</b>
<b>Debtors</b>				
Loans and receivables	9	6	6,198	7,679
<b>Total Debtors</b>	<b>9</b>	<b>6</b>	<b>6,198</b>	<b>7,679</b>
<b>Total assets</b>	<b>391</b>	<b>6</b>	<b>24,301</b>	<b>29,695</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	68,374	67,333	1,042	1,041
Finance lease liabilities	5,327	239	347	188
<b>Total borrowings</b>	<b>73,701</b>	<b>67,572</b>	<b>1,389</b>	<b>1,229</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	223	223	10,440	12,722
<b>Total Creditors</b>	<b>223</b>	<b>223</b>	<b>10,440</b>	<b>12,722</b>
<b>Bank overdraft</b>	<b>0</b>	<b>0</b>	<b>1,812</b>	<b>660</b>
<b>Total liabilities</b>	<b>73,924</b>	<b>67,795</b>	<b>13,641</b>	<b>14,611</b>

## Income, Expense, Gains and Losses

	2012/13 Restated					2013/14					Total £000
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	
Interest payable	3,834	0	0	0	3,834	3,178	0	0	0	3,178	
Losses on derecognition	0	0	0	0	0	0	100	0	0	100	
Reductions in fair value	0	0	0	0	0	0	1	0	0	1	
Impairment losses	0	0	0	0	0	0	0	0	0	0	
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>3,834</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,834</b>	<b>3,178</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>3,279</b>	
Interest income	0	(120)	(50)	0	(170)	0	(281)	0	0	(281)	
Interest income accrued on impaired financial assets	0	(36)	0	0	(36)	0	0	0	0	0	
Increases in fair value	0	0	0	0	0	0	(47)	0	0	(47)	
Gains and derecognition	0	0	0	0	0	0	0	0	0	0	
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(156)</b>	<b>(50)</b>	<b>0</b>	<b>(206)</b>	<b>0</b>	<b>(328)</b>	<b>0</b>	<b>0</b>	<b>(328)</b>	
Gains on revaluation	0	0	0	0	0	0	0	0	0	0	
Losses on revaluation	0	0	0	0	0	0	0	0	0	0	
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0	0	0	0	0	
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Net (gain)/loss for the year</b>	<b>3,834</b>	<b>(156)</b>	<b>(50)</b>	<b>0</b>	<b>3,628</b>	<b>3,178</b>	<b>(227)</b>	<b>0</b>	<b>0</b>	<b>2,951</b>	

## Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Carrying values are assumed to be equal to the fair value of short term assets and liabilities held. The value of long term creditors is reviewed at each balance sheet date based on the current values outstanding and best estimates of amounts required to settle liabilities of uncertain timing or amount. PWLB loans are the only financial instrument where the fair value is judged to be different from the carrying amount. The fair value is calculated based on premature repayment rates between 4.07% and 4.41%.

	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	86,613	100,267	82,183	101,962
Long-term creditors & provisions	645	645	4,334	4,334
<b>Total</b>	<b>87,258</b>	<b>100,912</b>	<b>86,517</b>	<b>106,296</b>

The fair value of the liabilities is greater (a larger liability) than the carrying amount because the current repayment rates are below that of the Council's existing debt. The fair value adjustment is estimated using the early repayment premia that would be applicable at the balance sheet date.

	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	24,683	24,683	29,695	29,695
Long-term debtors	9	9	6	6
<b>Total</b>	<b>24,692</b>	<b>24,692</b>	<b>29,701</b>	<b>29,701</b>



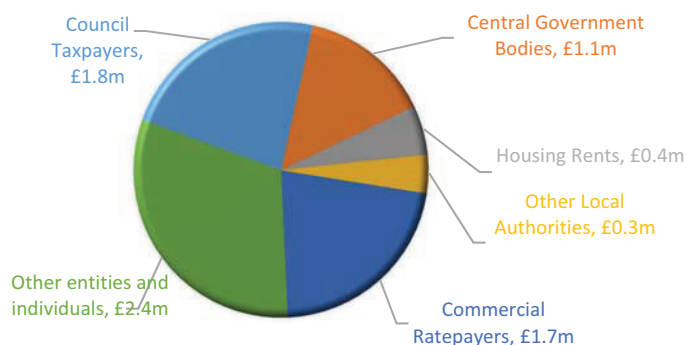
The amortised cost of assets is judged as a fair measure of their fair value, the vast majority of these being current assets.

## 16 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Client Services Work in Progress		Total	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April</b>	36	36	243	247	95	106	0	0	374	389
Movement in Year	0	0	4	(11)	11	(2)	0	0	15	(13)
<b>Balance as at 31 March</b>	36	36	247	236	106	104	0	0	389	376

## 17 SHORT TERM DEBTORS

	31 March 2013 £000	31 March 2014 £000
Council Taxpayers	2,166	1,760
Central Government Bodies	807	1,109
Housing Rents	338	414
Other Local Authorities	513	322
Commercial Ratepayers	86	1,672
Other entities and individuals	2,288	2,402
	<b>6,198</b>	<b>7,679</b>



## 18 CASH AND CASH EQUIVALENTS

	31 March 2013 £000 <i>Restated</i>	31 March 2014 £000
Bank current account	(1,083)	(660)

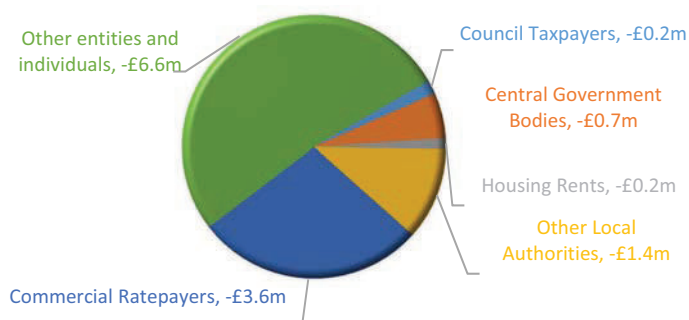
Cash and cash equivalents are made up purely of the Council's bank current account balance. Investment balances are at their lowest at the year end and so any residual balances in short notice deposit accounts are assumed to be investing activities and not in support of short term cash management.

## 19 ASSETS HELD FOR SALE

	Current		Non Current	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
<b>Balance as at 1 April</b>	0	0	57	57
Assets newly classified as held for sale:				
- Property, plant and equipment	0	0	0	2,398
Impairment losses	0	0	0	(498)
<b>Balance as at 31 March</b>	0	0	57	1,957

## 20 SHORT TERM CREDITORS

	31 March 2013 £000 <i>Restated</i>	31 March 2014 £000
Council Taxpayers	(147)	(217)
Central Government Bodies	(3,750)	(708)
Housing Rents	(142)	(172)
Other Local Authorities	(1,035)	(1,438)
Commercial Ratepayers	(373)	(3,567)
Other entities and individuals	(4,993)	(6,620)
	<b>(10,440)</b>	<b>(12,722)</b>



## 21 PROVISIONS

	REVENUE			CAPITAL	Total £000
	Insurance £000	NNDR Appeals £000	Legal £000	General Fund Clawback £000	
<b>Balance as at 1 April 2013</b>	<b>365</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>422</b>
Additional provisions made	102	3,617	175	0	<b>3,894</b>
Amounts used	(148)	0	0	(57)	<b>(205)</b>
<b>Balance as at 31 March 2014</b>	<b>319</b>	<b>3,617</b>	<b>175</b>	<b>0</b>	<b>4,111</b>

The closing balance on the insurance provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self-insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims.

The clawback provision is in respect of outstanding liabilities where the Council has sold land originally financed by Derelict Land Grant. The provision has been fully utilised in 2013/14.

Two new provisions have been created. The first is in respect of outstanding Business Rates (NNDR) appeals. This is to cover the Council's share of estimated liabilities arising as result of ratepayers appealing to the Valuation Office against the rateable values for their property; where successful, they will receive a refund backdated to the date the appeal was lodged. The second new provision created is to cover settlements and legal costs associated with known litigation cases.

## 22 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in the following tables. These include revenue and capital reserves available to meet future expenditure.

	31 March 2013 £000	31 March 2014 £000
General Fund Balance	3,182	3,713
HRA Balance	776	401
HRA Business Support Reserve	8,102	8,613
Housing Mgt System Replacement Reserve	401	591
Flats Planned Maintenance	1,096	1,210
Sheltered Equipment	291	334
Sheltered Planned Maintenance	310	311
Sheltered Support Grant Maintenance	197	236
Renewals Reserve	722	772
Performance Reward Grant Reserve	125	40
Market Reserve	619	10
Capital Support	426	469
Open Spaces Commuted Sums	204	164
Other Commuted Sums	1,322	1,233
Municipal Buildings Reserve	386	386
Restructuring Reserve	433	603
Welfare Reforms Reserve	200	257
Invest to Save Reserve	1,547	1,514
Highways Reserve	129	213
Capital Grants Unapplied	223	139
Capital Receipts Unapplied	32	0
Other Reserves under £100K	692	483
Business Rates Retention Reserve	0	1,699
<b>Total usable reserves</b>	<b>21,415</b>	<b>23,391</b>

## 23 UNUSABLE RESERVES

	31 March 2013 £000	31 March 2014 £000
Revaluation Reserve	18,179	25,759
Financial Instruments Adjustment Account	(190)	(141)
Capital Adjustment Account	142,015	122,693
Pensions Reserve	(56,360)	(44,945)
Deferred Credits	9	6
Accumulated Absences Account	(184)	(147)
Collection Fund Adjustment Account	49	(1,100)
<b>Total unusable reserves</b>	<b>103,518</b>	<b>102,125</b>

**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 01 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.

	2012/13 £000	2013/14 £000
<b>Balance as at 1 April</b>	<b>17,468</b>	<b>18,179</b>
Upwards revaluation of assets	2,094	9,582
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(527)	(1,464)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	1,567	8,118
Difference between fair value depreciation and historical cost depreciation.	(856)	(513)
Accumulated gains on assets sold or scrapped	0	(25)
Amount written off to the Capital Adjustment Account	(856)	(538)
<b>Balance as at 31 March</b>	<b>18,179</b>	<b>25,759</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 acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or 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 01 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>144,364</b>	<b>142,015</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(6,874)	(24,131)
- Amortisation of Intangible Assets	(67)	(52)
- Revenue Expenditure funded from Capital under statute.	(1,031)	(1,564)
- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(310)	(8,492)
<b>Sub total</b>	<b>136,082</b>	<b>107,776</b>
Adjusting amounts written out of the Revaluation Reserve	856	538
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>136,938</b>	<b>108,314</b>
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	442	8,323
- Use of the Major Repairs Reserve	3,435	4,107
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	1,017	3,322
- Application of grants to capital financing from the Capital Grants Unapplied Account.	0	11
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	2,702	2,605
- Capital expenditure charged against the General Fund and HRA balances	1,426	1,452
<b>Sub total</b>	<b>145,960</b>	<b>128,134</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	(3,945)	(5,441)
<b>Balance as at 31 March</b>	<b>142,015</b>	<b>122,693</b>

#### Financial Instruments Adjustment Account (FIAA)

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in line with statutory provisions. The Council uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund and HRA balance to the FIAA in the Movement in Reserves Statement. Over time, the expense and income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2013 will be reversed into the General Fund over the next 39 years. The element relating the HRA will be effectively written off in 2016/17.

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>(351)</b>	<b>(190)</b>
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	161	49
<b>Balance as at 31 March</b>	<b>(190)</b>	<b>(141)</b>

#### 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, and changing assumptions and investment returns on any resources set aside to meet such costs. However, statutory arrangements require pensions 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 Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>(46,681)</b>	<b>(56,360)</b>
Actuarial gains or losses on pensions assets and liabilities	(8,746)	14,107
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(4,071)	(5,698)
Employer's pension contribution and direct payments to pensioners payable in the year	3,138	3,006
<b>Balance as at 31 March</b>	<b>(56,360)</b>	<b>(44,945)</b>

#### 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.

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>9</b>	<b>49</b>
Amount by which council tax income credited to Comprehensive Income and Expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	40	(1,149)
<b>Balance as at 31 March</b>	<b>49</b>	<b>(1,100)</b>

#### 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 and flexible working hours credits 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.

	2012/13	2013/14
	£000	£000
<b>Balance as at 1 April</b>	<b>(184)</b>	<b>(184)</b>
Settlement or cancellation of accrual made at the end of the preceding year	0	184
Amounts accrued at the end of the current year	0	(147)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	37
<b>Balance as at 31 March</b>	<b>(184)</b>	<b>(147)</b>

## 24 CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

The cash flows for operating activities include the following interest items:

	2012/13	2013/14
	£000	£000
Interest received	(1)	(280)
Interest paid	1,873	3,285

**25 CASH FLOW STATEMENT – INVESTING ACTIVITIES**

	2012/13	2013/14
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(5,245)	(6,645)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	469	8,583
Acquisition of short and long term borrowing	(3,454)	(4,061)
Other receipts from investing activities	2,581	3,111
<b>Net cash flows from investing activities</b>	<b>(5,649)</b>	<b>988</b>

**26 CASH FLOW STATEMENT – FINANCING ACTIVITIES**

	2012/13	2013/14
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(426)	(5,088)
Repayment of short-term and long-term borrowing	(1,041)	(1,041)
Cash receipts of long and short term borrowing	0	
Payments and receipts relating to NNDR	(331)	(1,299)
<b>Net cash flows from financing activities</b>	<b>(1,798)</b>	<b>(7,428)</b>

**27 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**

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

- no notional 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 (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services.



<b>Income and Expenditure 2013/14</b>	<i>Corporate Accounts</i> £000	<i>Environmental Services</i> £000	<i>Governance</i> £000	<i>Health and Housing</i> £000	<i>Office of Chief Executive</i> £000	<i>Regeneration &amp; Planning</i> £000	<i>Resources</i> £000	<b>TOTAL</b> <b>£000</b>
Customer Fees & Charges	(34,722)	(6,048)	(703)	(17,266)	0	(1,075)	(7,276)	<b>(67,090)</b>
Government Grants	(9,060)	0	(14)	(82)	0	(17)	(42,962)	<b>(52,135)</b>
Interest	(2,117)	(4)	0	(663)	0	(193)	(5,413)	<b>(8,390)</b>
Other Grants & Contributions	0	(1,607)	(306)	(413)	0	(1,047)	(651)	<b>(4,024)</b>
<b>Total income</b>	<b>(45,899)</b>	<b>(7,659)</b>	<b>(1,023)</b>	<b>(18,424)</b>	<b>0</b>	<b>(2,332)</b>	<b>(56,302)</b>	<b>(131,639)</b>
Employee expenses	383	8,783	1,631	5,515	646	2,712	2,544	<b>22,214</b>
Premises	0	6,091	18	6,201	0	638	2,075	<b>15,023</b>
Transport	0	1,579	34	231	8	48	23	<b>1,923</b>
Supplies & Services	22,211	3,966	1,196	1,676	3	2,014	8,260	<b>39,326</b>
<b>Total expenditure</b>	<b>22,594</b>	<b>20,419</b>	<b>2,879</b>	<b>13,623</b>	<b>657</b>	<b>5,412</b>	<b>12,902</b>	<b>78,486</b>
<b>Net expenditure</b>	<b>(23,305)</b>	<b>12,760</b>	<b>1,856</b>	<b>(4,801)</b>	<b>657</b>	<b>3,080</b>	<b>(43,400)</b>	<b>(53,153)</b>

<b>Income and Expenditure 2012/13</b>	<i>Corporate Accounts</i> £000	<i>Environmental Services</i> £000	<i>Governance</i> £000	<i>Health and Housing</i> £000	<i>Office of Chief Executive</i> £000	<i>Regeneration &amp; Planning</i> £000	<i>Resources</i> £000	<b>TOTAL</b> <b>£000</b>
Customer Fees & Charges	(20,780)	(5,713)	(631)	(17,834)	0	(754)	(9,212)	<b>(54,924)</b>
Government Grants	(765)	0	(191)	(51)	0	(84)	(53,487)	<b>(54,578)</b>
Interest	(17)	0	0	(785)	0	0	(4,526)	<b>(5,328)</b>
Other Grants & Contributions	(17)	(1,567)	(503)	(492)	0	(562)	(573)	<b>(3,714)</b>
<b>Total income</b>	<b>(21,579)</b>	<b>(7,280)</b>	<b>(1,325)</b>	<b>(19,162)</b>	<b>0</b>	<b>(1,400)</b>	<b>(67,798)</b>	<b>(118,544)</b>
Employee expenses	0	7,541	1,559	5,586	196	2,683	2,665	<b>20,230</b>
Premises	0	6,242	17	6,233	0	503	2,026	<b>15,021</b>
Transport	0	1,740	41	256	3	56	25	<b>2,121</b>
Supplies & Services	747	3,759	1,653	2,981	7	1,095	8,836	<b>19,078</b>
<b>Total expenditure</b>	<b>747</b>	<b>19,282</b>	<b>3,270</b>	<b>15,056</b>	<b>206</b>	<b>4,337</b>	<b>13,552</b>	<b>56,450</b>
<b>Net expenditure</b>	<b>(20,832)</b>	<b>12,002</b>	<b>1,945</b>	<b>(4,106)</b>	<b>206</b>	<b>2,937</b>	<b>(54,246)</b>	<b>(62,094)</b>

### Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	<b>2012/13</b> £000	<b>2013/14</b> £000
<b>Net expenditure in Service analysis</b>	<b>(62,094)</b>	<b>(53,153)</b>
Net expenditure of services and support services not included in the analysis	(46)	(2,405)
Amounts in the Comprehensive Income and Expenditure statement not reported to management in the analysis	61,088	68,848
Amounts included in the analysis not included in the Comprehensive Income and Expenditure statement	18,071	21,686
<b>Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>17,019</b>	<b>34,976</b>

**Reconciliation of Subjective Analysis**

This reconciliation shows how the figures in the analysis of service 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.

2013/14	Services included in		Net Cost of Services £000	Corporate amounts £000	Total £000
	Service Analysis	Analysis but not NCS			
	£000	£000			
Customer Fees and Charges	(67,090)	39,267	(27,823)	0	(27,823)
Government Grants	(52,135)	10,074	(42,061)	0	(42,061)
Interest	(8,390)	8,357	(33)	0	(33)
Other Grants and Contributions	(4,024)	112	(3,912)	0	(3,912)
Recharges	0	(15,976)	(15,976)	0	(15,976)
Capital Financing Income	0	(1,278)	(1,278)	(4,903)	(6,181)
Taxation & Non Specific Grant Inc	0	0	0	(23,736)	(23,736)
<b>Total Income</b>	<b>(131,639)</b>	<b>40,556</b>	<b>(91,083)</b>	<b>(28,639)</b>	<b>(119,722)</b>
Employee expenses	22,214	(6,765)	15,449	0	15,449
Premises	15,023	(511)	14,512	110	14,622
Transport	1,923	(77)	1,846	0	1,846
Supplies & Services	39,326	(28,993)	10,333	0	10,333
Other Operating Expenditure	0	0	0	759	759
Financing & Investment Inc & Exp	0	0	0	5,066	5,066
Transfer Payments	0	42,968	42,968	0	42,968
Support Services	0	13,792	13,792	0	13,792
Capital Charges	0	27,159	27,159	11,724	38,883
<b>Total expenditure</b>	<b>78,486</b>	<b>47,573</b>	<b>126,059</b>	<b>17,659</b>	<b>143,718</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(53,153)</b>	<b>88,129</b>	<b>34,976</b>	<b>(10,980)</b>	<b>23,996</b>

2012/13 Comparative Figures	Services included in		Net Cost of Services £000	Corporate amounts £000	Total £000
	Service Analysis	Analysis but not NCS			
	£000	£000			
Customer Fees and Charges	(54,924)	30,496	(24,428)	0	(24,428)
Government Grants	(54,576)	1,881	(52,695)	0	(52,695)
Interest	(5,329)	5,259	(70)	0	(70)
Other Grants and Contributions	(3,715)	185	(3,530)	0	(3,530)
Recharges	0	(12,337)	(12,337)	0	(12,337)
Capital Financing Income	0	(1,173)	(1,173)	0	(1,173)
Taxation & Non Specific Grant Inc	0	0	0	(21,799)	(21,799)
<b>Total Income</b>	<b>(118,544)</b>	<b>24,311</b>	<b>(94,233)</b>	<b>(21,799)</b>	<b>(116,032)</b>
Employee expenses	20,229	(7,389)	12,840	0	12,840
Premises	15,022	(1,973)	13,049	0	13,049
Transport	2,121	(519)	1,602	0	1,602
Supplies & Services	19,078	(9,506)	9,572	0	9,572
Other Operating Expenditure	0	0	0	579	579
Financing & Investment Inc & Exp	0	0	0	7,249	7,249
Transfer Payments	0	53,190	53,190	0	53,190
Support Services	0	11,927	11,927	0	11,927
Capital Charges	0	9,072	9,072	0	9,072
<b>Total expenditure</b>	<b>56,450</b>	<b>54,802</b>	<b>111,252</b>	<b>7,828</b>	<b>119,080</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(62,094)</b>	<b>79,113</b>	<b>17,019</b>	<b>(13,971)</b>	<b>3,048</b>

## 28 ACQUIRED AND DISCONTINUED OPERATIONS

**Storey Ltd** - The Council nominated one of its Councillors onto the Board of Storey Ltd. There was no ultimate controlling party, however. The principal activity of the company was the operation of the Storey Creative Industry Centre on a non-profit making basis. The company ceased trading on 15 August 2012 and went into voluntary liquidation on 04 September 2012 thereby forfeiting on its headlease with the Council. As owner/landlord of the building the Council took back possession of the building and direct management and control of the operation from 08 October 2012 with the sub-tenants of SCIC Ltd continuing to manage the building during the interim period.

The company was fully wound up by the appointed liquidators during 2013/14 and was formally dissolved by Companies House on 13 February 2014 with no further net liabilities arising for the Council.

**Lancaster Market** – Following a detailed financial appraisal Full Council decided on 16 November 2011 that it could no longer support the continuation of Lancaster indoor market in the long term. It therefore recommended commencement of negotiations to surrender the head lease with the landlord, and undertake negotiations with the traders to seek early surrender of trader tenancy agreements.

Negotiations concluded during 2013/14 and settlements were paid to both the Landlord (£11.71M) and the tenants (£1.146M). Full details of the outcome were reported to Full Council on 05 February 2014.

