LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Audit Committee

Wednesday, 21 September 2011

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

AUDIT COMMITTEE

Statement of Accounts 2010/11
21 September 2011

Report of Head of Financial Services

PURPOSE OF REPORT
This report seeks Member approval for the 2010/11 audited accounts, to allow the completion of financial reporting for last year.
This report is public.

RECOMMENDATIONS

1. **That the Committee notes the report for 2010/11 issued by the Council's External Auditors and 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 2011 be approved and that the Chairman signs and dates the Accounts accordingly.**

REPORT

1.1 At the last Committee meeting Members were informed of recent changes to the Accounts and Audit Regulations.

1.2 In accordance with the new requirements, the draft Accounts for 2010/11 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.

1.3 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.

1.4 In summary, the results of the audit are as follows:

- A number of presentational changes have been agreed as a result of the audit, and one of these was material in nature (presentationally).

- Subject to these changes being adjusted as appropriate within the Accounts, and unqualified audit opinion will be issued.

- Additionally the Council has made proper arrangements to secure value for money in its use of resources.

1.5 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

1.6 Accordingly the adjusted, audited Accounts are attached at ***Appendix B*** for the Committee's consideration and approval. There are no other matters brought to Members' attention at this stage; the financial outturn has previously been reported to both Cabinet and Budget and Performance Panel.

1.7 In support of completing the audit, the Auditor requires a 'letter of representation', a copy of which is included at ***Appendix C***. The letter will be signed by the Section 151 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.

1.8 Once the Accounts have been approved and the letter of representation forwarded, it is expected that the Auditor will issue his opinion on the accounts; conclusion of the audit will also follow in due course.

1.9 The Head of Financial Services will then ensure that the Accounts are published by 30 September. This simply involves a copy being made available at the Town Hall 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 of concern arising.

3 Conclusion

3.1 The approval of the Accounts by the Committee would ensure that the statutory deadline is met. It is unfortunate that one material presentational adjustment to the accounts has been needed, but it is considered that this should not detract from the good work done in implementing many significant other changes to the Accounts for 2010/11, in line with International Financial Reporting Standards (IFRS).

CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** No implications directly arising.
FINANCIAL IMPLICATIONS There are no changes to the financial outturn from that previously reported to Members.

SECTION 151 OFFICER'S COMMENTS This report was prepared by the s151 officer as part of her responsibilities.	
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.	**Contact Officer:** Nadine Muschamp **Telephone:** 01524 582117 **E-mail:** nmuschamp@lancaster.gov.uk **Ref:**

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cutting through complexity™

Report to those charged with governance (ISA 260) 2010/11

Lancaster City Council

21 September 2011

Contents

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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.

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 Stephen Clark, the appointed engagement lead to the Authority, on 0113 231 3148, 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, 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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Section one

Introduction

This report summarises:

- **the key issues identified during our audit of Lancaster City Council's ('the Authority's) financial statements for the year ended 31 March 2011; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the final two stages: substantive procedures and completion. It also includes any findings in respect of our control evaluation that we have to report.

Our final accounts visit on site took place between 18th to 29th July. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit (completion). Some aspects of our responsibilities are discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included work to complete an assessment of the significant risks related to VFM for Lancaster City Council.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the 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 year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

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Section two

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified one material audit adjustment to correct a duplicated entry. The adjustment was presentational in nature and was in relation to the Collection Fund. The impact of the adjustment has increased the income and expenditure within the Collection Fund by £1.8 million, with no impact on the Fund's net balance. There is no impact on the general fund or net assets. We also noted a number of presentational changes to the notes to the financial statements. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority. We have raised a number of recommendations that will strengthen the Authority's control environment. These are detailed in Appendix 1.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed, or is addressing where there is an ongoing risk, the risks and issues appropriately.
Accounts production and audit process	The good quality of the accounts and the supporting working papers has been maintained for 2010/11, 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. This reporting period was the first for the Authority under International Financial Reporting Standards. The Authority has responded well to the additional disclosure requirements and technical differences in relation to the implementation of IFRS.

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Headlines (continued)

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

Completion	At the date of this report our audit of the financial statements and associated work is substantially complete. There are two areas that are still required to be finalised: ■ A review of the final financial statements for typographical errors and to ensure that they cast, cross reference and comply with all disclosure requirements. ■ Completion of the Whole of Government Accounts review. Before we can issue our opinion we require a signed management representations letter. 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.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
VFM risk areas	We have considered the specific VFM risks we set out in our *Audit Fee Letter 2010/11*, which were in relation to the financial resilience of the Authority. This was an issue for all local authorities following the comprehensive spending assessment. The Authority has been planning ahead for these changes, including undertaking sensitivity analysis and assessing savings options at an early stage. The process for identifying options for savings for 2011/12 is due to commence during early Autumn. This early planning should leave the Authority in a sound position to be able to respond to the increasing financial challenges over the medium term. The Authority should continue to ensure that all decision making processes are fully supported by thorough financial analysis supporting (or not) the assessment of viability of options. This will be critical in ensuring that investment and disinvestment decisions are based on robust bases that can stand up to external scrutiny.

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Proposed opinion and audit differences

Our audit identified a total of one audit adjustment.