## 29 TRADING OPERATIONS

Trading services cover undertakings with the public or with other third parties, and include such activities as highways maintenance, trade waste collection, markets and the letting of commercial properties and industrial units. Details of these trading areas and their respective (surpluses) or deficits for the last three years is shown in the following table.

	2009/10	2010/11	2011/12	2012/13	2013/14
<b>Highways</b>	£000	£000	£000	£000	£000
Turnover	(1,253)	(1,223)	(1,149)	(1,094)	(820)
Expenditure	1,201	956	1,087	998	836
(Surplus)/Deficit	(52)	(267)	(62)	(96)	16
<b>Trade Waste</b>					
Turnover	(910)	(1,039)	(1,032)	(1,070)	(1,104)
Expenditure	764	857	997	878	843
(Surplus)/Deficit	(146)	(182)	(35)	(192)	(261)
<b>Markets</b>					
Turnover	(814)	(1,095)	(1,081)	(889)	(407)
Expenditure	1,189	1,388	1,214	2,349	333
(Surplus)/Deficit	375	293	133	1,460	(74)
<b>Commercial Properties / Industrial Units</b>					
Turnover	(1,026)	(887)	(736)	(763)	(941)
Expenditure	593	539	541	686	748
(Surplus)/Deficit	(433)	(348)	(195)	(77)	(193)
<b>Consolidated</b>					
<b>Turnover</b>	(4,003)	(4,244)	(3,998)	(3,816)	(3,272)
<b>Expenditure</b>	3,747	3,740	3,839	4,911	2,760
(Surplus)/Deficit	(256)	(504)	(159)	1,095	(512)

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement and form an integral part of the Council's services to the public. No costs are recharged to the Net Operating Expenditure of Continuing Operations but are included within Financing and Investment Income and Expenditure.

	2011/12	2012/13	2013/14
	£000	£000	£000
Net (surplus)/deficit on trading operations	(159)	1,095	(512)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	0	0	0
<b>Net (surplus)/deficit</b>	<b>(159)</b>	<b>1,095</b>	<b>(512)</b>

## 30 AGENCY SERVICES

The Council provides highways grounds maintenance for Lancashire County Council for which it is reimbursed subject to defined limits. The net deficit represents the amount by which the council contributes to the agency.

	2012/13	2013/14
	£000	£000
Expenditure on agency arrangement	204	210
Income on agency arrangement	(164)	(164)
<b>Net deficit arising on agency arrangements</b>	<b>40</b>	<b>46</b>

## 31 MEMBERS ALLOWANCES

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

	2012/13	2013/14
	£000	£000
Basic Allowances	198	198
Special Responsibility Allowances	82	80
Expenses	5	4
<b>Total</b>	<b>285</b>	<b>282</b>

## 32 OFFICERS REMUNERATION

The remuneration paid to the Council's senior employees is as follows. Further to the management restructuring undertaken during 2012/13, job titles of remaining Chief Officers were updated in 2013/14.

	Salary, Fees and allowances	Expenses & Benefits in Kind	Redundancy Payments	Total Remuneration (excluding pension contributions)	Employer Pension contribution	Total Remuneration (including pension contributions)
	£000	£000	£000	£000	£000	£000
<b>2013/14</b>						
Chief Executive	107	2	0	109	22	131
Chief Officer (Environmental)	63	1	0	64	13	77
Chief Officer (Resources)	63	1	0	64	13	77
Chief Officer (Governance)	63	0	0	63	13	76
Chief Officer (Health & Housing)	63	1	0	64	13	77
Chief Officer (Regeneration & Planning)	63	1	0	64	13	77
<b>2012/13</b>						
Chief Executive	107	2	0	109	22	131
Head of Community Engagement	62	0	0	62	13	75
Head of Environmental Services	62	1	0	63	13	76
Head of Resources	62	1	0	63	13	76
Head of Governance	62	0	0	62	13	75
Head of Health & Housing	62	1	0	63	13	76
Head of Property Services	11	1	65	77	1	78
Head of Regeneration & Planning	62	2	0	63	13	76

There were no other employees, who are not classed as senior officers, who received remuneration above £50,000 (excluding employer's pension contributions).

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:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £	2013/14 £
£0 - £20,000	1	0	4	10	5	10	49,326	107,677
£20,001 - £40,000	0	0	3	8	3	8	105,828	226,140
£40,001 - £60,000	0	0	0	2	0	2	0	100,347
£60,001 - £80,000	0	0	1	0	1	0	73,425	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>8</b>	<b>20</b>	<b>9</b>	<b>20</b>	<b>228,579</b>	<b>434,164</b>

### 33 EXTERNAL AUDIT COSTS

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

	2012/13 £000	2013/14 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	100	77
Fees payable for the certification of grant claims and returns for the year	30	16
<b>Total</b>	<b>130</b>	<b>93</b>

### 34 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

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:

	2012/13 £000	2013/14 £000
<b>Credited to Taxation and Non Specific Grant Income</b>	<b>£000</b>	<b>£000</b>
Revenue Support Grant	225	7,533
Small Business Rate Relief	0	621
Council Tax Freeze Grant	209	0
New Homes Bonus	462	772
Sport England	0	149
RHP Bold Street Renovations	63	0
DCLG Empty Homes Cluster Funding	0	1,911
Environment Agency Artle Beck Flood Defences	32	21
Other EA Grants	23	67
Natural England	0	126
Community Right to Bid/Challenge	0	16
Council Tax Support - Transitional Funding	0	34
Council Tax Support - New Burdens	0	84
Recycled Housing Grants	27	0
Local Services Support Grant	94	0
Private Contributions	88	0
Other Grants Under £50K	29	81
<b>Total</b>	<b>1,252</b>	<b>11,415</b>

	2012/13	2013/14
<b>Credited to Services</b>	£000	£000
DCLG YMCA Places of Change Grant	33	19
DCLG Disabled Facilities Grant	638	761
Grant: Sefton BC Strategic Monitoring	66	13
Warmer Homes	77	16
HCA Winning Back the West End	90	158
Discretionary Housing Payments	72	158
Lancs County Council C&YP	0	80
Supporting People	197	171
Strand 2 - Exercise Referral Project: Other Grants	78	85
Parliamentary Elections/A.V. Referendum: Govt Grants	16	0
Arnsdale & Silverdale AONB Grants	153	144
Benefits DWP grant	95	89
Second Homes Funding	312	77
Govt Grants Police Commissioner Elections	148	0
Natural England Mcmbe Bay Improvement Area	156	324
Council Tax Benefit Grant: Government Grants	10,468	0
Standard Rent Allowances: Government Grants	31,458	31,939
War Widows Benefit Grant: Government Grants	55	43
Rent Rebates - Council Housing: Government Grants	10,085	9,576
NNDR Administration: Government Grants	233	233
Other Grants Under £50K	493	453
<b>Total</b>	<b>54,923</b>	<b>44,339</b>

	2012/13	2013/14
<b>Capital Grants Receipts in Advance</b>	£000	£000
DFG Grant	297	196
Poulton Pedestrian Route, Section 106	127	0
Environment Agency Sea and Flood Defences	59	0
DCLG Empty Homes Funding	955	0
Lancaster Square Routes, County Funding	0	411
EP Exemplar Project Funding	48	0
Other Grants Under £50K	147	237
<b>Total</b>	<b>1,633</b>	<b>844</b>

### 35 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows 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 of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2014 are contained within debtors Note 17.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 31. There are no other material transactions to disclose in respect of elected members.

#### Officers

Senior officer remuneration is disclosed in Note 32, and there are no other material transactions to disclose in respect of officers.



**Entities Controlled or Significantly Influenced by the Authority**

The Council nominates four of its City Councillors as trustees of the Dukes Playhouse Ltd. There is no ultimate controlling party, however. Payment of revenue grant support totalling £145.2K was made to the company in 2013/14 for its core activities, i.e. to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. This included the provision of grant in lieu of rent free Council accommodation to the value of £12.5K. In addition, the Council also provided grant totalling £4.3K in its role as Accountable Body for the Arts Council England funding towards the 2013/14 Light Up Lancaster Programme. The Youth Arts Centre occupies a former church, which is also owned by the Council. The company maintains the building and pays an annual rent of £8K to the Council in respect of this.

The Council nominates one of its Councillors onto the Board of Heysham Mossgate (Community Facilities) Company Ltd. There is no ultimate controlling party, however. The Council provided grant totalling £15.5K in its role as Accountable Body for the Take Pride Community Funding for facility improvements during 2013/14. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

**36 CAPITAL EXPENDITURE AND CAPITAL FINANCING**

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2012/13	2013/14
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>83,188</b>	<b>83,276</b>
<i>Capital investment:</i>		
Property, Plant and Equipment	7,739	18,631
Re-assessment of finance lease liability	195	0
Investment Properties	90	7
Intangible Assets	54	36
Revenue Expenditure Funded from Capital Under Statute	1,031	1,564
<i>Sources of financing:</i>		
Capital receipts	(442)	(8,323)
Government Grants and other contributions	(1,017)	(3,333)
Direct revenue contributions	(1,425)	(1,452)
Minimum Revenue Provision	(2,702)	(7,851)
Major Repairs Reserve	(3,435)	(4,106)
<b>Closing Capital Financing Requirement</b>	<b>83,276</b>	<b>78,449</b>
<i>Explanation of movements in year:</i>		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	88	(4,827)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>88</b>	<b>(4,827)</b>

**37 LEASES****Finance Leases**

Under IFRS the vast majority of the Council's operating leases have been reclassified as finance leases. This means that assets are recognised on the balance sheet with a matching liability to represent the substance of the lease agreement which is an asset funded by borrowings. The lease charges are then split between a finance charge and repayment of the debt. A capital charge for the asset is posted to the cost of the services.

	31 March 2013 £000	31 March 2014 £000
Operational Land and buildings	4,908	0
Finance lease liability re-assessment	(230)	(344)
Lancaster Indoor market impairment	0	0
Vehicles, Plant, Furniture & Equipment	997	767
<b>Total</b>	<b>5,675</b>	<b>423</b>

	31 March 2013 £000	31 March 2014 £000
Finance lease liabilities (net present value of minimum lease payments):		
- Current	347	159
- Non-current	5,324	186
Finance costs payable in future years	28,895	89
<b>Minimum lease payments</b>	<b>34,566</b>	<b>434</b>

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

	Minimum lease payments		Finance cost	
	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
Not later than 1 year	347	159	471	43
Later than 1 year and not later than 5 years	437	186	1,711	46
Later than 5 years	4,887	0	26,713	0
<b>Minimum lease payments</b>	<b>5,671</b>	<b>345</b>	<b>28,895</b>	<b>89</b>

The minimum lease payments include rents that are contingent following rent reviews. In 2013/14 no contingent rents were payable by the Council (2012/13 £113K). These are considered part of the minimum lease payments as although not part of the discounting calculation at the inception of the lease, it is assumed that there will be no downwards rent review.

### Operating Leases

As noted above, all of the items from the leasing register that were previously disclosed as operating leases have been re-classified as finance leases. Expenditure on other ad hoc operating leases was not material. However, the Council does act as lessor for a number of operating leases on land and buildings in the district. The minimum future lease payments under these agreements are summarised below:

	Minimum lease payments	
	31 March 2013 £000	31 March 2014 £000
Not later than 1 year	622	847
Later than 1 year and not later than 5 years	1,117	1,408
Later than 5 years	3,586	1,593
<b>Minimum lease payments</b>	<b>5,325</b>	<b>3,848</b>

## 38 IMPAIRMENT LOSSES

During 2013/14 the Council has recognised impairment losses of £20.82M in relation to fixed asset valuations. These relate to revaluation and non-enhancing capital expenditure on the Council Housing stock (£12.14M) as well as downward revaluations of General Fund investment properties (£8.68M).

## 39 TERMINATION BENEFITS

The Council approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2013/14, incurring liabilities of £358K (£120K in 2012/13) in respect of redundancy costs. This was paid to 19 officers from 4 different services whose applications for ER/VR were approved as part of the Council's overall review of services.

## 40 DEFINED BENEFIT PENSION SCHEMES

**Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time employees earn their future entitlement.

The Council participates in one employment scheme. The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, those contributions being calculated at a level intended to balance the pensions liabilities with investment assets.

**Transactions Relating to Post-employment Benefits**

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

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme	
	2012/13 £000	2013/14 £000
<i>Cost of services:</i>		
Current service cost	2,557	3,335
Past Service cost	0	0
Administration expenses	0	53
Settlements and curtailments	155	6
<i>Financing &amp; Investment Income &amp; Expenditure:</i>		
Interest costs	7,521	7,396
Expected return on scheme assets	(6,092)	(5,092)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>4,141</b>	<b>5,698</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>		
Actuarial gains and losses	8,746	(14,107)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>12,887</b>	<b>(8,409)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(4,141)	(5,698)
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	(8,746)	14,107
<b>Net charge in relation to pension adjustments</b>	<b>0</b>	<b>0</b>
Actual amount charged against Funds for pensions in the year - employers contributions	3,138	3,006

**Pensions Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Funded Liabilities		Unfunded Liabilities	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Present value of the defined benefit obligation	174,936	159,046	3,842	3,601
Fair value of plan assets	(122,418)	(117,702)	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>52,518</b>	<b>41,344</b>	<b>3,842</b>	<b>3,601</b>

## Reconciliation of the Movements in the Fair Value of Scheme Assets:

	Local Government Pension Scheme	
	2012/13	2013/14
	£000	£000
<b>Opening fair value of scheme assets</b>	<b>108,152</b>	<b>122,418</b>
Interest income	6,092	5,092
Remeasurement gain/(loss)	10,164	(7,374)
Administration expenses	0	(53)
Employer contributions	3,138	3,006
Contributions by scheme participants	847	863
Benefits paid	(5,975)	(6,250)
Settlements	0	0
<b>Closing fair value of scheme assets</b>	<b>122,418</b>	<b>117,702</b>

## Reconciliation of Present Value of the Scheme Liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>151,096</b>	<b>174,936</b>	<b>3,667</b>	<b>3,842</b>
Current service cost	2,557	3,335	0	0
Interest cost	7,348	7,241	173	155
Contributions from scheme participants	847	863	0	0
Remeasurement (gains) and losses	18,628	(21,352)	282	(129)
Past service cost	0	0	0	0
Curtailments	155	6	0	0
Benefits paid	(5,695)	(5,983)	(280)	(267)
<b>Closing balance at 31 March</b>	<b>174,936</b>	<b>159,046</b>	<b>3,842</b>	<b>3,601</b>

## Local Government Pension Scheme assets comprised

	2012/13	2013/14
	£000	£000
Equities:	5,989	6,545
Consumer Discretionary	8,943	8,594
Energy	1,310	2,394
Financials	6,051	8,678
Health Care	4,789	5,306
Industrials	5,665	7,169
Information Technology	6,629	7,809
Materials	1,488	2,197
Miscellaneous/Unclassified Total	0	320
Telecommunication Services	1,300	1,306
Utilities	946	1,072
Bonds:		
UK corporate	5,546	4,609
Overseas corporate	7,977	6,230
UK Fixed gilts	7,266	880
UK index linked	4,064	2,726
Property:		
Offices	3,087	2,146
Offices/Warehouse	240	231
Industrial/Warehouse	2,205	2,272
Workshop/Garage	101	97
Shops	2,409	2,171
Retail Warehouse	1,762	1,690
Shopping Centre	587	563
Multi let Commercial Building	327	455
Alternatives:		
UK private equity	2,973	2,957
Overseas private equity	2,673	3,231
Infrastructure	3,806	6,403
Credit funds	10,154	16,706
Emerging Markets ETF	5,326	0
Indirect Property Funds	185	591
UK Pooled Equity Funds	4,091	35
Overseas Pooled Equity Funds	10,254	10,275
Cash:		
Cash and cash equivalents	4,275	2,044
<b>Closing fair value of scheme assets</b>	<b>122,418</b>	<b>117,702</b>

**Basis for Estimating Assets and Liabilities**

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

The Local Government Pension Scheme liabilities have been estimated by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2013. The significant assumptions used by the actuary have been:

	2012/13	2013/14
Return on assets (%):		
Equity investments	7.0	7.0
Government Bonds	2.8	3.4
Other Bonds	3.9	4.3
Property	5.7	6.2
Cash/Liquidity	0.5	0.5
Mortality assumptions:		
Longevity at 65 for current pensioners (yrs):		
Men	22.1	22.8
Women	24.8	25.3
Longevity at 65 for future pensioners (yrs):		
Men	23.9	25.0
Women	26.7	27.7
Rate of inflation (%)	2.4	2.4
Rate of increase in salaries (%)	4.4	3.9
Rate of increase in pensions (%)	2.4	2.4
Rate of discounting for scheme liabilities (%)	4.2	4.4

The estimation of the defined benefit obligations is sensitive to actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume the life expectancy increases or decreases for men or women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

**Impact on the Defined Benefit Obligation in the Scheme**

		+0.1% p.a. discount rate	+0.1% p.a. inflation	+0.1% p.a. pay growth	+1 year life expectancy
	£000	£000	£000	£000	£000
Liabilities	162,647	159,872	165,470	163,236	165,860
Assets	(117,702)	(117,702)	(117,702)	(117,702)	(117,702)
Deficit/(Surplus)	44,945	42,170	47,768	45,534	48,158
Projected Service Cost for next year	2,714	2,627	2,804	2,714	2,776
Projected Net Interest Cost for next year	1,911	1,830	2,041	1,943	2,059

**Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis and the effective date for the next triennial valuation is 31 March 2016.

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

The Council anticipated paying £3.009M expected contributions to the scheme in 2013/14.

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2013/14, (15 years 2012/13).

#### 41 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2014:

**Luneside East Regeneration Scheme** – In assembling the land for this project, the Council used compulsory purchase powers (CPO). Following a Lands Tribunal decision relating to one significant compensation case, the Council has appealed and the Court of Appeal decision was in the Council's favour, which in effect reversed the costs award and made the company involved liable for the Council's costs as well as their own. The company, however, continued to dispute the Lands Tribunal determination. Whilst at the beginning of June 2014 the Tribunal rejected the latest challenge by the company, it is possible that the company could still seek to refer the matter to the Court of Appeal, or seek to bring a contractual claim against the Council in respect of the building agreement it entered into with the Council. At this stage any further potential liability arising cannot be measured with any certainty.

The Council has also accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes and in particular concerning 'Business Space' created. The Council transferred Phase 1 land to its development partner (Luneside East Limited, formerly CTP Securities Limited) on 2 April 2012 and the developer is working to bring forward a beneficial scheme subject to planning and statutory consents. It is unclear as at 31<sup>st</sup> March 2014 whether all outputs will be achieved, however, and whether any subsequent clawback will fall upon the Council.

**NNDR Appeals** – The Council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2014. It is not possible to quantify appeals that have not yet been lodged with the Valuation Officer so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

#### 42 CONTINGENT ASSETS

The following material contingent asset existed as at 31 March 2014:

**Luneside East Regeneration Scheme** – The Council has submitted an application for costs in connection with a Court of Appeal hearing regarding the above claim, which was found in the Council's favour; but any economic benefits are still contingent on the process by which the Council can reclaim its costs and this is still ongoing. It is expected that the final outcome will be known during 2014/15.

#### 43 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

##### **Credit Risk**

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



This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard and Poor, Moody's and Fitch. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

As per the 2013/14 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the Council are as detailed in the following table:

	Minimum across all three ratings			Money Limit <sup>8</sup>	Time Limit <sup>9</sup>
	Fitch	Moody's	Standard & Poors		
Upper Limit <sup>1</sup>	F1+/AA-	P-1/AA3	A-1+/AA-	£6M	Instant Access Only
				£3M	100 days
Middle Limit <sup>2</sup>	F1/A	P-1/A2	A-1/A	£3M	Instant Access Only
Other Institutions <sup>3</sup>	N/A	N/A	N/A	£6M	1 Year
Lancashire County <sup>4</sup>	N/A	N/A	N/A	£12M	1 Year
Money Market Funds <sup>5</sup>	AAA	AAA	AAA	£6M	Instant access Only
DMADF deposit <sup>6</sup>	N/A	N/A	N/A	No limit	1 Year
Sovereign rating to apply to all non UK counterparties <sup>7</sup>	AAA	AAA	AAA	N/A	N/A

Notes:

1 & 2: The Upper and Middle Limits apply to appropriately rated banks and building societies.

3: The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB), and part-nationalised banks.

4: This recognises the special status of Lancashire County Council as the City Council's upper tier Council.

5: Sterling, constant net asset value funds only.

6: The DMADF facility is direct with the UK government, it is extremely low risk.

7: UK counterparties are defined as those listed under UK banks or building societies in the Capital Asset Services counterparty listing.

8: Money limits apply to principal invested and do not include accrued interest.

9: Time Limits start on the trade date for the investment.

The Council's maximum exposure to credit risk in relation to its investments of £22.016M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits, but for the £22.016M, there was no evidence at 31 March 2014 that this was likely to materialise. Only £690K of this amount relates to Icelandic deposits, £615K of which was paid in Icelandic Krona and is currently held within an Icelandic holding account.

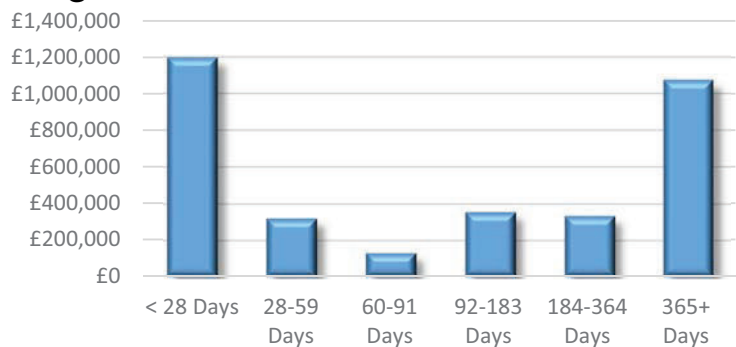
The following analysis (excluding Icelandic investments) summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience of default and non-collectability, adjusted to reflect current market conditions.

	Balance 31/03/14	Historical experience of default	Exposure at 31/03/14	Exposure at 31/03/13
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	9,326	0.00%	0	0
AA rated counterparties	12,000	0.03%	4	3
A rated counterparties	0	0.08%	0	0
Trade debtors	3,405	Bad debt provision	1,102	568
<b>Total</b>	<b>24,731</b>		<b>1,106</b>	<b>571</b>

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

The Council does not generally allow credit for customers, such that £2.209M of the £3.405M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/13	31/03/14
	£000	£000
Current, < 28 Days	944	1,196
28-59 Days	156	319
60-91 Days	103	130
92-183 Days	187	354
184-364 Days	343	333
365+ Days	985	1,073
<b>Total</b>	<b>2,718</b>	<b>3,405</b>



## Liquidity Risk

The Council manages its liquidity position through the risk management procedures above as well as through a cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All deposits in year were held on either instant access or terms of less than 6 months with the Debt Management Office (DMO) and part-nationalised banks. Balances held in Icelandic banks are split between current and long term assets in line with CIPFA's projected repayment timetable, as per Note 15.

	31/03/13	31/03/14
	£000	£000
Less than one year	1,041	1,041
One to two years	1,041	1,041
Three to five years	3,124	3,124
Six to ten years	5,207	5,207
11 to 20 years	10,414	10,414
21 to 30 years	9,373	8,332
More than 30 years	39,215	39,215
<b>Total</b>	<b>69,415</b>	<b>68,374</b>

## Market Risk

### Interest Rate Risk

The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long or short term loans were taken out during 2013/14.

The Council's investments held within instant access Call accounts are affected by movements in interest rates. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have remained at very low levels during the year. The Council also placed 3 investments during the year within the DMO Deposit Account and had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.46%, an increase of 1% on interest rates during 2013/14 would have had the following marginal effect:

	Actual £000	+1% £000
<b>New or variable investments:</b>		
Call accounts	95	301
<b>Total</b>	<b>95</b>	<b>301</b>

This highlights that investments are very sensitive and given that current rates on the Council's investments are below 1%, an increase of 1% would more than double the yield. The investments placed and the instant access accounts were sensitive to interest rates which have been consistently low since the banking crisis (interest in the year £177K vs. £122K in the prior year, not including the notional interest on Icelandic investments).

## THE HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2012/13		NOTES	2013/14	
£000			£000	£000
<b>Expenditure</b>				
4,153	Repairs and maintenance		4,468	
2,951	Supervision and management		3,114	
140	Rent, rates, taxes and other charges		140	
148	Negative HRA Subsidy payable	7	0	
4,397	Depreciation and impairment of non-current assets	4&5	6,103	
1	Debt management costs		1	
0	HRA Self Financing Settlement Payment		0	
113	Movement in the allowance for bad debts	9	143	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	10	0	
<b>11,903</b>	<b>Total Expenditure</b>			<b>13,969</b>
<b>Income</b>				
(13,459)	Dwelling rents		(13,406)	
(208)	Non-dwelling rents		(214)	
(1,675)	Charges for services and facilities		(1,788)	
(8)	Contributions towards expenditure		(8)	
(123)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(91)	
<b>(15,473)</b>	<b>Total Income</b>			<b>(15,507)</b>
<b>(3,570)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			<b>(1,538)</b>
0	HRA services' share of Corporate and Democratic Core			0
0	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services			0
<b>(3,570)</b>	<b>Net Cost for HRA Services</b>			<b>(1,538)</b>
<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>				
(59)	Gain or Loss on sale of HRA non-current assets			0
2,104	Interest payable and similar charges			2,079
(67)	Interest and investment income			(29)
168	Pension interest cost and expected return on pension assets	8		287
(14)	Capital grants and contributions receivable			0
1,041	Self Financing Debt Repayment			1,041
<b>(397)</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>1,840</b>

## MOVEMENT ON THE HRA STATEMENT

The overall objective for the movement on the HRA Statement and the general principles for its construction are the same as those generally for the Movement in Reserves Statement, into which it is consolidated. The statement takes the outturn on the HRA Income and Expenditure statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2012/13 £000		2013/14 £000
(1,205)	<b>Balance on the HRA at the end of the previous year</b>	(776)
(397)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,840
1,066	Adjustments between accounting basis and funding basis under statute	697
<b>669</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>2,537</b>
(240)	Transfers to or (from) reserves	(2,162)
<b>429</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>375</b>
(776)	<b>Balance on the HRA at the end of the year</b>	<b>(401)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2014 the Council held the following number of dwellings:

		2012/13	2013/14
Bedsits		96	96
1 Bedroom	Houses & Bungalows	658	657
	Flats & Maisonettes	531	530
2 Bedroom	Houses & Bungalows	497	499
	Flats & Maisonettes	680	678
3 Bedroom	Houses & Bungalows	1,238	1,230
	Flats & Maisonettes	8	8
4 or more bedroomed dwellings		88	88
<b>TOTAL DWELLINGS</b>		<b>3,796</b>	<b>3,786</b>



The Balance Sheet value of assets held in the Housing Revenue Account was as follows:

	Value as at 1 April 2013 £000	Value as at 31 March 2014 £000
<b>Operational Assets:</b>		
Council Dwellings	104,753	103,391
Other land and buildings	83	83
	<b>104,836</b>	<b>103,474</b>
<b>Non-operational Assets</b>	1,454	1,371
<b>TOTAL</b>	<b>106,290</b>	<b>104,845</b>



Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the first year of which has now updated all values to 01 April 2010. This has resulted in an increase in asset values of £848K in the year, which forms part of the net movement in asset values shown above. This is principally attributable to a difference between the accumulated values from the annual rebasing exercises, and those contained in the recent full revaluation. Non-dwelling assets were also revalued as at 01 April 2010.

The vacant possession value of dwellings held on 01 April 2013 was £301.927M. The difference between this and the EUV-SH valuation of £105.674M (i.e. the update figure after the full valuation exercise effective as of 01 April 2013 but before depreciation, disposals etc.) represents the economic cost to the Government of providing Council Housing at less than open market rents.

## 2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

Movements on the Major Repairs Reserve for the year were as follows:

	2012/13	2013/14
	£000	£000
<b>Opening Balance 01 April</b>	<b>6,683</b>	<b>0</b>
Transfer to Investment Reserves	(6,683)	0
Transfer to HRA – Depreciation	1,701	1,998
Transfer to HRA - Depreciation Adjustment	(18)	(18)
Transfer to HRA - Additional Capital Financing	1,752	2,127
Capital Expenditure - Houses	(3,435)	(4,107)
<b>Closing Balance 31 March</b>	<b>0</b>	<b>0</b>

## 3 CAPITAL EXPENDITURE

Capital expenditure of £4.285M was incurred during the year, of which £4.272M was on works on improvements to dwellings and £13K on Non Operational Assets. This was financed as follows:

	2012/13	2013/14
	£000	£000
Usable Capital Receipts	80	123
Earmarked Reserves	63	55
Majors Repairs Reserve	3,435	4,107
Grants and Contributions	13	0
<b>Total Capital Financing</b>	<b>3,591</b>	<b>4,285</b>

Capital receipts totalling £428K were received during the year from the following sources:

	2012/13	2013/14
	£000	£000
Sale of dwellings	280	426
Repayment of Principal on Mortgages	2	2
<b>Total Capital Receipts</b>	<b>282</b>	<b>428</b>

The above amounts are shown gross, before deducting administration fees. Previously under the Local Government and Housing Act 1989, 75% of council house sales were to be set aside for debt redemption, however the Local Government Act 2003 (section 11(2)(b)) now requires all or part of the receipt to be paid over to the Secretary of State. The aim is to preserve and strengthen the principle of redistributing the spending power generated by the sale of such assets.

## 4 DEPRECIATION

Total depreciation charges for the year were as follows:

	2012/13	2013/14
	£000	£000
Council Dwellings	1,683	1,980
Other land and buildings	2	2
Non-operational Assets	16	16
Deferred Charges on Intangible Assets	22	18
<b>TOTAL</b>	<b>1,723</b>	<b>2,016</b>

## 5 IMPAIRMENT CHARGES

An impairment charge of £12.805M in respect of Council Dwellings was made to the HRA for the financial year 2013/14 (with a further £110K in relation to non-dwelling HRA assets). This was as a result of downward market valuations to the Council Housing Dwellings stock. This impairment was offset against £8.718M of upward revaluations of HRA assets.

## 6 INTANGIBLE ASSETS

A charge of £18K was made during the year, this was made up as follows: A fifth year charge of £4K in respect of the Testing and Implementation of Task Total Solution by Northgate, a fourth year charge of £5K for the initial purchase of the Central Control Equipment from Abritas and a further £9K charge

for the third year for the remaining Central Control Equipment from Abritas. The assets are to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

## 7 HOUSING REVENUE ACCOUNT SUBSIDY

Subsidy arrangements ceased from 01 April 2012 with the introduction of the new self-financing regime, therefore there were no transactions for 2013/14.

	2012/13	2013/14
	£000	£000
Charges for Capital	148	0
<b>Total Housing Subsidy</b>	<b>148</b>	<b>0</b>

## 8 CONTRIBUTIONS TO/FROM PENSIONS RESERVE

In accordance with the requirements of International Accounting Standard 19, the current service cost has been included within the Net Cost of Services and the net of the interest cost and the expected return on assets included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Movements in the HRA balance.

## 9 RENT ARREARS

Total arrears of rent at 31 March 2014 amounted to £525K (£437K for 2012/13). An amount of £451K (£477K for 2012/13) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The decrease in provision this year mainly relates to the reduction of debt for Rechargeable Repairs £31K, Former Tenants £13K and other debts of £6K which is offset against an increase in Current Tenant debts amounting to £24K resulting in a net decrease of £26K. This represents allowances of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

## 10 TRANSFERS TO/FROM GENERAL FUND AS DIRECTED BY SECRETARY OF STATE

There have been no transfers to or from the General Fund as directed by the Secretary of State.

## 11 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There is one exceptional item which relates to impairment charges which are detailed in Note 5 above. There are no other extraordinary items or prior year adjustments.

## 12 NOTES TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2012/13	2013/14
	£000	£000
<b>Adjustments between accounting basis and funding basis under statute</b>		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	161	49
Gain or loss on sale of HRA non-current assets.	59	0
HRA share of contributions to or from the Pension Reserve.	783	593
Capital Expenditure funded by the Housing Revenue Account	63	55
	<b>1,066</b>	<b>697</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Major Repairs Reserve	(4,931)	2,127
Transfer to/(from) Earmarked Reserves	8,239	750
Transfer to/(from) the Capital Adjustment Account	(3,548)	(5,039)
	<b>(240)</b>	<b>(2,162)</b>



## 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.

2012/13 £000	NOTES	2013/14 £000
<b>INCOME</b>		
<b>Council Tax</b>		
(56,494)	Income from Council Tax	1 (56,946)
<b>Transfers from General Fund:</b>		
(10,374)	Council Tax Benefits	0
0	Transitional Relief	(19,380)
<b>Business Rates</b>		
(43,413)	Income from Business Ratepayers	2 (48,690)
0	Transitional Protection Payments	2 (19,380)
<b>Contributions</b>		
(143)	From Provisions for Council Tax Amounts Written Off	(155)
<b>(110,424)</b>	<b>TOTAL INCOME</b>	<b>(144,551)</b>
<b>EXPENDITURE</b>		
<b>Precepts and Demands</b>		
48,211	Lancashire County Council	40,296
8,905	Lancaster City Council (including parish precepts)	7,757
6,522	Lancashire Police Authority	5,673
2,768	Lancashire Fire Authority	2,361
<b>Business Rates</b>		
43,179	Payment to National Pool	0
0	Shares of non-domestic rating income to major preceptors and the billing authority	2 30,931
0	Payments made to central government in respect of central share	30,931
0	Transitional Protection Payments	2 19,380
233	Cost of Collection Allowance	233
0	Write-offs of uncollectable amounts	227
0	Allowance for Impairment	2 9,042
<b>Council Tax Bad and Doubtful Debts</b>		
143	Write-offs of uncollectable amounts	155
92	Allowance for Impairment	(344)
<b>Contribution towards previous year's estimated Collection Fund surplus</b>		
72	Council Tax	0
<b>110,125</b>	<b>TOTAL EXPENDITURE</b>	<b>146,642</b>
<b>FUND BALANCE</b>		
(299)	(Surplus)/deficit for year	2,091
0	(Surplus)/deficit as at 01 April (Brought forward)	0
299	(Surplus)/deficit distributed in year	(2,091)
<b>0</b>	<b>(Surplus)/Deficit as at 31 March (Carried forward)</b>	<b>0</b>

## NOTES TO THE COLLECTION FUND

The following notes are intended to explain figures contained in the Collection Fund Statement.

### 1 COUNCIL TAX

Council Tax is charged based on the value of residential properties; these are classified into eight valuation bands estimating 01 April 1991 values for charging purposes. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lancashire County Council, Lancaster City Council, Lancashire Fire and Rescue Authority and the Police and Crime Commissioner for Lancashire for the forthcoming year and dividing this by the Council Tax base.

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2013/14 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	9,986	6,653
Band B	11,617	9,035
Band C	9,659	8,586
Band D	5,369	5,369
Band E	3,389	4,142
Band F	1,730	2,499
Band G	736	1,227
Band H	43	86
<b>Total</b>	<b>42,529</b>	<b>37,597</b>
<i>Collection Rate</i>		98.68%
<b>Council Tax Base</b>		<b>37,100</b>

### 2 BUSINESS RATES

The Council collects National Non-Domestic Rates (NNDR) for its area based on rateable values set by the Valuation Office Agency (VOA), multiplied by a uniform business rate set by Central Government. For most businesses, this was set at 47.1p per £ for 2013/14 (45.8p for 2012/13). For local businesses with a rateable value of less than £18,000, a discount of 0.9p was allowed giving a rate of 46.2p per £. The rateable value at 31 March 2014 was £163,706,396 (£163,943,367 for 2012/13). In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NNDR changed following the introduction of the Business Rates Retention Scheme, this aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility, appeals and non-collection rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. For the City Council the local share is 40%. The remainder is distributed to preceptors; Central Government (50%), Lancashire County Council (9%) and Lancashire Fire and Rescue Authority (1%). The amounts distributed in 2013/14 are shown in Note 3.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. The tariff payable by the Council during 2013/14 was £19.022M.

The total income from business rate payers collected in 2013/14 was £48.690M (£43.413M in 2012/13). This sum included £19.380M of transitional protection payments from ratepayers, which

under Government regulation should have a neutral impact on the Business Rate Retention Scheme. This sum has to be repaid to Central Government.

In addition to tariffs, a 'safety net' is calculated at 92.5% of the baseline amount, which ensures that authorities are protected to this level of Business Rate income. For the Council the value of safety net figure is £4.636M. The comparison of business rate income to the safety net uses the total income collected from business rate payers and adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and the revision to Small Business Rate Relief (announced in the Autumn Statement 2012) not allowed for when the safety net was set. The Council does not qualify for a safety net payment for 2013/14.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rate appeals outstanding as at 31 March 2014. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion to the precepting shares. The total provision charged to the collection fund for 2013/14 has been calculated at £9.042M.

### 3 MAJOR PRECEPTORS

The five major preceptors on the fund are set out in the following table:

	<b>Council Tax £000</b>	<b>Business Rates £000</b>	<b>Total £000</b>
Central Government	0	30,931	30,931
Lancashire County Council	40,296	5,567	45,863
Lancashire Police Authority	5,673	0	5,673
Lancashire Fire Authority	2,361	619	2,980
Lancaster City Council	7,756	24,745	32,501
	<b>56,086</b>	<b>61,862</b>	<b>117,948</b>

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet.

At 31 March 2014 the Council was responsible for 12 of these Trust Funds, the balances of which are shown in the tables below.

Revenue Accounts	Balance b/f 01/04/13 £	Income £	Transfers Out £	Expenditure £	Balance c/f 31/03/14 £
<b>Bequests and Endowments</b>					
(a) Council sole trustee					
Ashton Memorial	0	0	0	0	0
Williamson Park	0	0	0	0	0
Other	(4,017)	(4,154)	0	3,835	(4,336)
(b) Council not sole trustee	(2,109)	(10)	0	0	(2,119)
<b>School etc. Prize Funds</b>					
(a) Council sole trustee	(3,175)	0	0	0	(3,175)
(b) Council not sole trustee	0	0	0	0	0
<b>TOTAL</b>	<b>(9,301)</b>	<b>(4,164)</b>	<b>0</b>	<b>3,835</b>	<b>(9,630)</b>

	2012/13 £	2013/14 £
<b>Bequests and Endowments</b>		
<b>(a) Council sole trustee</b>		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	0	0
Revenue	0	0
Cash and Debtors	51,928	52,236
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	646	646
Cash and Debtors	2,462	2,473
<b>School etc. Prize Funds</b>		
<b>(a) Council sole trustee</b>		
Capital	0	0
Revenue	3,175	3,175
Cash and Debtors	0	0
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	0	0
Cash and Debtors	0	0
<b>TOTAL</b>	<b>58,211</b>	<b>58,530</b>

It is a requirement of the Charity Commission for all Bequests, Endowments and Trust funds, for which the Council is responsible for, that an Income and Expenditure account is produced for those Trusts with an income under £10,000. This must also be accompanied by a Balance sheet.

The Council consolidates all the Bequests, Endowments and Trusts into one account; these are shown in the following table.

<b>Income &amp; Expenditure Account</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Interest	(4,821)	(4,164)
Capital	0	0
	<b>(4,821)</b>	<b>(4,164)</b>
<b>Expenditure</b>		
Ashton Memorial	1,086	1,084
William Smith Festival	206	219
Whalley Playground	658	658
Lune Bank Gardens	11	10
Williamson Park	1,862	1,862
War Memorial Fund	2	2
Crook of Lune	0	0
William Briggs	900	0
Transfers Out	26,469	0
	<b>31,194</b>	<b>3,835</b>
<b>Excess (Income)/Expenditure</b>	<b>26,373</b>	<b>(329)</b>

<b>Balance Sheet</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£</b>	<b>£</b>
<b>Assets</b>		
Investments	3,821	3,821
Debtors	2,021	2,021
Bank	52,369	52,688
	<b>58,211</b>	<b>58,530</b>

<b>Represented by:</b>		
Reserves as at 31st March	31,838	58,859
Income in year	26,373	(329)
	<b>58,211</b>	<b>58,530</b>

Below is a list and description of Bequests & Endowments where the Capital value exceeds £1,000.

#### **Ashton Memorial**

The Ashton Memorial, a historic folly, was built in 1907 and given to the City of Lancaster by Lord Ashton. The building is open to the public on 362 days a year and has free access.

#### **Williamson Park**

The annual interest is used for the cutting, pruning, trimming, hedging and the general upkeep of the grounds within Williamson Park.

#### **William Smith Festival**

The annual interest is used to provide prizes etc. at the Annual Easter Festival for schoolchildren.

#### **Whalley Playground**

The annual interest is used for the upkeep, maintenance and supervision of the Whalley Playground.

#### **Lune Bank Gardens**

The annual interest is available for the upkeep of Lune Bank Gardens.

#### **Crook of Lune**

The interest is passed to Lancashire County Council contributing towards the Hermitage Field Access for all and environmental enhancement works.

## Accounting Policies

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

- recognising
- selecting measurement bases for, and
- presenting

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

Accounting policies do not include estimation techniques.

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

## Acquired Operations

Operations comprise services and divisions of service as defined in BVACOP. Acquired operations are those operations of the local authority that are acquired in the period.

## Actuarial Gains and Losses

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

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

## Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

## Class of Tangible Fixed Assets

The classes of tangible fixed assets required to be included in the accounting statements are:

Property, plant and equipment  
Investment property  
Assets held for sale

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

## Consistency

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

## Constructive Obligation

An obligation that derives from an authority's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and
- (b) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## Contingent Asset

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



**Contingent Liability**

A contingent liability is either:

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

**Corporate and Democratic Core**

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

**Current Service Cost (Pensions)**

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

**Curtailement**

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

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

**Defined benefit Scheme**

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

**Defined Contribution Scheme**

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

**Depreciation**

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

**Discontinued Operations**

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met: Operations not satisfying all these conditions are classified as continuing.

- (a) The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- (b) The activities related to the operation have ceased permanently.
- (c) The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations.
- (d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

## **Discretionary benefits**

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

## **Estimation Techniques**

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

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

## **Events After the balance Sheet Date**

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

## **Exceptional Items**

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

## **Expected Rate of Return on Pensions Assets**

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

## **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

## **Fair value**

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

## **Finance Lease**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all of the fair value of the leased asset.

## **Government Grants**

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

## **Impairment**

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

## **Infrastructure Assets**

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

## **Interest Cost (Pensions)**

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

**Long-term Contracts**

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

**Net book value**

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

**Net Current Replacement Cost**

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

**Net Debt**

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

**Non-operational Assets**

Fixed assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and the rental income is negotiated at arm's length.

**Operating Leases**

A lease other than a finance lease.

**Past Service Cost**

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

**Prior Period Adjustments**

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

**Projected Unit Method**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to: The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

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

**Related Parties**

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party, or
- (ii) the parties are subject to common control from the same source, or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- (i) central government
- (ii) local authorities and other bodies precepting or levying demands on the council tax

- (iii) its subsidiary and associated companies
- (iv) its joint ventures and joint venture partners
- (v) its members
- (vi) its chief officers, and
- (vii) its pension fund.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- (i) members of the close family, or the same household, and
- (ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

### **Related Party Transaction**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- (i) the purchase, sale, lease, rental or hire of assets between related parties
- (ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
- (iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party
- (iv) the provision of services to a related party, including the provision of pension fund administration services
- (v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

### **Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

### **Residual value**

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

### **Retirement benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Settlement (re pension matters)**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- (b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
- (c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme

**Tangible Fixed Assets**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

**Useful Life**

The period over which the local authority will derive benefits from the use of a fixed asset.

**Vested Rights**

In relation to a defined benefit scheme, these are:

- (a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme
- (b) for deferred pensioners, their preserved benefits
- (c) for pensioners, pensions to which they are entitled.



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Our Ref: NM/LW

## Appendix C

**LANCASTER  
CITY COUNCIL**

*Promoting City, Coast & Countryside*

KPMG LLP  
St James' Square  
Manchester  
M2 6DS

17 September

### Resources

**Nadine Muschamp**  
**Chief Officer (Resources)**  
Town Hall  
Dalton Square  
LANCASTER LA1 1PJ

DX63531 Lancaster

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Lancaster City Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

The financial statements have been prepared on a going concern basis.



2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

**Information provided**

4. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - ii) The Authority has disclosed to you all information in relation to:
    - a) fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and
    - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent*

*Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
10. The Authority confirms that:
  - The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied as far as it can be that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,
  -have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and noted at the meeting of the Audit Committee on 17 September 2014.

Yours faithfully

**Nadine Muschamp**  
**Chief Officer (Resources) and Section 151 Officer**

**On behalf of Lancaster City Council**

**Appendix to the Representation Letter of Lancaster City Council: Definitions****Financial Statements**

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

**Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

### Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

### Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

### Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**AUDIT COMMITTEE**

**Financial Regulations  
17 September 2014**

**Report of the Chief Officer (Resources)**

**PURPOSE OF REPORT**

To seek Members' endorsement for a newly drafted set of Financial Regulations and to propose amendments to an associated Article of the Council's Constitution.

**This report is public**

**RECOMMENDATIONS**

- 1. That Members endorse the newly drafted Financial Regulations.**
- 2. That the proposed revision of Article 14 of the Constitution be referred on to Council for approval.**

**1.0 Introduction**

- 1.1 At its last meeting on 18 June 2014 the Committee supported in principle new proposals for the future responsibility for drafting, maintaining and approval of Financial Regulations and associated instructions and guidance. In essence, the proposals establish responsibility for the financial regulations with the Chief Officer (Resources) as Section 151 Officer, whilst recognising that the Council might choose to instruct that officer on particular matters, so long as any such instruction is itself consistent with the Accounts & Audit (England) Regulations 2011.
- 1.2 In line with those proposals, Council has since approved an amendment to the Committee's terms of reference, which now state its responsibility as: *"To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate."* (the Constitution, part 3 section 8, TOR 8.16).
- 1.3 The council's current Financial Regulations and associated Financial Procedures were originally approved by the Audit Committee in April 2002, with the last update (relating to project and capital programme management) being approved in September 2007.

**2.0 Draft Financial Regulations**

- 2.1 As well as being overdue an update, it has been recognised that there is a general need to modernise and refresh the regulations and tie them in with other ongoing reviews of the Constitution, in particular the recently updated Scheme of Delegation. In support of the Financial Regulations and Contract Procedure Rules, the Council has previously adopted an associated set of Financial Procedures, as well as a wide

range of separate financial policies and guides. To be effective, it is important that these sources of instruction and guidance are drawn together into a clear and cohesive structure and 'library' of information.

- 2.2 The newly drafted version of the Financial Regulations attached as **Appendix A** have been developed by the Chief Officer (Resources), Financial Services Manager and Internal Audit Manager with consultation of Management Team.
- 2.3 The draft Regulations therefore incorporate the following structure for the future:

Level	Document(s)	Status	Ownership and Approval
1	Financial Regulations	Organisational rules. High level statement of responsibilities for financial administration. Part of the Council's Constitution	Chief Officer (Resources) responsible for reviewing, updating and promoting the Regulations. Changes to be reported to Audit Committee for endorsement.
2	Standing Financial Instructions & Guidance	More detailed rules, procedural instructions and guidance in support of the Regulations	Responsibility for maintenance, approval and promotion rests with the Chief Officer (Resources)

- 2.4 Aside from addressing these proposals, the key aims in developing this new draft have been to provide:
- a unified, definitive and more concise set of rules for financial administration;
  - a more readable and informative source of information for both Officers and Elected Members; and
  - an effective foundation for raising awareness and understanding of, and levels of competence in the application of, financial standards and processes.
- 2.5 Whilst the presentation of the new Regulations appears quite different from the current version, the majority of the principles, 'rules', and responsibilities are not changed, but simply expressed differently. Members' attention is drawn to Section 4, covering the Management of Budgets, which has changed more significantly than most, with the objective of providing all parties with greater clarity on the budget management framework and their individual roles and responsibilities. More explanation will be provided at the meeting.
- 2.6 Committee's endorsement is sought for the draft Regulations, to be implemented on by 30<sup>th</sup> September 2014. Following this, all documents and information contributing to the level 2 Standing Financial Instructions and Guidance will be reviewed with a view to having a complete framework in place by 31<sup>st</sup> March 2015.
- 2.7 As indicated in the wording of the Committee's terms of reference, Members have the opportunity, on behalf of full Council, to issue the Section 151 Officer with instructions regarding financial administration, the caveat being that any such instruction must comply with the legislative requirements set out in the Accounts and Audit (England) Regulations 2011.

### 3.0 Contract Signing Issues

- 3.1 The review of Financial Regulations has been undertaken with due consideration to other provisions within the Council's Constitution. In doing so, an anomaly has been



identified regarding requirements for the signing of contracts. Currently, Article 14.04 of the Constitution relating to the 'Authentication of Documents' requires any contract with a value exceeding £50,000 to be signed by the Section 151 Officer (or deputy) and the Chief Executive or a Chief Officer. The subsequent article, number 14.05 covering use of the Common Seal of the Council, requires that affixing of the seal be attested by only one officer, namely the Chief Executive or any Chief Officer.

3.2 The Section 151 Officer and Chief Officer (Governance) have discussed this, and feel that, in addressing the anomaly, there is also scope to provide greater clarity regarding the requirements for all levels of contract and at the same time modernise the provisions of article 14. The wording of the existing article 14 and proposed re-draft are attached at **Appendix B**.

3.3 Members are asked to consider this proposed re-draft and recommend it for approval by full Council.

#### **4.0 Details of Consultation**

4.1 Members of Management Team have been consulted on the draft Financial Regulations. The Chief Officer (Governance) has also been consulted specifically on the matters relating to contract approval and completion.

#### **5.0 Options and Options Analysis (including risk assessment)**

5.1 The proposals are that the Audit Committee:

- a) supports and endorses the proposed new draft Financial Regulations; and
- b) accepts and refers to full Council the proposed revision to article 14 of the Constitution.

5.2 Regarding the draft Financial Regulations, Members of Audit Committee could make suggestions as to their content, and also, at this stage, have the opportunity to consider issuing any appropriate instructions to the Section 151 Officer.

5.3 As regards the changes to article 14 of the Constitution, Members have the option to accept these as proposed, suggest changes, or not accept the proposals.

5.4 The preferred option is that the proposals are accepted as stated.

#### **6.0 Conclusion**

6.1 The Council's Financial Regulations are in need of review and update. The proposals in this report aim to establish more efficient procedures for the future maintenance of Financial Regulations and associated instructions/guidance, taking account of the current legislative requirements.

6.2 The proposed changes to article 14 of the Constitution contribute to the overall review and modernisation of the Council's Constitution.

<b>CONCLUSION OF IMPACT ASSESSMENT</b> <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b>
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This report has no direct impact on these areas.

<b>FINANCIAL IMPLICATIONS</b>
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None arising directly from this report

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer is also the Council's Chief Officer (Resources), in whose name this report has been prepared; she has no further comments to add.

**LEGAL IMPLICATIONS**

The proposals are in accordance with the provisions of the relevant legislation.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

None

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## Revised Financial Regulations

Approved by the Section 151 Officer, for Consideration and  
Endorsement by Audit Committee on 17 September 2014

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### 1. Introduction

#### 1.1. Scope and Objectives

- 1.1.1. The overriding objective of the Financial Regulations is to provide a clear and effective framework for managing the Council's financial affairs, as a contribution to high standards of governance, probity and public accountability. The Regulations set the foundations for all aspects of the Council's financial practices, directing and guiding elected Members and Officers in their financial duties, and they play a key role in securing a positive external audit opinion on the Council's accounts and arrangements to secure value for money.
- 1.1.2. The Financial Regulations are an integral part of the Council's Constitution, to establish the Council's financial governance arrangements. In case of any conflict, other parts of the Constitution take precedence over these Regulations, unless any legislative or regulatory requirement determines otherwise.
- 1.1.3. These Regulations are grouped into five main areas:  
**Section 2 - Financial Standards**  
**Section 3 - Financial Planning and Annual Budget Setting**  
**Section 4 – Management of Budgets**  
**Section 5 - Financial Records and Reporting**  
**Section 6 – Control of Resources**
- 1.1.4. The Regulations apply to every Member and Officer of the Authority and anyone acting on its behalf.
- 1.1.5. In particular, the Regulations identify the financial responsibilities of full Council, the Cabinet and Overview and Scrutiny, the Chief Executive, the Monitoring Officer, the Section 151 Officer and other Chief Officers.
- 1.1.6. The Regulations are subject to review at least annually, or sooner if circumstances warrant it.

## **2. Financial Standards**

### **2.1. General Principles**

- 2.1.1. The Financial Regulations mirror and support the expected standards of conduct set out in both the Council's Code of Conduct for Employees and the Members' Code of Conduct. All of these documents seek to ensure the highest standards of conduct and to protect the public, the Council and its elected Members and employees.
- 2.1.2. Section 10 of the Code of Conduct for Employees (Use of Financial Resources) sets out the overall expectations of employees in managing finances, the expected standard being expressed as *"Employees must strive to ensure that they use public funds entrusted to them in a responsible and lawful manner, and seek to secure value for money in the provision of their services."*
- 2.1.3. In relation to financial matters, Officers should also be aware of the following sections in the Code of Conduct for Employees:
- Corruption (section 2);
  - Standards of conduct (section 3);
  - Personal interests and personal relationships (section 6);
  - Gifts and hospitality (section 8);
  - The selection of developers, consultants or contractors (section 11); and
  - Separation of roles during tendering (section 12)
- 2.1.4. All elected Members and Officers have a duty to abide by the highest standards of probity, or "correctness", in dealing with financial issues.
- 2.1.5. It follows therefore that all elected Members and Officers have a general responsibility for taking reasonable action to provide for the security of the assets and any other resources under their control, and for ensuring that the use of these resources is legal, properly authorised, in accordance with relevant policies and other internal controls, and provides value for money.

### **2.2. Legislative Requirements**

- 2.2.1. The Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Authority. The primary source (that informs the title) of this Officer's duties is Section 151 of the Local Government Act 1972, which requires the Authority to *"...make arrangements for the proper administration of their financial affairs and ... secure that one of their Officers has responsibility for the administration of those affairs."*
- 2.2.2. Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer to report to full Council and the external auditors if the Authority or one of its Officers:
- has made, or is about to make, a decision which involves incurring unlawful expenditure;
  - has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the Authority;
  - is about to make an unlawful entry in the Authority's accounts.

- 2.2.3. Section 114 of the 1988 Act also requires the Section 151 Officer to nominate properly qualified Member(s) of staff to deputise should he or she be unable to perform the duties under section 114 personally, and also requires the Authority to provide the Section 151 Officer with sufficient staff, accommodation and other resources to carry out the duties under section 114.
- 2.2.4. The Section 151 Officer has nominated the Financial Services Manager and the Internal Audit Manager to act as her deputies.
- 2.2.5. The Local Government Act 1999 places a 'Best Value' duty on the Authority 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".
- 2.2.6. The Local Government Act 2000 and the more recent Localism Act 2011 determine the governance arrangements available to local authorities, (i.e. Mayor/Leader and Cabinet or Committee based systems), and establish where accountability lies for money and other resources. Under the Council's arrangements, the Cabinet is responsible for proposing the policy framework and budget to full Council and ultimate financial accountability lies with full Council.
- 2.2.7. The Local Government Finance Act 1992, the Local Government Act 2003, and the Localism Act 2011 set out various provisions and powers in the following areas, amongst others:
- Capital financing, borrowing and investment (treasury management);
  - Proper practices in accounting;
  - Budget calculations, monitoring and the maintenance of reserves;
  - Business Rates and Council Tax; and
  - Council housing finance (the Housing Revenue Account).
- 2.2.8. The Accounts and Audit (England) Regulations 2011 require the Authority to make arrangements to provide:
- adequate and effective financial management;
  - sound internal control and risk management;
  - an annual statement of accounts and associated annual governance statement; and
  - an adequate and effective internal audit in accordance with proper practices.
- 2.2.9. The 2011 Regulations also build on the Section 151 Officer's responsibilities by making him or her responsible for determining and maintaining the Authority's accounting records, form of accounts and accounting control systems, including various specific provisions such as the writing off of bad debts.
- 2.2.10. The Audit Commission Act 1998 set out the current arrangements for the appointment, by the Audit Commission, of the Authority's external auditors and the extent and nature of both the Audit Commission's and external auditors' work.

2.2.11. The Local Audit and Accountability Act 2014 has repealed the Audit Commission Act 1998, however, leading to the abolition of the Audit Commission. The 2014 Act makes new provisions for the appointment of external auditors (understood to be from 01 April 2017 at the earliest) and for the conduct and regulation of local authority audits.

2.2.12. The above sections outline the key legislative provisions that form the backbone of the local government financial framework, which is supported in turn by numerous other legislative and regulatory requirements.

### **2.3. Proper Practices**

2.3.1. Proper practices in accountancy<sup>1</sup> and treasury management<sup>2</sup>, as provided for in the Local Government Act 2003, are those issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.3.2. The Authority has adopted professional best practice standards regarding the role of the Chief Financial Officer<sup>3</sup> (or Section 151 Officer) as the benchmark for its organisation's arrangements. Accordingly, the Section 151 Officer:

- is a key Member of the Management Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure that immediate and longer term implications, opportunities and risks are fully considered, and align with the Authority's financial strategy; and
- must lead the promotion and delivery by the whole Authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

2.3.3. Proper practices in internal audit<sup>4</sup> as provided for in the Accounts and Audit (England) Regulations 2011 are those adopted and issued by CIPFA.

2.3.4. The Authority has also adopted professional best practice standards regarding the role of the Head of Internal Audit<sup>5</sup> (for the Council, this is the Internal Audit Manager).

2.3.5. Provisions relating to the proper practices and the role of the Internal Audit Manager are incorporated in the Internal Audit Charter, which is approved by the Council's Audit Committee.

### **2.4. Responsibilities for Financial Standards and the Financial Regulations**

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<sup>1</sup> 'Code of Practice on Local Authority Accounting in the United Kingdom', CIPFA

<sup>2</sup> 'Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes', CIPFA 2011

<sup>3</sup> 'Statement on the Role of the Chief Financial Officer in Local Government', CIPFA 2010

<sup>4</sup> 'Public Sector Internal Audit Standards' and 'Local Government Application Note' CIPFA.

<sup>5</sup> 'Role of the Head of Internal Audit in Public Sector Organisations' CIPFA

- 2.4.1. Establishing and maintaining the highest possible financial standards requires clarity in roles and responsibilities and the understanding and commitment of everyone involved. The Financial Regulations are the documentary cornerstone of the Council's financial management culture, setting out the fundamental rules, responsibilities and expectations.
- 2.4.2. In accordance with the Accounts and Audit (England) Regulations 2011, the Audit Committee may, on behalf of full Council, give any instructions regarding the Financial Regulations to the Section 151 Officer as may be appropriate.
- 2.4.3. In accordance with legislative requirements and proper practice standards, the Section 151 Officer is responsible for:
- reviewing, updating and promoting the Financial Regulations;
  - reporting any updates made to Financial Regulations to the Audit Committee for its subsequent consideration and endorsement;
  - developing, approving the adoption of, and promoting supporting instructions, procedures and guidance;
  - developing and actively promoting financial skills and competencies, assessing training needs at a corporate level and ensuring that appropriate training is made available to meet all identified needs; and
  - providing relevant, appropriate impartial advice that relevant parties must have regard to.
- 2.4.4. The Section 151 Officer may delegate certain responsibilities to other appropriate responsible Officers, subject to any legal or other regulatory constraints.
- 2.4.5. Every elected Member and Officer of the Authority and anyone acting on its behalf is required to abide by the Financial Regulations and act in accordance with the supporting instructions, guidance, systems and procedures. That is unless, as part of joint working, a partner organisation's Financial Regulations or equivalent have been formally adopted, following consideration by the Section 151 Officer.
- 2.4.6. Chief Officers are responsible for ensuring that all Officers in their services have access to, and are aware of the existence and content of, the Authority's Financial Regulations and other internal regulatory documents and that they comply with them.
- 2.4.7. Chief Officers should maintain clear, accessible records of where decision making has been delegated to members of their staff, including seconded staff, taking account of any appropriate legislative, other external or internal constraints, and the advice of the Section 151 Officer. In circumstances where decisions have been delegated or devolved to other responsible Officers, references in the regulations to the Chief Officer should be read as referring to other such responsible Officers.
- 2.4.8. Chief Officers are responsible for identifying training needs for the staff within their service areas, taking advice from the Section 151 Officer as appropriate.
- 2.5. Procedure for Handling Breaches of the Regulations**
- 2.5.1. Chief Officers are responsible for reporting to and consulting with the Section 151 Officer on any breach of Financial Regulations and for taking appropriate remedial action, including disciplinary action where necessary.



- 2.5.2. The Section 151 Officer is responsible for reporting, as appropriate, breaches of the Financial Regulations to the Council and/or to the Cabinet and/or Audit Committee Members.

### **3. Financial Planning and Annual Budget Setting**

#### **3.1. What this covers:**

- 3.1.1. In general terms, financial planning is the task of determining whether the Authority can afford its strategic goals and objectives, and what might need to change in order for them to be affordable, achievable and financially sustainable. It comprises the policies, practices and procedures that the Council will adopt to direct and manage its application of financial resources in the long, medium and short-term.
- 3.1.2. For the Council, the key financial planning elements are the Medium Term Financial Strategy (MTFS) and the Budget.
- 3.1.3. In essence, the Budget is the financial expression of the Authority's plans and policies.

#### **3.2. Why this is important:**

- 3.2.1. The Authority is a complex organisation responsible for delivering a wide variety of services, operating in an ever changing environment, but typically it cannot afford or deliver all that it might want to. It needs to forecast, prioritise and challenge its allocation of resources therefore, in view of its Corporate Plan and service business plans, to help ensure that any objectives set are achievable from a financial point of view.
- 3.2.2. Sound financial planning is fundamental to the Council being able to fulfil its legislative duties (§2.2) and satisfy required professional standards (§2.3), with regard to the efficient and effective management of public funds. Part 4, Section 3 of the Council's Constitution sets out other requirements and controls regarding budgetary matters. In overall terms, it is unlawful for an Authority to budget for a deficit.
- 3.2.3. More specifically, in terms of capital expenditure on assets with a long-term value to the Authority, this helps shape the way services are delivered over that long term and creates financial commitments for the future in the form of financing costs and revenue running costs. The capacity of the Authority to finance capital is constrained. This means that capital expenditure and financing plans also need to form part of overall financial planning, and must be carefully prioritised in order to maximise the benefit of scarce resources.
- 3.2.4. Furthermore, as part of the planning process it is important for the Authority to decide the level of provisions, reserves and balances it wishes to maintain before it determines the level of council tax. Provisions, reserves and balances are maintained as a matter of prudence, enabling the Authority to provide for unexpected events and recognised future commitments, thereby helping to protect it from overspending.

#### **3.3. Components**

- 3.3.1. **Financial Strategy (Known as the Medium Term Financial Strategy or MTFS)**
  - 3.3.1.1. The MTFS considers the Council's financial outlook and its risk profile, setting out how it will seek to balance its corporate and financial objectives and manage the key financial risks it faces.
  - 3.3.1.2. The MTFS is a key element of the Council's budget and policy framework, which is proposed by the Cabinet and approved by full Council.

- 3.3.1.3. In approving the MTFS, Council sets the financial strategy and boundaries within which Members and Officers must operate.
- 3.3.1.4. The MTFS will therefore contain any limits/parameters/other constraints within which the schemes for the treatment of virements between budget headings and year end under- and overspendings are to operate. [Note that for 2014/15, previous virement limits will be maintained.]
- 3.3.1.5. The Section 151 Officer is responsible for preparing a draft MTFS on a three-yearly rolling basis, for consideration by the Cabinet, before submission to full Council.

### 3.3.2. **Annual Budget Process**

#### 3.3.2.1. **Format of the Budget**

- a) The general format of the budget will be determined by the Section 151 Officer in accordance with legislative/regulatory requirements and having regard to any specific needs of Cabinet or full Council. The draft budget will include resources allocated to different services and projects, proposed taxation levels and any contingency funds and will cover the following:
  - The General Fund annual revenue budget and five-year capital programme.
  - Housing Revenue Account (HRA) annual revenue budget (for Council Housing) and its five-year capital programme.
  - Collection Fund accounts.
  - Any other statutory accounts.

#### 3.3.2.2. **Budget Preparation and Resource Allocation**

- a) In approving the MTFS, the Council sets the budget methodology for the period covered.
- b) The Cabinet is responsible for providing the direction to enable full budget and policy framework proposals to be developed for consideration by full Council.
- c) The Section 151 Officer is responsible for:
  - issuing elected Members and Officers with budget preparation guidelines in accordance with the MTFS;
  - ensuring that a budget covering the elements in §3.3.2.1 is prepared on an annual basis, and providing due support;
  - developing, maintaining and advising on resource allocation processes that ensure due consideration is given to the budget and policy framework and associated options arising;
  - advising Cabinet and full Council on:
    - prudent levels of provisions, reserves and balances for the Authority;
    - the robustness of the estimates in the budget;
    - the affordability of spending plans, with particular regard to capital investment;
    - any legal or Governmental policy constraints on the levels of council tax; and

- expected levels of external funding, including the retention of business rate income, and any constraints regarding their use.
- d) Chief Officers are responsible for developing budget estimates that have been prepared in line with guidelines issued by the Section 151 Officer, reflecting proposed service plans, and for developing budget and policy framework options in line with Cabinet's directions.

**3.3.2.3. Annual Budget Approval**

- a) Cabinet is responsible for proposing the draft MTFS and budget to full Council.
- b) Full Council is responsible for approving the MTFS and budget, prior to the statutory deadline of 11 March. Full Council may amend the budget or ask the Cabinet to reconsider it before approving it.

## **4. Management of Budgets**

### **4.1. What this covers:**

4.1.1. Management of budgets covers financial responsibilities and accountabilities in relation to the ongoing running of the Authority. It includes arrangements for:

- the incidence, monitoring, review and internal management reporting of budget activity; and
- procedures to enable the in-year variation of budgets (i.e. virements) and the treatment of year end under- or overspendings.

### **4.2. Why this is important:**

4.2.1. Budget management ensures that once the budget has been approved by full Council, allocated resources are used for their intended purposes, are properly accounted for, and value for money is achieved. Budgetary control is a continuous process, enabling the Authority to review and adjust its budget targets during the financial year. It also provides the mechanism that calls to account Members and Officers for defined elements of the budget.

4.2.2. By continuously identifying and explaining variances against budgetary targets, the Authority can identify changes in trends and resource requirements at the earliest opportunity. The Authority itself operates within an annual budget limit, approved when setting the overall budget. To ensure that the Authority in total does not overspend, each service is required to manage its own expenditure within the budget allocated to it.

### **4.3. Components**

#### **4.3.1. Managing Income and Expenditure: Budgetary Control**

4.3.1.1. The Section 151 Officer is responsible for providing appropriate financial information and advice to enable budgets to be monitored and controlled effectively. This includes maintaining an up to date, detailed approved budget during the year, and agreeing the levels at which budgetary control is to be exercised. He or she must monitor the overall position and report to Cabinet and the Budget and Performance Panel on a regular basis, and Council as necessary.

4.3.1.2. Chief Officers and any Officer designated by them as a Responsible Spending Officer are:

- a) authorised to incur expenditure in accordance with the revenue estimates that make up the approved budget, subject to any further specific conditions or requirements that may be attached. In short, it is the existence of an approved budget that confers authority to spend;
- b) responsible for collecting budgeted income, and maximising such income in accordance with relevant policies;
- c) responsible for the accurate recording of transactions at a detailed level against relevant cost centres and budgets;
- d) responsible for agreeing in-year virements within delegated limits, in consultation with the Section 151 Officer; and

- e) responsible for achieving value for money in the use of resources, both collectively at a corporate level, and individually within their own service areas.

4.3.1.3. In summary, Chief Officers are responsible for controlling income and expenditure within their area and for monitoring performance, taking account of financial information provided by the Section 151 Officer. They should report as necessary on variances within their own areas, take appropriate action to avoid exceeding their budget allocation, and alert the Section 151 Officer to any problems.

4.3.1.4. Nothing in these Regulations prevents the Chief Executive, the Section 151 Officer or duty Senior Emergency Officer from authorising expenditure essential to meet any immediate needs created by an emergency threatening life or limb, or related to major structural damage threatening the fabric of a building. If such a situation arises, the actions must be reported by the relevant Officer to the next Cabinet meeting (for referral on to Council if the consequences fall outside of the budget and policy framework).

#### 4.3.2. **In-Year Budget Changes**

4.3.2.1. Full Council is responsible for:

- approving any proposed budget change that falls outside of the budget and policy framework, normally on referral from Cabinet; and
- through the budget virement scheme included within the MTFS, setting the limits and constraints on the extent to which the Cabinet and/or Officers may reallocate budget funds from one service to another; and
- through the carry forward of year-end over- and underspendings scheme as included within the MTFS, setting the limits and constraints on the extent to which the Cabinet and/or Officers may reallocate budget funds from one year to another (for revenue or capital).

4.3.2.2. Within the limits and constraints set by full Council, Cabinet is responsible for:

- giving prior approval for any proposed budget change that involves the transfer or redirection of resources on an ongoing basis from one service, function or activity to another; and
- giving prior approval for any proposed budget change that would deliver in-year savings above the key decision thresholds.

4.3.2.3. The Section 151 Officer is responsible for administering the schemes for the treatment of year end under- or overspendings and the virement scheme, within the parameters set by full Council in the MTFS.

4.3.2.4. The Section 151 Officer is responsible for advising Cabinet, full Council and Officers on whether any particular circumstance or proposal falls within or outside of the approved budget framework, and for challenging and supporting Members and Officers in their decision-making, especially on affordability and value for money. He or she is responsible for advising on the financial thresholds for key decisions, where there is a requirement to do so.

- 4.3.2.5. The Section 151 Officer has authority to update the approved budget for any changes that are in accordance with the budget and policy framework and are either:
- budget/cost neutral (at least) and either below the Council's key decision threshold, or above the key decision threshold, but having no material operational impact and no significant future resource implications. Note that this includes funding matters under s4.3.3.4 or
  - to reflect any funding awarded automatically to the Council (that is, without bidding) for the provision of services or for other purposes, or
  - as a result of the properly authorised decisions of Council, its Committees, the Cabinet, or as delegated through the approved Officer Scheme of Delegation. Note that this includes funding matters under s4.3.3.2; or
  - to reflect the outcome of any buy or lease options appraisals undertaken regarding the procurement of vehicles, plant and equipment, or associated financing decisions.
- 4.3.2.6. The Section 151 Officer will report significant changes retrospectively, through normal financial monitoring and reporting arrangements.
- 4.3.2.7. Chief Officers are responsible for:
- a) consulting with the Section 151 Officer and obtaining relevant approval/s on any matter liable to affect the Authority's finances, before any commitments are incurred.
  - b) ensuring that relevant Members are advised of the financial implications of all proposals and that the financial implications have been agreed by the Section 151 Officer
- 4.3.3. **External Funding Arrangements**
- 4.3.3.1. Council is responsible for approving any external funding bid that falls outside of the budget and policy framework, normally on referral from Cabinet.
- 4.3.3.2. Cabinet is responsible for approving any external funding bid that is above the key decision threshold, and/or involves the redirection of resources between service areas, functions or activities on an ongoing basis, but is otherwise within the budget and policy framework.
- 4.3.3.3. Separately, where a proposal involves the Authority acting as the "accountable body" for a partnership or joint venture (often, but not always, involving external funding), the approval lies with Cabinet, with referral on to Council if outside of the budget and policy framework.
- 4.3.3.4. Chief Officers have authority, with the agreement of the Section 151 Officer, to express an interest in, bid for, and accept external funds where the total value of the bid does not exceed the Council's key decision thresholds and the proposal is (at least) budget neutral, subject to due diligence being demonstrated.
- 4.3.3.5. Chief Officers have authority to submit expressions of interest for external funding above key decision thresholds:



- subject to consultation with the Section 151 Officer and the relevant Portfolio holder, and additionally
  - the Leader and the Chief Executive, where the expression of interest falls outside of the Budget and/or Policy framework.
- 4.3.3.6. For clarity, an expression of interest in itself does not constitute a key decision.
- 4.3.3.7. Should any such expression of interest be successful, §4.3.3.1 and §4.3.3.2 will apply as normal (as will key decision notice requirements).
- 4.3.3.8. Chief Officers have authority to accept funding bids approved by Cabinet and/or Council, subject to due diligence being completed and with the written consent of the Section 151 Officer.
- 4.3.3.9. Chief Officers have responsibility for notifying the Section 151 Officer of all expressions of interest, bids, awards, claims and all other external funding matters. Additionally, they are responsible for liaising with the Section 151 Officer as necessary where it is proposed that the Authority acts as accountable body in relation to any proposed partnership or other joint venture.
- 4.3.3.10. All the above are subject to any alternative or additional authorisation as may be required by the external funding provider. In these instances, the Section 151 Officer must have prior notice of such requirements.
- 4.3.4. **Provisions, Reserves and Balances**
- 4.3.4.1. Reserves and balances are to be established and operated in accordance with the Provisions and Reserves Policy, proposed by Cabinet and approved by Council as part of the MTFs.
- 4.3.4.2. The Section 151 Officer is responsible for advising the Authority on the level of reserves and balances held and for ensuring that clear protocols are in place for their establishment and use.
- 4.3.4.3. In accordance with proper practices<sup>6</sup>, the Section 151 Officer has full authority to establish, manage and maintain appropriate financial provisions, as reflected in the approved Provisions and Reserves Policy.

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<sup>6</sup> 'Code of Practice on Local Authority Accounting in the United Kingdom', CIPFA

## **5. Financial Records and Reporting**

### **5.1. What this covers:**

5.1.1. Financial records and reporting covers the formal policies, records and documents that the Council is required to maintain, and the reports and returns it is required to produce for submission or publication to its external stakeholders. It includes the Council's accounting policies as well as its formal accounts, financial returns and claims and other reports required by the Government and/or external partners and funding bodies. These requirements have increased in recent years, linked to the Government's drive to increase transparency.

### **5.2. Why this is important:**

5.2.1. The Authority is accountable for millions of pounds worth of public money. Producing sound, accessible information supports accountability from the perspectives both of external stakeholders and the Authority's own.

5.2.2. The Authority has a statutory responsibility to prepare, approve and publish its accounts in accordance with proper practices<sup>7</sup> and must ensure that the accounts present fairly the Authority's operations during the year. Other regulations and proper practices also exist to ensure that financial information is kept and presented on a consistent basis, to provide transparency and openness, and to aid comparison with other organisations.

### **5.3. Components**

#### **5.3.1. Accounting Policies, Records and Returns**

5.3.1.1. The Section 151 Officer is responsible for:

- a) selecting accounting policies and ensuring that they are applied consistently;
- b) the operation of the Authority's accounting controls, the form of accounts and the supporting financial records;
- c) advising on the extent and format of asset records to be maintained by the Authority in order to meet all necessary accounting requirements;
- d) advising on and determining the establishment and operation of service accounting structures, cost centres and trading accounts;
- e) advising on and determining the accounting and any supporting financial arrangements to be adopted where the Council acts as the "accountable body" in relation to a partnership or joint venture; and
- f) Determining and operating any in-year external reporting arrangements as may be required or recommended under regulation or proper practices.

5.3.1.2. Chief Officers are responsible for ensuring that established accounting policies and accounting control systems are followed and necessary accounting and asset records are maintained.

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<sup>7</sup> 'Service Reporting Code of Practice for Local Authorities' CIPFA (published annually)

**5.3.2. Annual Statement of Accounts**

- 5.3.2.1. Full Council has delegated its responsibility for approving the annual statement of accounts to the Audit Committee, in accordance with the Accounts and Audit (England) Regulations 2011.
- 5.3.2.2. The Section 151 Officer is responsible for ensuring that the annual statement of accounts is prepared in accordance with proper practices<sup>8</sup> and for meeting requirements relating to International Financial Reporting Standards and the preparation of “Whole of Government Accounts”.
- 5.3.2.3. Chief Officers are responsible for ensuring that relevant Officers liaise effectively with the Section 151 Officer and his/her staff to enable the efficient and accurate compilation of the statement of accounts.

**5.3.3. Accounting Returns and Grant Claims**

- 5.3.3.1. The Section 151 Officer is responsible for the preparation and submission of any other public financial reporting or financial returns required by the Government.
- 5.3.3.2. Chief Officers are responsible for ensuring that their relevant Officers liaise effectively with the Section 151 Officer and his/her staff in compiling and submitting grant claims and funding returns.
- 5.3.3.3. The Section 151 Officer has general responsibility for approving the content and accuracy of grant claims and other funding returns, and signing off such documents, subject to any alternative or additional authorisation as may be required by the organisation providing the funding.

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<sup>8</sup> *‘Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice’ (CIPFA/LASAAC)*

## 6. Control of Resources

### 6.1. What this covers:

- 6.1.1. Control of resources covers the principles, processes and systems established by the Council to govern its activities and protect its assets and financial well-being. It includes:
- Treasury Management and banking arrangements for the safeguarding and management of the Council's monetary assets;
  - the establishment and operation of other secure and reliable financial systems;
  - arrangements for managing risk, including insurance;
  - the maintenance of a sound system of governance;
  - arrangements for effective independent review; and
  - arrangements to manage and minimise the threats from fraud, corruption, and other forms of financial crime.
- 6.1.2. Effective treasury management is essential not only to safeguard the Authority's monetary assets and interests, but also to provide support towards the achievement of its business and service objectives. The Authority defines its Treasury Management activities as: *"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*.
- 6.1.3. The Authority operates a wide range of financial systems and procedures falling within the following general areas/functions:
- a) Income management (including both cash and credit income);
  - b) Ordering and paying for work, goods and services;
  - c) Payments to employees and elected Members (including pensions);
  - d) Welfare payments;
  - e) Accounting (including Trading Accounts, Business Units and Trust Funds);
  - f) The management of, and accounting for, physical assets, including land, vehicles, plant and machinery, and stocks; and
  - g) Taxation.
- 6.1.4. These Financial Regulations are supported by an extensive catalogue of policy, instructional, guidance and training documents covering the detailed operation of the Authority's financial systems and procedures.
- 6.1.5. Risk is defined as *'the probability of an event occurring and its consequences'* and the Council defines risk management as *'the process by which Lancaster City Council manages threats, enhances opportunities and creates an environment that adds value to all its activities'*.

- 6.1.6. Risk management (including insurance) is therefore concerned with those arrangements and practices aimed at identifying and managing the threats (and opportunities) which could influence the Council's ability to achieve its strategic and operational objectives and deliver value for money, including the following:
- Strategic or business risks;
  - Business continuity;
  - Health and Safety; and
  - Project management.
- 6.1.7. Sound systems of governance and internal control are essential in enabling the Authority to set and achieve its aims and objectives for the district. The Authority defines its own governance standards in its Code of Corporate Governance.
- 6.1.8. Internal Audit and External Audit, which are both required by legislation, provide an essential element of independent review of the Authority's financial management, governance and internal control arrangements.
- 6.1.9. The Council is committed to protecting itself and the public from all forms of fraud, theft, corruption and bribery, including any irregularity and the improper use or misappropriation of the Council's property or resources, and has accordingly put arrangements in place to combat these threats.

**6.2. Why this is important:**

- 6.2.1. The Authority is a complex organisation with a wide range of activities. It therefore requires a clear and sound framework of governance and internal control to manage and monitor its progress towards strategic objectives, meet its statutory obligations and fiduciary duties, and protect its interests and assets.
- 6.2.2. In establishing and maintaining this framework, the Authority must have efficient and effective arrangements to:
- a) identify and manage significant risks;
  - b) secure its assets;
  - c) provide an adequate and effective internal audit, in accordance with The Accounts and Audit (England) Regulations 2011;
  - d) meet the requirements regarding external audit of the Authority's accounts, its systems of governance and its arrangements for securing value for money;
  - e) address the threats from potentially fraudulent or corrupt activity; and
  - f) ensure that due diligence<sup>9</sup> is performed in the arrangement and execution of all financial transactions, contracts and negotiations.

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<sup>9</sup> Due diligence is defined as: *“That measure of prudence, responsibility, and diligence that is expected from, and ordinarily exercised by, a reasonable and prudent person under the circumstances”*.

- 6.2.3. Sound financial systems and procedures are essential to an effective framework of accountability and control. The Council's services have many systems and procedures relating to the control of the Authority's assets, including purchasing, costing and management systems.
- 6.2.4. The Authority in general is increasingly reliant on technology for its financial management information. The information must therefore be accurate and the systems and procedures sound and well administered. Systems and procedures need to contain controls to ensure that transactions are properly processed, enabling the prevention and prompt detection of any errors or potential fraud, and that records can be reconstituted if the need arises.
- 6.2.5. Linked to these points, the Section 151 Officer has statutory (see §2.2) and professional (see §2.3) responsibilities to ensure that the Authority's financial systems are sound.

### **6.3. Components**

#### **6.3.1. Treasury Management**

- 6.3.1.1. The Authority has adopted proper practices in Treasury Management, as provided for in the Local Government Act 2003<sup>10</sup>.
- 6.3.1.2. Accordingly, the Authority will create and maintain, as cornerstones for effective treasury management:
  - a) a treasury management policy statement, stating the policies and objectives of its treasury management activities; and
  - b) suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 6.3.1.3. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs.
- 6.3.1.4. The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if they are a CIPFA Member, CIPFA's '*Standard of Professional Practice on Treasury Management*'.
- 6.3.1.5. The Authority nominates the Budget and Performance Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 6.3.1.6. The Section 151 Officer is responsible for:
  - a) arranging the borrowing and investments of the Authority in such a manner as to ensure:

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<sup>10</sup> '*Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*', CIPFA 2011

- compliance with the CIPFA Code of Practice on Treasury Management and the Authority's treasury management policy statement, strategy and practices;
  - that all investments of money are made in the name of the Authority or in the name of nominees approved by full Council;
  - that all securities that are the property of the Authority or its nominees and the title deeds of all property in the Authority's ownership are held in the custody of the Chief Officer (Governance);
  - that all borrowings are effected in the name of the Authority; and
  - he/she acts as the Authority's registrar of stocks, bonds and mortgages and maintains records of all borrowing of money by the Authority.
- b) reporting to full Council on treasury management as required by these regulations and in accordance with the Council's Treasury Management Practices;
- c) making recommendations to Cabinet regarding treasury management policies, strategies and principles, and maintaining detailed treasury management practices accordingly; and
- d) determining in liaison with the Chief Officer(Governance), and advising Chief Officers on, arrangements for the establishment and management of trust funds;
- 6.3.1.7. Chief Officers are responsible for ensuring that:
- a) loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without appropriate Member approval, following consultation with the Section 151 Officer; and
  - b) where trust funds are held on behalf of third parties, they are managed in accordance with arrangements determined by the Section 151 Officer and Chief Officer (Governance).

### 6.3.2. **Banking**

6.3.2.1. The Section 151 Officer is responsible for:

- a) the opening, closing and operation of any bank accounts considered necessary;
- b) determining the provision, and rules for the security, operation and accounting, of any cash or bank imprest accounts required to meet minor expenditure on behalf of the Authority;

6.3.2.2. Chief Officers are responsible for ensuring that the instructions on banking issued by the Section 151 Officer are followed

### 6.3.3. **Financial Systems**

6.3.3.1. The Section 151 Officer is responsible for:

- a) the development and operation of the Authority's accounting systems, to ensure that financial transactions are recorded as soon as, and as accurately as, reasonably practicable;



- b) issuing instructions, and providing advice, guidance and training on the operation of financial systems and procedures for Officers, elected Members and others acting on the Authority's behalf. Such instructions must identify the duties of Officers, and division of responsibilities in relation to significant transactions;
- c) ensuring that uncollectable amounts, including bad debts, are only written off with his or her (or their nominated representative's) approval, and
- d) approving any changes proposed by Chief Officers to existing financial systems and procedures, or for the establishment of new systems.

6.3.3.2. Chief Officers are responsible for:

- a) ensuring that a proper scheme of delegation has been established within their areas and is operating effectively;
- b) the proper operation of financial processes in their own service;
- c) ensuring that their staff receive relevant financial training that has been approved by the Section 151 Officer;
- d) ensuring that 'due diligence' is performed by staff when conducting business involving financial transactions. In this context, due diligence is defined as: *"That measure of prudence, responsibility, and diligence that is expected from, and ordinarily exercised by, a reasonable and prudent person under the circumstances"*;
- e) obtaining the prior approval of the Section 151 Officer for any proposal to change existing financial systems (in whole or part) or to establish new systems (including any connections or interfaces with other systems).

6.3.4. **Risk Management**

6.3.4.1. The Audit Committee is responsible for approving the Authority's risk management policy statement and strategy and for reviewing their effectiveness, to help ensure that risk is appropriately managed;

6.3.4.2. The Chief Officer (Resources) is responsible for developing and promoting the Authority's risk management arrangements throughout the Authority, also to ensure their effectiveness in supporting high standards of corporate governance.

6.3.4.3. Chief Officers are responsible for implementing the Council's risk management strategies and policies.

6.3.5. **Insurance**

6.3.5.1. The Section 151 Officer is responsible for:

- a) ensuring that corporate arrangements are in place through external insurance and internal self-funding to provide appropriate insurance cover;
- b) reporting to the Cabinet on options regarding insurance arrangements, where appropriate;
- c) effecting insurance cover corporately, through external insurance and internal funding; and
- d) settling claims with claimants and/or insurers, in consultation with other Officers, as necessary.

6.3.5.2. Chief Officers are responsible for:

- a) keeping timely, accurate and up to date information on insurable risks and for notifying the Section 151 Officer of the scope of insurance cover required operationally;
- b) notifying the Section 151 Officer immediately of any loss, liability or damage that may lead to a claim against the Authority, together with any information or explanation required by the Section 151 Officer or the Authority's insurers; and
- c) consulting the Section 151 Officer and the Chief Officer (Governance) on the terms of any indemnity that the Authority is requested to give.

**6.3.6. Internal Controls and Corporate Governance**

6.3.6.1. The Section 151 Officer is responsible for advising on effective systems of internal control and for reporting regularly on their appropriateness.

6.3.6.2. Chief Officers are responsible for establishing and maintaining sound arrangements for planning, appraising, authorising and controlling their operations as a contribution to the Authority achieving a positive external audit opinion on its arrangements for securing value for money;

6.3.6.3. The Section 151 Officer, along with the Monitoring Officer and relevant Chief Officer(s), must consider the overall corporate governance arrangements and legal issues when developing contractual arrangements with external bodies. The Section 151 Officer, Monitoring Officer and relevant Chief Officer(s) must ensure that the risks have been fully appraised before agreements are entered into with external bodies.

6.3.6.4. In accordance with the Accounts and Audit (England) Regulations 2011, the Authority is required to conduct at least once each year a review of the effectiveness of its system of internal control; and

6.3.6.5. Following the review mentioned in 6.3.6.4 the Audit Committee is responsible for approving an annual governance statement prepared in accordance with proper practices<sup>11</sup>.

**6.3.7. Internal Audit**

6.3.7.1. The Accounts and Audit (England) Regulations 2011 require every local authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices<sup>12</sup>.

6.3.7.2. The Audit Committee is responsible for:

- a) approving an Internal Audit Charter, drafted in accordance with proper practices<sup>12</sup> for internal audit, which sets out the organisational and operational arrangements under which internal audit will be managed and delivered;
- b) approving and monitoring progress with Internal Audit plans;
- c) reviewing Internal Audit findings and ensuring that appropriate action is taken; and
- d) reviewing Internal Audit's performance, effectiveness and compliance with proper practices.

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<sup>11</sup> *'Delivering Good Governance in Local Government: Framework' CIPFA/SOLACE 2012*

<sup>12</sup> *'Public Sector Internal Audit Standards' and 'Local Government Application Note' CIPFA*

- 6.3.7.3. The Section 151 Officer is responsible for ensuring that an effective internal audit function is resourced and maintained.
- 6.3.7.4. The Internal Audit Manager is responsible for organising, managing and delivering an effective internal audit function in accordance with the approved Internal Audit Charter.
- 6.3.7.5. Chief Officers are responsible for ensuring that internal audit is enabled to operate efficiently and effectively in accordance with the approved Internal Audit Charter.
- 6.3.7.6. In accordance with the Accounts and Audit (England) Regulations 2011, the Audit Committee is responsible for, at least once each year, conducting a review of the effectiveness of internal audit and for considering the findings of that review as part of the review of the system of internal control (see § 6.3.6.4)

6.3.8. **External Audit**

6.3.8.1. The Audit Commission is responsible for appointing external auditors to each local authority (noting that this will change in due course, under the Local Audit and Accountability Act 2014). The basic duties of the external auditor are governed by section 15 of the Local Government Finance Act 1982, as amended by section 5 of the Audit Commission Act 1998. *Note: these responsibilities will change in due course in line with the provisions of the Local Audit and Accountability Act 2014.*

- 6.3.8.2. The Audit Committee is responsible for:
- a) commenting on processes for the appointment of the external auditor;
  - b) receiving, commenting on, and monitoring progress with the External Auditor's plans; and
  - c) receiving and commenting on all scheduled outputs from the External Auditor's work, including the annual Audit Letter.

- 6.3.8.3. The Section 151 Officer is responsible for:
- a) ensuring that external auditors are given access at all reasonable times to premises, personnel, documents and assets that they consider necessary for the purposes of their work;
  - b) ensuring there is effective liaison between external and internal audit; and
  - c) working with the external auditor and advising full Council, Cabinet and Chief Officers on their responsibilities in relation to external audit.

- 6.3.8.4. Chief Officers are responsible for ensuring that:
- a) external auditors are given access at all reasonable times to premises, personnel, documents and assets which they consider necessary for the purposes of their work; and
  - b) ensuring that all records and systems are up to date and available for inspection.

6.3.9. **Preventing Fraud and Corruption**

6.3.9.1. The Section 151 Officer is responsible for:

- a) the development and maintenance of an anti-fraud and anti-corruption policy;
- b) maintaining adequate and effective internal control arrangements; and
- c) ensuring that all suspected irregularities are reported to the Internal Audit Manager, and the Head of Paid Service and any irregularity with a significant impact is reported to the Audit Committee and any other bodies as appropriate.

6.3.9.2. Chief Officers are responsible for ensuring that:

- a) all suspected irregularities are dealt with in accordance with approved response plans;
- b) the Authority's disciplinary procedures are instigated where the outcome of action taken in response to a suspected irregularity indicates improper behaviour; and
- c) ensuring that Officers' pecuniary interests are recorded in the register of interests maintained by Democratic Services.

6.3.9.3. The Internal Audit Manager is responsible for ensuring that:

- a) appropriate response plans, including arrangements to consult with all relevant Officers, are in place to deal with any reported or suspected irregularity; and
- b) where sufficient evidence exists to believe that a criminal offence may have been committed, the police are consulted to determine how the matter will be investigated and, with reference to the Crown Prosecution Service, whether any prosecution will take place.

## **Audit Committee 17 September 2014**

### **Proposed Change to Constitution: Contract Signing**

#### **Current Provisions:**

#### **Article 14 - Finance, Contracts and Legal Matters**

##### **14.01 Financial Management**

The management of the Council's financial affairs will be conducted in accordance with the financial rules set out in Part 5, *Section 1* of this Constitution.

##### **14.02 Contracts**

Every contract made by the Council will comply with the Contract Procedure Rules set out in Part 5, Section 2 of this Constitution.

##### **14.03 Legal Proceedings**

The *Chief Officer (Governance)* is authorised to institute, defend or participate in any legal proceedings in any case where such action is necessary to give effect to a decision of the Council or in any case where the *Chief Officer (Governance)* considers that such action is necessary to protect the Council's interests.

##### **14.04 Authentication of Documents**

Where any document is necessary to any legal procedure or proceedings on behalf of the Council, it will be signed by the *Chief Officer (Governance)* or other officer authorised by him/her, unless any enactment otherwise authorises or requires, or the Council has given requisite authority to some other person.

Any contract with a value exceeding £50,000 entered into on behalf of the local authority in the course of the discharge of an executive function shall be made in writing. Such contracts must either be signed by the Chief Financial (Section 151) Officer, or, in his/her absence, one of the officers named in Article 12.08(c), and by the Chief Executive or a *Chief Officer*, or must be made under the common seal of the Council attested by at least one officer.

Where any contract with a value exceeding £50,000 is required to be signed away from Council offices, for example at an auction, it shall be signed by any two officers of the Council, authorised in writing for the purposes of the particular contract by the Chief Executive, or in his absence by the Chief Financial (Section 151) Officer.

##### **14.05 Common Seal of the Council**

The Common Seal of the Council will be kept in a safe place within the custody of the *Chief Officer (Governance)*. A decision of the Council, or any part of it, will be sufficient authority for sealing any document necessary to give effect to the decision. The Common Seal will be affixed to those documents which in the opinion of the *Chief Officer (Governance)* should be sealed. The affixing of the Common Seal will be attested by the Chief Executive or a *Chief Officer*.

*Note: Words in italics represent minor or consequential changes authorised by the Monitoring Officer.*

## Proposed Update:

### 14.01 Financial Management [Unchanged]

### 14.02 Contracts for Works, Goods or Services

Every contract for goods, works or services made by the Council will comply with the Contract Procedure Rules set out in Part 5, Section 2 of this Constitution.

### 14.03 Legal Proceedings [First paragraph Unchanged]

Where any contract or document is necessary to any legal procedure or proceedings on behalf of the Council, it will be signed by the Chief Officer (Governance) or other officer authorised by him/her, unless any enactment otherwise authorises or requires, or the Council has given requisite authority to some other person.

### 14.04 Completion and Authentication of Contract Documentation: General Requirements

Due diligence must be exercised and demonstrated, prior to entering into and completing any contract in the course of the discharge of the authority's functions. The test of due diligence must be proportionate, taking into account the contract value, relevant Council policies and other regulatory requirements, including but not restricted to the authority's Financial Regulations and Contract Procedure Rules, and it must provide for consultation as appropriate with the Chief Officer (Governance) and Chief Financial (S151) Officer. Subject to the outcome of these requirements:

- any contract with a value at or below the key decision financial threshold will be completed and/or signed by a Chief Officer or his/her representative;
- any contract with a value above the key decision financial threshold will be completed and/or signed by a Chief Officer;
- where any contract with a value exceeding £50,000 is required to be signed away from Council offices, for example at an auction, it will be signed by any two officers of the Council, authorised in writing for the purposes of the particular contract by the Chief Executive, or in his/her absence by the Chief Financial (Section 151) Officer.

Contracts may be completed either through signature, or through the affixing of the Common Seal, based on the decision of the Chief Officer (Governance) or his/her representative.

### 14.05 Common Seal of the Council

The Common Seal of the Council will be kept in a safe place within the custody of the Chief Officer (Governance). A decision of the Council, or any part of it, will be sufficient authority for sealing any document necessary to give effect to the decision. The Common Seal will be affixed to those documents which in the opinion of the Chief Officer (Governance) should be sealed. The affixing of the Common Seal will be attested by a Chief Officer.

**AUDIT COMMITTEE****Local Government Ombudsman – Annual Review 2013/14  
17 September 2014****Chief Officer (Governance)****PURPOSE OF REPORT**

To enable the Committee to consider the Local Government Ombudsman's (LGO) Annual Review Letter for the year ending 31 March 2014.

**This report is public**

**RECOMMENDATIONS**

**(1) For members to note the Ombudsman's Annual Review Letter.**

**1.0 Background**

There is now a single Local Government Ombudsman (LGO) in England who provides an accessible and responsive complaints service directly to members of the public. The Ombudsman helps to make sure that local public services are accountable to people that use them by ensuring that local authorities put things right when they go wrong.

**1.1 Key Issues in 2013/2014**

The LGO's Annual Review Letter for 2013/14 is appended to this report for Members' information. The Ombudsman has this year also sent a copy of the letter to the leader of council and the chief executive.

Members will note the summary statistics relating to complaints and enquiries received and decisions made within the 12 month period. These figures are not comparable to those provided in previous years as the Ombudsman now uses a new business model to record complaints. There is also a change in the way decisions are described. They are now classified as either upheld or not upheld.

**1.2 Complaints against Lancaster City Council**

The report appended indicates that the Ombudsman received 19 complaints and enquiries against the Council in 2013/14. Disabled Facilities Grant complaints are now included within both Children Services and Adult Care complaints depending on the age of the complainant. As the council does not offer direct Children's and Adult Care services, this explains the figures in the letter.



As outlined in the report, there were 23 decisions made. Not every decision made will relate to a complaint made within the 12 month period. This explains the difference between the two figures (19 and 23) and there may be complaints registered within this period that have not yet been decided on. Likewise, decisions made within this period may have been registered in the previous year.

Six of these decisions followed detailed investigation by the Ombudsman. Three of these complaints were upheld. In the upheld complaints, the Council offered a remedy in two of these cases and a minor injustice was identified in the third complaint. Details of all decisions, unless confidential, made by the Ombudsman from April 2013 are now published on the Local Government Ombudsman website at: <http://www.lgo.org.uk/decisions/>.

**2.0 Proposal Details**

This report is for noting.

**3.0 Consultation**

3.1 There has been no consultation

**4.0 Options and Options Analysis (including risk assessment)**

4.1 There are no options as the report is for noting.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

None arising directly from this report.

**LEGAL IMPLICATIONS**

There are no direct legal implications

**FINANCIAL IMPLICATIONS**

There are no direct financial implications.

**OTHER RESOURCE IMPLICATIONS**

**Human Resources:**

None

**Information Services:**

None

**Property:**

None

**Open Spaces:**

None

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

1. Local Government Ombudsman Annual Review Letter 2013/14

**Contact Officer:** R. Kotonya

**Telephone:** 01524 582192

**E-mail:** rkotonya@lancaster.gov.uk

**Ref:** RK

7 July 2014

*By email*

Mr Mark Cullinan  
Chief Executive  
Lancaster City Council

Dear Mr Mark Cullinan

### **Annual Review Letter 2014**

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

### ***Developments at the Local Government Ombudsman***

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.

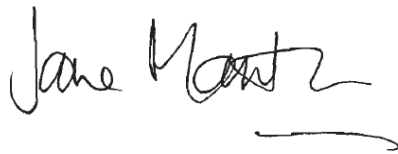
### ***Future for local accountability***

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin  
Local Government Ombudsman  
Chair, Commission for Local Administration in England

## Local authority report – Lancaster City Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

### Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Lancaster City C	1	2	2	1	5	0	4	4	19

### Decisions made

Local authority	<u>Detailed investigations carried out</u>		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Lancaster City C	3	3	1	9	0	7	23

**AUDIT COMMITTEE****Review of the Effectiveness of Internal Audit  
17 September 2014****Report of the Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the outcome from a self-assessment review against Public Sector Internal Audit standards as a contribution to the annual review of Internal Audit effectiveness, and to seek endorsement for a Quality Assurance and Improvement Programme

**This report is public**

**RECOMMENDATIONS**

- (1) That the Internal Audit Manager's conclusions from the self-assessment exercises are accepted as evidence that Internal Audit is operating effectively and the Committee can therefore place reliance on Internal Audit's reports and work when considering the overall effectiveness of the Council's governance arrangements.
- (2) That the draft Internal Audit Quality Assurance and Improvement Programme (QAIP) presented at Appendix C is noted and endorsed.

**1.0 Background**

- 1.1 The Accounts & Audit (England) Regulations 2011 include a requirement that local authorities undertake an annual review of the effectiveness of their internal audit and that this should form a part of the overall review of governance.
- 1.2 Internal Audit in local government is required to be established and operate in accordance with 'proper practices' as set out in the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) (CIPFA 2013). The PSIAS require the Internal Audit Manager to maintain a 'Quality Assurance and Improvement Programme' (QAIP) which includes periodical internal and external assessments of compliance with the Standards. Furthermore, standard 1322 of the PSIAS requires the council to consider disclosing any significant deviations in its annual Governance Statement.
- 1.3 In addition to compliance with professional standards, it has been normal practice to assess internal audit's performance against an internally developed set of "characteristics of effectiveness".

## **2.0 Report**

### **2.1 Compliance with the PSIAS and LGAN**

- 2.1.1 A report was presented to the Audit Committee on 22<sup>nd</sup> January 2014 setting out the results from an initial self-assessment against the 334 lines included in the PSIAS/LGAN. At that point, the exercise identified 288 points where compliance was achieved (or which were not applicable to our situation). Non-compliance was identified in 17 instances and partial compliance (where we do comply but it is felt that there is scope to raise standards) in 29 instances.
- 2.1.2 An action plan to address the instances of non-compliance or partial compliance was also presented, which Members noted.
- 2.1.3 The self-assessment has now been updated to reflect progress over the past six months, with the following outcomes:
- a) Of the 334 lines in the PSIAS/LGAN, compliance is achieved (or is not applicable to our situation) in 306 instances (previously 288);
  - b) Non compliance is demonstrated in 2 instances (previously 17 instances); these being in relation to arrangements for the Internal Audit Manager's appraisal;
  - c) Partial compliance is now demonstrated in 26 instances (previously 29), many of these being previously non-compliant, reflecting the position that action is ongoing to review arrangements in a number of areas.
- 2.1.4 Appendix A sets out an update on those areas assessed as falling short of full compliance in the previous review of the PSIAS and an revised set of actions.
- 2.1.5 One of the most significant areas of progress is in that relating to the development of a Quality Assurance and Improvement Programme (QAIP), and the associated requirements for periodic external assessments of the Internal Audit service. Members will recall that this matter was raised at the June meeting of the Committee, and work is continuing to consider and develop options which will be brought to the Committee in due course.

### **2.2 Other Aspects of Effectiveness**

- 2.2.1 Whilst compliance with professional standards is clearly important in operating a robust service, it is just one in a wide range of factors in effectiveness, defined as the extent to which the service delivered meets the organisation's expectations and adds value. As in previous years, a self-assessment, relating to "characteristics of effectiveness" (including compliance with proper practices) has been undertaken and is attached at Appendix B. Elected Members should also consider their own perceptions and experiences, through the Audit Committee, relating to the work and output of internal audit.

### **2.3 Summary**

- 2.3.1 The annual review of Internal Audit's effectiveness is used to inform the Audit Committee's consideration of the annual governance review and the contents of the Annual Governance Statement (presented elsewhere on this agenda).
- 2.3.2 From the information presented in this report, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

2.3.3 For future years it is proposed that a statement on compliance with the PSIAS/LGAN and progress with associated action plans will be incorporated in the Internal Audit Manager’s annual report to Audit Committee (scheduled for consideration at its June meeting).

**2.4 Quality Assurance and Improvement Programme (QAIP)**

2.4.1 In terms of the QAIP itself, a document has been drafted (attached at Appendix C) based on best practice published by the Institute of Internal Auditors. This draws together those practices which have been established to deliver quality and continuous review and improvement in internal audit work. Members are asked to consider, comment on and endorse this document.

**3.0 Details of Consultation**

3.1 None specifically undertaken.

**4.0 Options and Options Analysis (including risk assessment)**

4.1 In terms of the review of Internal Audit’s effectiveness, the options available to the Committee are to:

- a. Accept the results of the self-assessment against the PSIAS/LGAN, the self-assessment on indicators of effectiveness and the overall conclusion presented in §2.3.1; or
- b. Adopt an alternative view to that presented in the report.

4.2 Option a) is the preferred option. This will inform the Audit Committee in its consideration of the annual governance review, presented elsewhere on the agenda.

**5.0 Conclusion**

5.1 The legislative requirement for an annual review of the effectiveness of internal audit is at present primarily informed by self-assessment reviews undertaken by officers. The results of these reviews provide elected members with information to inform their consideration of both Internal Audit’s effectiveness and the Council’s overall governance arrangements and Annual Governance Statement.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b></p> <p>Not applicable</p>
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>
<p><b>SECTION 151 OFFICER’S COMMENTS</b></p> <p>The Section 151 Officer has been consulted and has no further comments</p>
<p><b>LEGAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>
<p><b>MONITORING OFFICER’S COMMENTS</b></p> <p>The Monitoring Officer has been consulted and has no further comments</p>



**BACKGROUND PAPERS**

Public Sector Internal Audit Standards

Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)

**Contact Officer:** Derek Whiteway

**Telephone:** 01524 582028

**E-mail:** [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk)

**Ref:** aud/comm/audit/140917IAReview

Conformance with the Standard	Current Assessment	Update	Review Aug 2014	Action Required	By Whom	By When
Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:						
c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	Compliant	Weekly progress update and monthly 1-2-1 meetings are used to review performance. Evaluations are carried out by the Internal Audit Manager and Principal Auditor at six-monthly EDPA meetings, resulting in training/development plans.	Changed from Partial to Compliant			
<b>Standards</b>						
<b>Attribute Standards</b>						
<b>1100 Independence and Objectivity</b>						
<b>1110 Organisational Independence</b>						
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	Non Compliant	The Internal Audit Manager's appraisals are currently undertaken by the CO(Resources). There are no current plans to change this arrangement.	No change			
Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	Non Compliant					
<b>1200 Proficiency and Due Professional Care</b>						
<b>1210 Proficiency</b>						
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	Compliant	This has been addressed through a review of corporate risk and corruption risks.	Changed from Partial to Compliant	Consider our positioning on fraud, etc and build appropriate provision into forthcoming audit plans and individual development plans and objectives.	Internal Audit Manager	31/03/2015
<b>1220 Due Professional Care</b>						
Do internal auditors exercise due professional care by considering the:						
d) Probability of significant errors, fraud, or non-compliance?	Compliant	Arrangements have been agreed to ensure that greater attention is given to this aspect of all audit reviews.	Changed from Partial to Compliant	Consider whether we cover these robustly enough and incorporate any conclusions/proposed changes in future strategic and annual plans.	Internal Audit Manager	31/03/2015
e) Cost of assurance in relation to potential benefits?	Partial	This is considered in terms of the overall level of IA coverage and number of days planned on assurance work. It is not done at individual assignment level. There are currently no plans to change these arrangements.	No change	Consider whether/how this should be developed and include proposals in a future report to Audit Committee.		
Do internal auditors exercise due professional care during a consulting engagement by considering the:						
a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	Partial	Action is currently being taken to improve arrangements in this area. Each piece of consulting work is addressed on its own merits.	No change	There is scope to strengthen existing arrangements. Consideration will be given to developing a protocol for agreeing consulting engagements and assessing the cost/benefit position.	Internal Audit Manager	31/03/2015
b) Relative complexity and extent of work needed to achieve the engagement's objectives?	Partial	Arrangements are being made for more formal consideration and documentation of these matters	No change			
c) Cost of the consulting engagement in relation to potential benefits?	Partial		No change			

Conformance with the Standard	Current Assessment	Update	Review Aug 2014	Action Required	By Whom	By When
<b>1230 Continuing Professional Development</b>						
Has the CAE defined the skills and competencies for each level of auditor?	Compliant	The competency framework has been refreshed and updated.	Changed from Partial to Compliant			
Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	Compliant	Weekly progress update and monthly 1-2-1 meetings are used to review performance. Evaluations are carried out by the Internal Audit Manager and Principal Auditor at six monthly EDPA meetings, resulting in training/development plans which take account of continuing development needs.	Changed from Partial to Compliant			
Do internal auditors undertake a programme of continuing professional development?	Compliant		Changed from Partial to Compliant			
<b>1300 Quality Assurance and Improvement Programme</b>						
Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	Compliant		Changed from Non-Compliant to Compliant			
Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	Compliant	QAIP Developed and reported to Audit Committee Sept 2014	Changed from Non-Compliant to Compliant			
Does the CAE maintain the QAIP?	Compliant		Changed from Non-Compliant to Compliant			
<b>1310 Requirements of the Quality Assurance and Improvement Programme</b>						
Does the QAIP include both internal and external assessments?	Partial	The QAIP includes a commitment to both internal and external assessments, but the details of external assessments are yet to be finalised.	Changed from Non-Compliant to Partial	Arrangements for external assessments to continue to be developed and reported to Audit Committee.	Internal Audit Manager	21/01/2015
<b>1311 Internal Assessments</b>						
Do internal assessments include ongoing monitoring of the internal audit activity, such as:						
b) Periodic assessments for evaluating conformance with the PSIAS?	Compliant	Considered on an ongoing basis in team meetings and undertaken formally as part of the annual review	Changed from Partial to Compliant			
Does ongoing performance monitoring include comprehensive performance targets?	Partial	Current arrangements are still to be reviewed.	No change	Review again with reference to other LAs arrangements (using Lancashire Councils benchmarking information) and consult/report to Audit Committee in January 2015.	Internal Audit Manager	21/01/2015
Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Partial					
Does the CAE measure, monitor and report on progress against these targets?	Partial					
Does ongoing performance monitoring include obtaining stakeholder feedback?	Compliant	Arrangements are now in place to invite managers' feedback on individual assignments.	Changed from Partial to Compliant			

Conformance with the Standard	Current Assessment	Update	Review Aug 2014	Action Required	By Whom	By When
<b>1312 External Assessments</b>						
Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	Partial	The issue has been brought to the Audit Committee's attention and work is ongoing to consider options through the Lancashire District Councils Audit Group. This will consider the type of assessment and other potential sources of assessment.	No change	Conclude consideration of available options and report to Audit Committee	Internal Audit Manager	21/01/2015
Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	Partial	Expectations of external assessments will be reviewed and a case presented to Audit Committee for the preferred form/source of assessment.	Changed from Non-Compliant to Partial			
Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	Partial		Changed from Non-Compliant to Partial			
Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	N/A	Not yet reached this point	No change			
Has the assessor or assessment team demonstrated competence in both areas of professional practice of internal auditing and the external assessment process?	N/A	Not yet reached this point	No change			
How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?	N/A	Not yet reached this point	No change			
Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation?	N/A	Not yet reached this point	No change			
<b>1320 Reporting on the Quality Assurance and Improvement Programme</b>						
Has the CAE reported the results of the QAIP to senior management and the board?	Compliant	QAIP reported to Audit Committee in September 2014	Changed from Non-Compliant to Compliant			
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	Compliant	QAIP reported to Audit Committee in September 2014. Results will be reported to management and Audit Committee in future annual reports.	Changed from Non-Compliant to Compliant			
<b>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</b>						
Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	Compliant	Covered by the QAIP reported to Audit Committee in September 2014	Changed from Non-Compliant to Compliant			
<b>1322 Disclosure of Non-conformance</b>						
Has the CAE reported any instances of non-conformance with the PSIAS to the board?	Compliant	Covered by the Review of Internal Audit reported to Audit Committee in September 2014	Changed from Non-Compliant to Compliant			
Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	Compliant		Changed from Non-Compliant to Compliant			

Conformance with the Standard	Current Assessment	Update	Review Aug 2014	Action Required	By Whom	By When
<b>Performance Standards</b>						
<b>2000 Managing the Internal Audit Activity</b>						
<b>2010 Planning</b>						
Does the risk-based plan take into account the organisation's assurance framework?	Partial	Not progressed.	No change	Consider whether/how the assurance framework can be further developed/defined. Include any conclusions/proposals in the next IA strategic and annual plans.	Internal Audit Manager	31/03/2015
Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:						
c) How the internal audit service links to organisational objectives and priorities?	Compliant	Covered by the 'Strategy Statement' incorporated into the Internal Audit Annual Plan.	Changed from Partial to Compliant			
If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	Partial	No progressed significantly.	No change	Continue to consider ways in which the risk management framework can be developed with input from senior management and the Audit Committee.	Internal Audit Manager	31/03/2015
<b>2030 Resource Management</b>						
Does the risk-based plan explain how internal audit's resource requirements have been assessed?	Partial	Not progressed. The absence of a comprehensive corporate risk information source means that audit needs assessments start from a relatively low position.	No change	Consideration is to be given to extending and strengthening current needs assessment processes. This will be addressed in the next round of strategic and annual plans.	Internal Audit Manager	31/03/2015
<b>2050 Coordination</b>						
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Partial	Consideration is being given to including assurance from other review activity (e.g. Health & Safety) into Internal Audit reports to Audit Committee.	No change	Any conclusions and proposals will be reported to Audit Committee as appropriate.	Internal Audit Manager	31/03/2015
Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Partial		No change			
<b>2100 Nature of Work</b>						
<b>2110 Governance</b>						
Does the internal audit activity:						
b) Ensure effective organisational performance management and accountability?	Partial	Corporate arrangements for performance management continue to be developed. Internal Audit is routinely consulted in corporate developments in this area.	No change	These issues will be considered in developing the next IA strategic and annual plans.	Internal Audit Manager	31/03/2015
c) Communicate risk and control information to appropriate areas of the organisation?	Partial		No change			
Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Partial	Not progressed significantly.	No change	This will be considered in consultation with the CO(Resources) and ICT Mgr in developing the next IA strategic and annual plans	Internal Audit Manager	31/03/2015

Conformance with the Standard	Current Assessment	Update	Review Aug 2014	Action Required	By Whom	By When
<b>2120 Risk Management</b> Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:						
c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	Partial	Not progressed. Developments in this area have been impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	No change	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	Internal Audit Manager	31/03/2015
d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	Partial		No change			
<b>2200 Engagement Planning</b> For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:						
c) The respective responsibilities of the internal auditors and the client and other client expectations?	Partial	Attention is being given to developing these as consultancy work is taken on during 2014/15	No change	Develop protocols and the level of consideration and documentation required when agreeing consulting engagements.	Internal Audit Manager	31/03/2015
For significant consulting engagements, has this understanding been documented?	Partial		No change			
<b>2300 Performing the Engagement</b>						
<b>2330 Documenting Information</b> Has the CAE developed and implemented retention requirements for all types of engagement records?	Compliant	The section's document retention policy is incorporated in the Internal Audit Manual	Changed from Non-Compliant to Compliant			
<b>2400 Communicating Results</b>						
<b>2410 Criteria for Communicating</b> If recommendations and an action plan have been included, are recommendations prioritised according to risk?	Partial	Recommendations are prioritised according to risk during report drafting phase. Final agreed actions are not prioritised.	Changed from Non-Compliant to Partial	We will review and reconsider our stance on this.	Internal Audit Manager	31/03/2015
If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	Compliant	This has been put in place regarding audit work undertaken on behalf of the Lake District National Park, as part of that organisation's Audit Charter	Changed from N/A to Compliant			
<b>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</b> Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?	N/A	There is no intention to use the statement at engagement level	Changed from Non-Compliant to N/A			
<b>2450 Overall Opinion</b> Does the annual report incorporate the following:						
h) The results of the QAIP?	Compliant	These have been included in the report on the annual Review of Internal Audit Effectiveness submitted to Audit Committee on 17th September 2014.	Changed from Non-Compliant to Compliant			
i) Progress against any improvement plans resulting from the QAIP?	Compliant	In future, these matters will be covered in the Internal Audit Manager's Annual Report.	Changed from N/A to Compliant			
j) A summary of the performance of the internal audit activity against its performance measures and targets?	Partial		Changed from N/A to Partial	Continue to consider ways of developing performance management	Internal Audit Manager	31/03/2015

**Internal Audit – Review of Characteristics of Effectiveness**

**Appendix B**

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>IA operates in accordance with "proper practices" as defined in professional codes of practice.</p>	<p>Performance against the Public Sector Internal Audit Standards (PSIAS) is reviewed with the results and action plan to deal with any shortfalls in compliance being reported to Audit Committee.</p> <p>A benchmarking exercise amongst Lancashire district councils is focusing on arrangements in relation to the new standards.</p>	<p>Continue to develop and strengthen compliance with the PSIAS</p> <p>Continue to develop Arrangements for future 5-yearly external reviews of compliance.</p> <p>Continue to take part in and learn from local benchmarking exercises</p>
<p>IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.</p>	<p>Results of audit work are reported to each Audit Committee and summarised in the annual report and assurance statement demonstrate the level of assurance provided and how improvements are being realised.</p>	
<p>IA understands its position in relation to the organisation's other sources of assurance and plans its work accordingly.</p>	<p>Internal audit identifies other sources of assurance and takes these into account when preparing the internal audit plan.</p>	
<p>IA understands the whole organisation, its needs and objectives.</p>	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives.</p> <p>Individual audit assignments identify risks to the achievement of those objectives.</p>	

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>IA can be seen as a catalyst for change at the heart of the organisation.</p>	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and efficiency/value for money.</p> <p>Involvement in and contributing to corporate service reviews.</p> <p>Individual audit assignments may also be catalyst for change.</p>	<p>Continue to liaise and consult with Management Team on the options for IA to provide a corporate role.</p> <p>Continue to contribute to the corporate programme of service reviews</p>
<p>IA adds value and assists the organisation in achieving its objectives.</p>	<p>Demonstrated through individual audit assignments and also corporate work.</p> <p>Internal audit work has been directly requested by Chief Officers in a number of service areas, e.g. fleet management, outdoor events, and planning for housing needs.</p>	<p>Continue to review scope and nature of IA's contribution and reflect this in future plans and development programmes.</p>
<p>Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.</p>	<p>Internal audit provides help and advice on request and supports specific projects identified in plan and on <i>ad hoc</i> basis.</p>	<p>Continue to consider and promote scope for IA involvement in significant projects.</p>
<p>Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.</p>	<p>When identifying risks and in formulating the plan changes on the national agenda are considered.</p> <p>The audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the local authority.</p>	<p>Continue to develop through consultation with Management Team and service managers</p>



**Internal Audit – Review of Characteristics of Effectiveness**

**Appendix B**

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.</p>	<p>Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and engaging managers in developing actions to manage risks, thereby encouraging ownership of the control environment amongst managers.</p>	<p>Develop greater liaison with and shared understanding with service managers</p>
<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.</p>	<p>Resource issues are addressed in the audit planning process. Ongoing consideration is given to alternative sources of audit resource, including areas requiring specialist skills.</p>	

# Internal Audit Quality Assurance & Improvement Programme (QAIP) 2014/15

## Introduction

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Lancaster City Council that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN), Definition of Internal Auditing and the Code of Ethics;
- Operates in an efficient and effective manner; and
- Is adding value and continually improving Internal Audit's operations.

The Internal Audit Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. In accordance with the PSIAS, the QAIP makes provision for both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

## Internal Assessment

Internal Assessment is made up of both on-going reviews and periodic reviews.

### On-going Reviews

On-going review is maintained through:

- Audit policies and procedures used for each engagement including the Internal Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards;
- Assignments managed and recorded using the established electronic Audit Management System;
- An appropriate level of supervision of all engagements;
- Weekly team update meetings on progress with assignments;
- Regular, documented review of work papers during engagements.
- Seeking and reviewing post-completion feedback from audit clients for individual audit assignments;
- All draft and final reports and action plans reviewed and approved by the Internal Audit Manager.

### Periodic Reviews

Periodic reviews are designed to assess conformance with Internal Audit's Charter, the PSIAS/LGAN, Definition of Internal Audit, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of the Council and its other stakeholders. Periodic reviews will be conducted through:

- Monthly one-to-one meetings between each member of the Internal Audit team and their line manager;
- Activity and performance reporting to each scheduled meeting of the Audit Committee; and
- Annual self-assessment of conformance with the PSIAS/LGAN.

Any resultant action plans will be monitored by the Internal Audit Manager in line with the Audit Committee reporting cycle.

## External Assessment

External assessments will appraise and express an opinion about Internal Audit conformance with the PSIAS/LGAN, Definition of Internal Audit and Code of Ethics and include recommendations for improvement as appropriate.

The scope, format and timing of external assessments is a matter still to be determined and agreed with the Audit Committee, but will conform to the following requirements:

- An external assessment must be conducted at least once every 5 years by a qualified, independent assessor from outside the Authority;
- The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation.

## Reporting

**Internal Assessments:** the outcomes and conclusions from internal assessments will be reported to the Audit Committee on an annual basis; normally as part of the Internal Audit Manager's Annual Report.

**External Assessments:** the results of external assessments will be reported to the Audit Committee at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by an action plan in response to significant findings and recommendations contained in the report.

**Follow Up:** the Internal Audit Manager will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

<b>AUDIT COMMITTEE</b>
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**Review of Governance and the  
Annual Governance Statement 2013/14  
17 September 2014**

**Report of the Chief Executive**

<b>PURPOSE OF REPORT</b>
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To seek the Committee's approval for the draft Annual Governance Statement for the 2013/14 financial year.
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<b>This report is public</b>
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**RECOMMENDATIONS**

- (1) That the draft Annual Governance Statement for 2013/14 (attached as Appendix B) is approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

**1.0 Introduction**

- 1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011 and recommend its adoption.* (The Constitution, part 3 section 8).

**2.0 Report**

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE<sup>1</sup> during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (the current version was approved by Audit Committee on 19<sup>th</sup> September 2012) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

**3.0 Proposal Details**

**Review of Compliance with the Code of Governance**

- 3.1 A review has been undertaken of the Council's position and performance against the Code of Governance approved in September 2012. The results of the evaluation exercise are demonstrated in the Overview Chart and the Evaluation Summary which

<sup>1</sup> "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.

- 3.2 The Code of Corporate Governance consists of a set of seventy-eight elements within the following six core principles, which underpin a council's system of governance:
1. **Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.**
  2. **Members and officers working together to achieve a common purpose with clearly defined functions and roles.**
  3. **Promoting the values of the authority and demonstrating the values of good governance through behavior.**
  4. **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**
  5. **Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively.**
  6. **Engaging with local people and other stakeholders to ensure robust local public accountability.**

#### **Assurance**

- 3.3 A document compiled to detail the identified “sources” of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 3.4 Individual “assurance statements” have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas and this assurance has been built in to the overall evaluation. These statements have been reviewed by Chief Officers. The exercise did not identify any significant governance issues to be disclosed in the Governance Statement.
- 3.5 The Internal Audit Manager’s Annual Report and Assurance Statement for 2013/14 was considered by the Audit Committee on 18<sup>th</sup> June 2014. The report concluded that the Authority had a significant ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the Governance Statement. No other significant issues for disclosure were identified.

#### **Review of the Effectiveness of Internal Audit**

- 3.6 The Accounts & Audit (England) Regulations 2011 include a requirement that local authorities undertake an annual review of the effectiveness of their internal audit and that this should form a part of the overall review of governance.
- 3.7 This annual review is dealt with in a separate report elsewhere on this agenda, which also provides an update on the position regarding Internal Audit’s compliance with the *Public Sector Internal Audit Standards (PSIAS)*.
- 3.8 Taking account of the conclusions from the review, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. The review has not identified any issues meriting

disclosure in the Governance Statement. The current position regarding compliance with the PSIAS is reflected in the draft Governance Statement.

### **Governance Review - Evaluation Results**

- 3.9 The Code of Governance comprises seventy-eight elements and the overall position is that there have not been any dramatic changes in the evaluation over the last year.
- 3.10 The number of factors in which there remains a perceived shortfall in performance is 7 – a reduction of two on the number identified in the 2012/13 review. There is no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position on any plans to improve arrangements during 2014/15 and beyond.

### **The Draft Annual Governance Statement**

- 3.11 Following the evaluation exercise, the Annual Governance Statement attached at Appendix B has been drafted.
- 3.12 The timescale for the production of the Statement coincides with that for the approval of the audited financial accounts (i.e. 30 September 2014) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
  - 1. Scope of Responsibility
  - 2. The Purpose of the Governance Framework
  - 3. The Governance Framework
  - 4. Review of Effectiveness
  - 5. Significant Governance Issues

### **Signatories to the Statement**

- 3.13 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

## **4.0 Details of Consultation**

- 4.1 As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

## **5.0 Options and Options Analysis (including risk assessment)**

- 5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

## **6.0 Conclusion**

- 6.1 The draft Annual Governance Statement and the results of the review reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2014/15.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

The report has no direct impact on the above issues.

**FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

**LEGAL IMPLICATIONS**

There are no legal implications arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Accounts and Audit (England) Regulations 2011

**Contact Officer:** Derek Whiteway

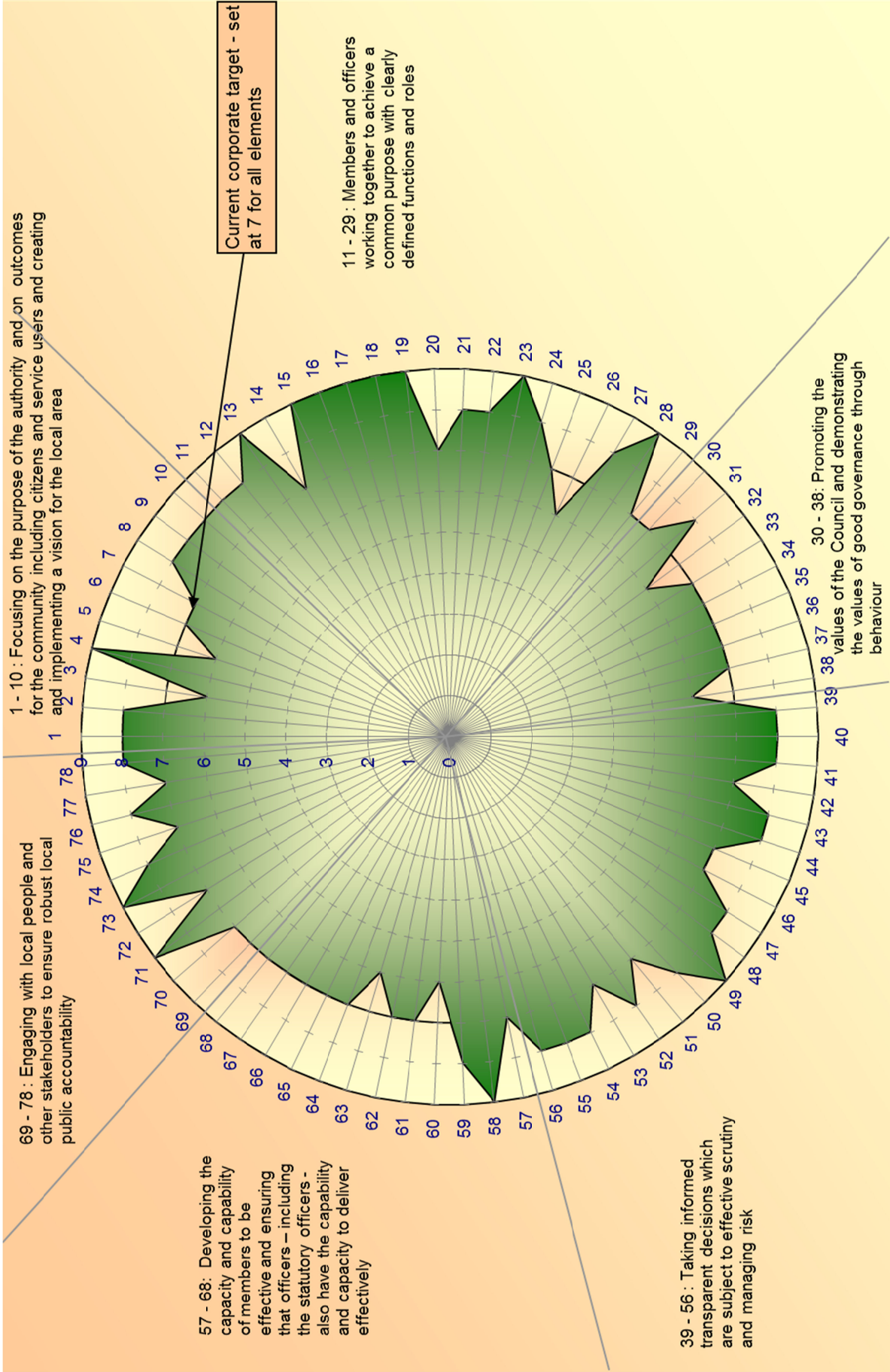
**Telephone:** 01524 582028

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**Ref:** aud/ctee/audit/2013/140917/AGS

Appendix A

Annual Governance Review 2013/14 – Evaluation Results





## Annual Governance Review 2013/14 – Evaluation Summary

Elements where the evaluation falls below the target level of 7 are highlighted in yellow

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
1	Developing and promoting the authority's purpose and vision	8	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	8	
3	Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners	6	Whilst no obvious weaknesses have been identified in current arrangements, there is an ongoing need to focus on establishing and maintaining a common vision within partnerships.  This need is emphasized as the Council and partners seek to manage more and more pressing resource issues.
4	Publishing annual accounts on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
5	Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.	6	There is limited measurement of service quality and there is a recognized need to develop proportionate, robust and relevant quality measures through the ongoing development of the Performance Management Framework and the related system, CorVu. (See also element number 26)
6	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
7	Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance delivery.	7	

**Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area**

No	Element	Score	Comments/Conclusions
8	Ensuring that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	8	
9	Ensuring that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	8	
10	Ensuring compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code	8	

**Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles**

No	Element	Score	Comments/Conclusions
11	Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice	8	
12	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	8	
13	Ensuring that the CFO reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.	9	
14	Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required	7	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	9	
16	Ensuring that the authority's governance arrangements allow the CFO direct access to the CEO and to other leadership team members	9	

## Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments/Conclusions
17	Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives	9	
18	Making the Head of Resources (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	9	
19	Appointing a professionally qualified CFO whose core responsibilities include those set out in the Statement on the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority	9	
20	Ensuring that the CFO : <ul style="list-style-type: none"> <li>▪ leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively</li> <li>▪ has a line of professional accountability for finance staff throughout the organisation</li> </ul>	7	
21	Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance	8	
22	Ensuring that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role	8	
23	Making the Head of Governance (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	9	
24	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
25	Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members.	7	

## Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments/Conclusions
26	Ensuring that effective mechanisms exist to monitor service delivery	6	The approach to monitoring service delivery varies across the council, with different arrangements in place for service level performance monitoring. The quality and appropriateness of performance measures are also variable and work is ongoing to refine, rationalise and/or improve measures and the consequent quality, relevance and use of performance data (see also element no 5).
27	Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	8	
28	Establishing a medium term business and financial planning process to deliver strategic objectives including: <ul style="list-style-type: none"> <li>▪ A medium term financial strategy to ensure sustainable finances</li> <li>▪ A robust annual budget process that ensures financial balance</li> <li>▪ A monitoring process that enables this to be delivered</li> </ul> And ensure that these are subject to regular review to confirm the continuing relevance of assumptions used	9	
29	When working in partnership, ensuring that: <ul style="list-style-type: none"> <li>▪ members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council;</li> <li>▪ there is clarity about the legal status of the partnership;</li> <li>▪ representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and</li> <li>▪ representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.</li> </ul>	7	

## Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour

No	Element	Score	Comments/Conclusions
30	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
31	Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated	8	
32	Having protocols in place to ensure that standards for joint working between members and staff and between the Council (members/officers), its partners and the community are defined and communicated	6	Protocols are in place internally. As regards joint working externally, the existence and effectiveness of standards is unclear. See also element number 3.
33	Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice	7	
34	Developing and maintaining shared values including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	7	
35	Having arrangements in place to ensure that systems and processes, including those for financial administration, financial control and protection of the authority's resources and assets, are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	7	
36	Maintaining an effective standards committee	7	
37	Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council	7	
38	In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged	6	See element numbers 3 and 32.

#### Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments/Conclusions
39	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	8	
40	Ensuring an effective internal audit function is resourced and maintained	8	

## Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments/Conclusions
41	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	8	
42	Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice	7	
43	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
44	Ensuring that the authority's governance arrangements allow the CFO direct access to the audit committee and external audit	8	
45	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	7	
46	Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)	7	
47	Ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority	8	
48	Ensuring the authority's governance arrangements allow the CFO to bring influence to bear on all material decisions	8	
49	Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance	9	
50	Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately	8	
51	Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs	7	
52	Ensuring the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports	8	

**Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk**

No	Element	Score	Comments/Conclusions
53	Ensuring the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorization and approval processes	7	
54	Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access	8	
55	Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra vires doctrine but also striving to utilise available powers to the full benefit of its communities	8	
56	Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes	8	

**Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively**

No	Element	Score	Comments/Conclusions
57	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	7	
58	Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council	9	
59	Ensuring the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non financial areas of their role	8	

**Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively**

No	Element	Score	Comments/Conclusions
60	Reviewing the scope of the CFO's other management responsibilities to ensure financial matters are not compromised	6	The Chief Officer (Resources) has taken on responsibility for Revs & Bens Shared Service, ICT and Property Shared Service. Whilst current arrangements have not given rise to any specific concerns, it must be appreciated that, at certain times, when financial matters must take priority, This may have an impact on the officer's other responsibilities.
61	Providing the finance function with the resources, expertise and systems necessary to perform its role effectively	7	
62	Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively	7	
63	Embedding financial competencies in person specifications and appraisals	6	The development of financial competencies, alongside other managerial competencies, is being taken forward as part of the management development programme.
64	Ensuring that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities	7	
65	Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	7	
66	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	7	
67	Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council	7	
68	Ensuring that effective Member development and employee development strategies and actions are in place	7	

**Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability**



No	Element	Score	Comments/Conclusions
69	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
70	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
71	Producing an annual report on the activity of the scrutiny function	9	
72	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place	7	
73	Holding meetings in public unless there are good reasons for confidentiality	9	
74	Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	8	
75	Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result	7	
76	Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	8	
77	Ensuring that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	7	
78	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

**LANCASTER CITY COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT 2013/14 (DRAFT)**

**SCOPE OF RESPONSIBILITY**

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

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

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the council's website or can be obtained from the Internal Audit Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how the council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to reviewing the effectiveness of the system of internal control and the publication of an annual governance statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

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

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

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2014 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

**THE GOVERNANCE FRAMEWORK**

The following paragraphs set out the key elements (as incorporated in the Code of Corporate Governance) that the council relies upon to deliver effective corporate governance.

- An annual review of the council's vision for the local area, consulting directly with the community. The council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.

- A performance management framework which establishes clear priorities, objectives and plans of action at corporate, service, team and individual levels
- Performance management systems which measure and monitor the quality of services delivered and provide elected members and officers with the information required to ensure that they are delivered in accordance with the authority's objectives.
- Arrangements for the executive to manage performance through the Corporate Management Team and portfolio performance review meetings.
- Review and challenge of performance through the overview and scrutiny function and particularly via the Budget & Performance Panel.
- The council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the overview and scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Raising Concerns at Work Policy* and the council's *Complaints Policy*.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council's key priorities and objectives. Rules for financial management and the scheme of delegation of the council are set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The council's Audit Committee is charged with overseeing and, independently of the Executive and overview and scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- The Chief Officer (Governance) is the council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of councillors and co-opted Members.
- The Cabinet is responsible for taking key decisions in line with the council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The council publishes a *Forward Plan* containing details of key decisions made on behalf of the council by Cabinet and by senior officers under their delegated powers.

- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer (Section 151 Officer).
- The council aims to identify and meet the development needs of both elected members and officers.
- The *Code of Corporate Governance* sets out the council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The council's internal audit service is delivered by an in-house team required to operate to professional standards set out in the '*Public Sector Internal Audit Standards*'. The council has also set out a commitment to maintain an objective and professional relationship with its external auditors and other statutory inspectors.

## REVIEW OF EFFECTIVENESS

Lancaster City 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 executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The following are the main processes applied in maintaining and reviewing the systems of internal control and governance and the key factors influencing their effectiveness:

- The council's Audit Committee and the Monitoring Officer have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)
- The council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via portfolio performance review meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council promotes and maintains high standards of conduct by its elected members in accordance with the adopted Code of Conduct and the requirements of the Localism Act 2011. The Standards Committee has a role to provide assistance and advice to the council in this respect, and to deal with complaints of breaches of the Code of Conduct.

- The senior management structure has continued to develop, and aspects of the council's constitution, such as the scheme of delegation, have been updated to reflect this.
- It has been recognised that the diverse political makeup of the council, set in the context of the council's current democratic model (Cabinet and Scrutiny) can inhibit achieving consensus in the decision making process. Managing these pressures and maintaining efficiency in decision-making remains an important consideration as the period of austerity and ongoing budgetary constraints continues.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan.
- Internal Audit operates in accordance with the CIPFA statement on "the role of the head of internal audit in public service organisations" (2010) and is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and inspect Internal Audit work.
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In October 2013 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's financial statements for 2012/13. They also provided an unqualified conclusion on the council's arrangements for securing value for money and reported that they were "...satisfied that the authority had proper arrangements for securing financial resilience and challenging how to secure economy, efficiency and effectiveness. ". The external auditors made no high priority recommendations as a result of their 2012/13 audit work.
- Following the audit of the 2013/14 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30<sup>th</sup> September 2014.
- The work carried out by both the council's external and internal auditors has indicated that effective internal financial controls exist within the council's main financial systems to ensure the accuracy and integrity of the information they provide.

### **SIGNIFICANT GOVERNANCE ISSUES**

No new significant governance risks have been identified during the year. Progress on the two governance issues highlighted in the 2012/13 Governance Statement as requiring immediate attention is as follows:

- **Information management and governance arrangements**

A significant body of work has been undertaken by the Information & Communication Technology (ICT) Service to meet organisational and technical requirements relating to the Government's Public Service Network (PSN) resulting in accreditation being achieved in May 2014. A piece of work covering wider corporate information governance arrangements will be undertaken over the coming year to ensure that the council's arrangements for collecting, storing, using and sharing information are robust and enable the most efficient and effective use of that information;

- **Democratic structures and cultural aspects of governance**

Ongoing challenges are posed by having a “no overall control” council and increased pressures from the continued period of austerity. Together, these factors continue to present a need to ensure that democratic processes remain appropriate, efficient and effective and that all elected members, officers, and partners are able to operate positively in an environment of mutual trust and respect, whilst fostering a healthy culture of challenge and confident decision making.

As last year, the council’s overriding challenge continues to be that of ensuring that the council and its partners can identify and meet the needs of the district’s citizens, whilst responding to current and future financial constraints. It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance in a period of significant organisational change, and continuous review will be necessary in key areas including:

- Developing the ways in which the council communicates with local people and enables them to be at the forefront of decision making to inform priorities, whilst raising awareness that due to limited resources, some services may be delivered differently, or not at all;
- Shaping services in line with the council’s vision, ethos and priorities and developing arrangements to measure and maintain service quality;
- Strengthening services through the continuing development of both the workforce itself and of the organisation’s leadership and management values and practices, including those relating to financial management.

The council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The council is 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 the next governance review.

**E Blamire**  
**Leader of the Council**

**M Cullinan**  
**Chief Executive**

**S Taylor**  
**Chief Officer (Governance)**  
**Monitoring Officer**

**N Muschamp**  
**Chief Officer (Resources)**  
**Section 151 Officer**

**AUDIT COMMITTEE****Internal Audit Monitoring Report  
17 September 2014****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2014/15 Internal Audit Plan, seek approval for proposed variations to the plan, and update Members on the results of recent audits.

**This report is public**

**RECOMMENDATIONS**

- (1) That the current monitoring position is noted.
- (2) That the proposed revisions to the audit plan, as set out in the table in §1.2, are approved.
- (3) That the results of recent audits (sections 3 - 5 of the report) are noted.

**1.0 Audit Plan Monitoring to 18<sup>th</sup> August 2014**

- 1.1 The 2014/15 Internal Audit Plan was approved by the Audit Committee at its meeting on 18<sup>th</sup> June 2014. This report is based on the monitoring position up to 18<sup>th</sup> August 2014 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position at that date was as shown in the following table.



1.2 Summary of monitoring position at 18<sup>th</sup> August 2014

Area of work	Resources (audit days)					
	Actuals to 18/08/14	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
<b>Assurance Work</b>						
Core Financial Systems	15	8	23	60	37	50
Revenues & Benefits Shared Services	3	32	35	40	5	60
Core Management Arrangements	18	22	40	50	10	50
Risk Based Assurance Audits	92	7	99	180	81	155
Follow-Up Reviews	18	32	50	50	0	50
<b>Sub-Total, Assurance</b>	<b>146</b>	<b>101</b>	<b>247</b>	<b>380</b>	<b>133</b>	<b>365</b>
<b>Consultancy Work</b>						
Support Work	21	7	28	15	(13)	35
Corporate service review work	13	12	25	50	25	50
Ad-Hoc Advice	41	39	80	65	(15)	80
<b>Sub-Total, Consultancy</b>	<b>75</b>	<b>58</b>	<b>133</b>	<b>130</b>	<b>(3)</b>	<b>165</b>
<b>Other Work</b>						
Other Duties (Non-Audit)	5	5	10	10	0	10
Work for Other Bodies	9	41	50	50	0	50
Audit Management	18	32	50	50	0	50
<b>Sub-Total, Other Work</b>	<b>32</b>	<b>78</b>	<b>110</b>	<b>110</b>	<b>0</b>	<b>110</b>
<b>Contingencies</b>						
Investigations	6	2	8	30	22	30
General Contingency	0	0	0	40	40	20
<b>Sub-Total, Contingencies</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>70</b>	<b>62</b>	<b>50</b>
<b>Total</b>	<b>259</b>	<b>239</b>	<b>498</b>	<b>690</b>	<b>192</b>	<b>690</b>

- 1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 498 days compared with the current plan of 690 days, giving an uncommitted resource of 192 days. This includes both the general contingency of 40 days and the unallocated balance of the contingency for investigation work (22 days).
- 1.4 The Internal Audit section currently has a vacant post, the Principal Auditor having recently been appointed to the post of Exchequer Manager. Options for the future scope and structure of the Internal Audit service are currently being reviewed; the outcomes from this review, and the implications for the Audit Committee in terms of the reliance it can place on Internal Audit, will be reported to the Committee in due course. At this stage it is too early to estimate the impact on audit resources available for the remainder of the year.









## Proposals

- 1.5 Within the Assurance Work section, a programme of audits under the Revenues and Benefits Shared Service arrangements has been developed at the request of Preston City Council to provide assurance on controls surrounding their highest rated risks. This programme of work is estimated as requiring 35 days out of a total 40 days allocated in the plan to the Shared Service. It is estimated that inclusion of a corresponding programme of audits in relation to Lancaster City Council's arrangements would require 25 days, i.e. an increase of 20 days on the current plan budget.
- 1.6 Under the heading of Consultancy, 28 days have already been committed to support work regarding: development of the Council's Complaints Policy; the review of Financial Regulations; and development of the Council's Procurement Strategy. To cover these commitments and allow for a small amount of future work, it is proposed that the plan budget be raised by 20 days to 35 days.
- 1.7 Current indications are that the amount of 'Ad-Hoc Advice' provided by the service will be around 15 days greater than budgeted for.
- 1.8 These variances total 55 days which have to be found from within the plan. It is proposed to meet these demands by:
- a reduction of 10 days to assurance work on 'Core Financial Systems';
  - a reduction of 25 days to assurance work on "Risk Based Audits;" and
  - applying 20 days (i.e. half) of the General Contingency.

## 2.0 Results of Internal Audit Work to 18<sup>th</sup> August 2014

- 2.1 This report covers audit work and reports issued since the last update report to Committee on 22<sup>nd</sup> January 2014. Summary reports have been issued to Members for consideration and are also posted on the Council's Intranet. The reports issued have been:

Audit Title		Report Date	Assurance Level	
<b>New Audit Reports</b>				
13/0871	HR Systems Replacement	25/04/14	Substantial	✓
13/0885	Environmental Health Income Streams	11/02/14	Substantial	✓
13/0895	Trade Waste and Recycling, Bulky Waste and Litter Enforcement Fees and Charges	28/01/14	Substantial	✓
13/0896	Grounds Maintenance, Nursery and Cleansing Income Streams	21/01/14	Limited	⚠
13/0906	Revenues and Benefits - Operational Support and Performance (Lancaster)	07/04/14	Substantial	✓
13/0908	Commercial Property Leases & Licences	30/05/14	Limited	⚠
13/0911	Officer Gifts, Hospitality and Register of Interests	24/04/14	Limited	⚠
14/0916	Fleet Management	02/06/14	Limited	⚠
14/0918	Planning – Strategic Housing Market Assessment	21/08/14	Substantial	✓
14/0920	Council Housing Tenancy Fraud	21/07/14	Limited	⚠
14/0921	Outdoor Events Management	02/07/14	Limited	⚠
14/0922	Salt Ayre - Financial Procedures	01/07/14	Limited	⚠

<b>Follow up Reviews</b>				
12/0861	Debt Management - Council Housing	23/07/14	Limited	
12/0864	NNDR 2012/13	12/03/14	Substantial	
13/0886	Planning and Building Control Income	15/08/14	Substantial	
13/0889	Debtors 2013/14	23/07/14	Substantial	
13/0890	Private Housing and Cemeteries Income Streams	07/05/14	Substantial	
13/0902	Housing Benefit (Welfare Reforms)	08/05/14	Maximum	

### **3.0 Matters Arising from Audit Reviews**

3.1 The key conclusions and action points in relation to those reports where a “Limited” or “Minimal” assurance opinion has been given are:

#### **3.2 12/0896 – Grounds Maintenance, Nursery and Cleansing Income Streams (Limited)**

A ‘limited’ assurance opinion was given on the basis that there was a heavy reliance on manual systems, officer knowledge and experience. Whilst arrangements are in place to calculate grounds maintenance charges which are in accordance with the Local Government Act 2003, actual charges are generally higher. There is a need to review and recalculate some charges to bring them up to date. There is also a need to strengthen systems and procedures in relation to the nursery, the cash receipting system and stock management arrangements being underdeveloped.

Follow-up review is scheduled for January 2015

#### **3.3 13/0908 - Commercial Property Leases & Licences (Limited)**

The assurance opinion was given as ‘limited’ on the basis the council did not have a comprehensive record of its property holdings, there are no effective links between the asset management and billing systems and no effective reporting on key dates within agreements due to incomplete records and a failure to fully utilise the property database. Work is ongoing to strengthen arrangements through the population and better utilisation of the asset management system, the aims and objectives of the system to be formally documented and a project plan developed to ensure priorities are effectively achieved. Arrears management and insurance arrangements are also to be strengthened.

Follow-up review is scheduled for December 2014

#### **3.4 13/0911 - Officer Gifts, Hospitality and Register of Interests (Limited)**

Current arrangements effectively demonstrate the council’s commitment to high standards of conduct, this being clearly stated in the Officers’ Code of Conduct. Systems and procedures are in place, however staff need to be made more aware of their responsibilities, with standards and expectations being more effectively communicated. Effectiveness of the Code is difficult to measure, compliance with standards set being dependent on the awareness and integrity of employees. However, feedback obtained indicates that understanding and compliance with the Code varies across the council. Strengthening the role of managers in current arrangements, and increased awareness of the standards in place, should address the issues identified in this review and help to ensure that the requirements of the Code are met.

Follow-up review is scheduled for February 2015

**3.5 14/0916 - Fleet Management (Limited)**

The assurance opinion given was 'limited' primarily on the basis of non-compliance found with the Operator's Licence rules on drivers' hours where drivers have a second job outside the council. The council is in the process of reallocating Transport Manager responsibilities following the resignation of the previous Transport Manager. Those officers taking on the responsibilities already demonstrate a good understanding of their role and the requirements to ensure compliance with the terms of the Licence. A review of current arrangements is already underway and implementation of the action plan resulting from this review should ensure compliance and result in an assurance opinion of 'Substantial'.

Follow-up review is scheduled for December 2014

**3.6 14/0920 - Council Housing Tenancy Fraud (Limited)**

Whilst arrangements in place are proportionate to the perceived level of risk exposure, limited assurance is given on the basis that there is scope to strengthen procedures in relation to the prevention and detection of tenancy fraud. 'Gateway checks' to verify the identity of tenants need to be reviewed to ensure they are as robust as possible. Procedures for verifying that the lawful tenant remains in occupation of the property also need to be strengthened through improved arrangements in relation to post allocation visits and tenancy audits. With a view to ensuring that the priority given/level of resources assigned to council housing tenancy fraud is properly informed, careful monitoring of the results of work carried out to detect tenancy fraud also needs to take place with a view to ensuring that arrangements in place remain appropriate.

Follow-up review is scheduled for December 2014

**3.7 14/0921 - Outdoor Events Management (Limited)**

The audit found a lack of clarity regarding roles, responsibilities and the extent of the council's input to future outdoor events. An inconsistent approach was being taken to event management, and there is a need to standardise systems, procedures and documentation in place. Improvements are also required to ensure that the council's interests are more effectively protected by ensuring that agreements are in place which set the terms and conditions of events bookings.

Follow-up review is scheduled for January 2015

**3.8 14/0922 - Salt Ayre - Financial Procedures (Limited)**

The review has highlighted a number of areas where current arrangements can be streamlined and procedures and processes can be made more efficient and effective, therefore a limited assurance opinion has been given. However, the fact that the Service is keen to implement the agreed actions within the next two months, should result in a substantial level of assurance being achieved fairly quickly.

Follow-up review is scheduled for October 2014

3.9 In all the above areas, action plans have been developed, setting out measures to address the issues arising from these audits. Progress will be reviewed and reported to the Audit Committee at the times indicated, in line with normal follow-up arrangements.

**3.10 12/0861 - Debt Management - Council Housing Follow-up Review (Limited)**

Progress against the action plan from the original review is ongoing, the Service carrying out a comprehensive review of its debt management arrangements with a view to improving efficiency and effectiveness. Whilst there are still issues to be addressed and the assurance opinion remains 'Limited', procedures are compliant with Financial Regulations and Procedures.

Given the current position on this review, it is proposed that Internal Audit continues to track progress over the coming year and report developments to future meetings of the Audit Committee.

**4.0 Updates on Tracked Items**

**4.1 11/0833 – Asset Management**

The original review concluded that the majority of office inventories were out of date, and checks to verify the existence of assets had not been performed for some time. The standard, format and value of items included in inventories also varied between Services. Therefore, a limited level of assurance was provided at that stage, with improvements being required in relation to the arrangements for maintaining and managing inventories.

Resources have now been identified within the Property Group and Financial Services to take forward the required actions, including a review of the IT systems used by the two services in order to provide efficient and effective recording of assets. Reconciliation of the two systems is planned to take place by the end of October 2014, at which point the guidance regarding inventories is to be revisited with a view to it being issued by December 2014.

**5.0 Investigations**

5.1 Internal Audit is currently involved in an internal investigation relating to the income management and banking arrangements at one of the Council's establishments. Following conclusion of the investigation, members of the Committee will be provided with a report into the issues arising and any action taken.

**6.0 Details of Consultation**

6.1 Management Team continues to be consulted in developing the plan.

**7.0 Options and Options Analysis (including risk assessment)**

7.1 Regarding the Internal Audit Plan, the options available to the Committee are either to approve the proposed changes or to propose an alternative course of action.

**8.0 Conclusion**

8.1 Some realignment of plan allocations is proposed to reflect additional/changing demands on audit resources during the first half of the year, whilst retaining a reasonable proportion of the contingency provisions to cater for any unforeseen demands during the final quarter of the year. The outcomes and implications of an ongoing review of Internal Audit provision will be reported to the Audit Committee in due course.

8.2 The programme of audits for the rest of the year continues to be developed in consultation with senior management.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not applicable

**FINANCIAL IMPLICATIONS**

None directly arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments

**LEGAL IMPLICATIONS**

None directly arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

Internal Audit Plan 2014/15

**Contact Officer:** Derek Whiteway

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**Ref:** aud/comm/audit/140917IAMon

Work Allocations		Actuals to 18/08/14	Remaining	Committed	Approved Plan (18/06/14)	Variance	Status at 18/08/14
Job No	Title						
<b>1. ASSURANCE WORK</b>							
<b>LCC Core Financial Systems</b>							
14/0925	Payroll	7	8	15			
14/0927	General Ledger Coding	8	0	8			
<b>Sub-total - Core Financial Systems</b>		<b>15</b>	<b>8</b>	<b>23</b>	<b>60</b>	<b>37</b>	
<b>Revenues Shared Service - Financial Systems</b>							
14/0929	Housing Benefits 2014/15 - Preston CC	1	11	12			
14/0930	Council Tax 2014/15 - Preston CC	1	6	7			
14/0931	NNDR 2014/15 - Preston CC	1	11	12			
14/0932	Operations and Performance 2014/15 - Preston CC	0	4	4			
<b>Sub-total - Revenues Shared Services</b>		<b>3</b>	<b>32</b>	<b>35</b>	<b>40</b>	<b>5</b>	
<b>Core Management Arrangements</b>							
13/0871	HR Systems Replacement	1	0	1			
13/0903	National Fraud Initiative 2012/13	7	2	9			
14/0917	National Fraud Initiative 2014/15	1	19	20			
14/0919	Internal Communications	1	0	1			
14/0923	Annual Governance Review and Statement 2013/14	8	1	9			
<b>Sub-total - Core Management Arrangements</b>		<b>18</b>	<b>22</b>	<b>40</b>	<b>50</b>	<b>10</b>	
<b>Risk Based Assurance Work Programme</b>							
13/0908	Commercial Property Leases and Licences	1	0	1			
13/0911	Officer Gifts, Hospitality and Register of Interests	3	0	3			
14/0916	Fleet Management	6	0	6			
14/0918	Planning - Strategic Housing Market Assessment	28	0	28			
14/0920	Council Housing Tenancy Fraud	17	0	17			
14/0921	Outdoor Events Management	19	0	19			
14/0922	Salt Ayre Sports Centre - Financial Procedures	10	0	10			
14/0924	Housing Options and Allocations	8	7	15			
<b>Sub-total - Risk Based Assurance Work</b>		<b>92</b>	<b>7</b>	<b>99</b>	<b>180</b>	<b>81</b>	
<b>Follow-Up Reviews</b>		<b>18</b>	<b>32</b>	<b>50</b>	<b>50</b>	<b>0</b>	
<b>SUB-TOTAL - ASSURANCE WORK</b>		<b>146</b>	<b>101</b>	<b>247</b>	<b>380</b>	<b>133</b>	
<b>2. CONSULTANCY WORK</b>							
<b>Support Work (projects and other)</b>							
12/0849	Complaints - Officer Working Group	4	1	5			
13/0876	Financial Regulations Review	16	3	19			
14/0928	Procurement Strategy Development	1	3	4			
<b>Sub-total - Support Work (projects and other)</b>		<b>21</b>	<b>7</b>	<b>28</b>	<b>15</b>	<b>-13</b>	
<b>Corporate Service Reviews</b>							
13/0910	Ordering and Payment Systems Review	5	5	10			
14/0934	Business Travel and Transport Review	8	7	15			
<b>Sub-total - Corporate Service Reviews</b>		<b>13</b>	<b>12</b>	<b>25</b>	<b>50</b>	<b>25</b>	
<b>Ad-Hoc Advice</b>		<b>41</b>	<b>39</b>	<b>80</b>	<b>65</b>	<b>-15</b>	
<b>SUB-TOTAL - CONSULTANCY WORK</b>		<b>75</b>	<b>58</b>	<b>133</b>	<b>130</b>	<b>-3</b>	
<b>3. OTHER</b>							
12/0392	Deputy s151 Officer Duties	5	5	10	10	0	
	Audit Work for Other Bodies - LDNPA	9	41	50	50	0	
<b>SUB-TOTAL - OTHER</b>		<b>14</b>	<b>46</b>	<b>60</b>	<b>60</b>	<b>0</b>	
<b>4. AUDIT MANAGEMENT</b>							
12/0172	Committee Work	5	10	15			
12/0189	Audit Planning & Monitoring	13	22	35			
<b>SUB-TOTAL - AUDIT MANAGEMENT</b>		<b>18</b>	<b>32</b>	<b>50</b>	<b>50</b>	<b>0</b>	
<b>5. CONTINGENCIES</b>							
<b>Investigations</b>		<b>6</b>	<b>2</b>	<b>8</b>	<b>30</b>	<b>22</b>	
<b>General Contingency</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>40</b>	
<b>SUB-TOTAL - CONTINGENCIES</b>		<b>6</b>	<b>2</b>	<b>8</b>	<b>70</b>	<b>62</b>	
<b>TOTALS</b>		<b>259</b>	<b>239</b>	<b>498</b>	<b>690</b>	<b>192</b>	

Key: Completed In Progress Not Yet Started Continuous or Multi-Year Activity

Carried Forward to 2015/16 Plan

Abandoned