This adjustment had no subsequent effect on the general fund account, provision of services or net worth of the Authority.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011.

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.

Our audit identified a total of one audit adjustment. This adjustment was in relation to the Collection Fund and was of a presentational nature.

This adjustment had no effect on the general fund balance for the year.

We have provided a summary of significant audit differences in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments, including a number around fixed assets and the pension note disclosures, required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010 ('the Code')*. We understand that the Authority will be addressing these where significant.

Movements on the General Fund 2010/11

£m	Pre and post-audit
Surplus or (deficit) on the provision of services	(19.8)
Other comprehensive income and expenditure	13.7
Adjustments between accounting basis & funding basis under regulations	8.6
Increase/decrease in General Fund	**2.5**

Balance Sheet as at 31 March 2011

£m	Pre and post-audit
Property, plant and equipment	224.7
Other long term assets	29.5
Current assets	16.8
Current liabilities	(7.7)
Long term liabilities	(79.3)
Net worth	**184**
General Fund	(3.7)
Other reserves	(180.3)
Total reserves	**(184)**

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Proposed opinion and audit differences (continued)

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

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 in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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Section three – financial statements

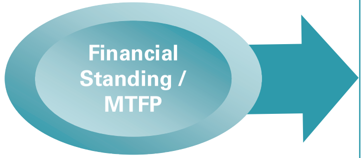
Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *Financial Statements Audit Plan 2010/11*, presented to you in June, we identified the key risks affecting the Authority's 2010/11 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	**Financial Standing / MTFP** • Linking with our value for money audit work, we will consider the Authority's general financial standing and in particular its approach to medium term financial planning. • This is of particular importance following the Comprehensive Spending Review which will require the Authority to make significant cost savings over the next four years. The Authority needs to save £991k in 2012/13 and £647k in 2013/14 in order to set a balanced budget. • The Authority has planned, as part of its budget setting process, to contribute £500k to balances in 2011/12. This is due to the savings identified, including its early implementation of the senior management restructure and its use of a Shared Service for revenues and benefits. • We will consider the potential impact of the outcome from this work on our financial statements audit.	The final out-turn for 2010/11 was an under-spend of £1.087 million. This out-turn has reduced some of the pressures on future years, as reserves have been increased as a result. Our more detailed findings in relation to our value for money audit opinion is contained in section four of this report.

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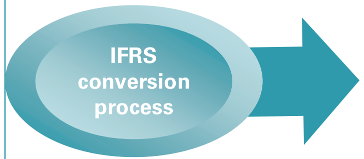
Critical accounting matters (continued)

IFRS represented a new accounting challenge for all local authorities in 2010/11 and the preceding years. The Authority responded well to this through effective planning and the sound application of the finance team's technical knowledge.

Key audit risk	Issue	Findings
	**IFRS conversion process** For the year ended 31 March 2011 local authorities are required to implement IFRS. **Impact of conversion process** • The Authority has been following a conversion plan and has a project team to assist in achieving a smooth transition to IFRS. • The IFRS conversion process is being led by the Accountancy Services Manager at the Authority with his team preparing many of the working papers supporting the transition. The Authority has ensured that relevant services have input into the process, for example Property Services. • We have maintained a continuous dialogue with the Authority on its progress. **Our audit work** • We will audit the re-stated 2009/10 financial statement figures in February. During this time we will review the restated balances and working papers to ensure compliance with the CIPFA Code. • We will discuss any issues arising with officers. • During the final accounts audit we will audit the financial statements in line to ensure that they are in compliance with IFRS.	As noted in section two, the Authority responded well to the challenge of converting its financial statements to IFRS. We audited the Authority's processes for conversion during early Spring 2011. We found that management had put robust processes in place to ensure that the prior year balances were appropriately restated for IFRS. There were limited issues arising from the work that we undertook at that time. The next few pages discuss our findings in relation to each of the key areas of the financial statements affected by IFRS.

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Critical accounting matters (continued)

The impact of IAS 17 on leases was dealt with correctly by the Authority and led to the reclassification of a number of leases from operating leases to finance leases.

Key audit risk	Issue	Findings
	**Impact of IAS 17** • The impact of IAS 17 generally is that there is an increased number of finance leases as IAS 17 gives a broader definition of finance leases than the UK standard. This results in more assets coming on to balance sheet. • The Authority has reviewed its lease register and its general ledger to ascertain there is a complete record of all leases. It has then considered the treatment of these leases against the criteria of IAS 17. The Authority believes that there are no additional finance leases as a result of IFRS. **Our audit work** • During the restatement audit we will assess the Authority's process for ensuring that there is a complete record of all leases. • We will also review all material leases and contracts to determine whether they have been correctly treated as an operating lease or finance lease under IAS 17 following the Authority's assessment of its lease arrangements.	We have performed a comprehensive review of the Authority's process for ensuring there is a complete review of all leases. We found that the Authority's process was methodical and well documented and considered a wide range of transactions, which may be captured under the broader definition of finance leases within IAS 17. We have reviewed all material leases to ensure they have been correctly treated under IAS 17. The Authority has determined that Lancaster Market and the vehicle leases that the Authority holds should be classified as finance leases as they meet the conditions of IAS 17 and are both material in size.

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Critical accounting matters (continued)

IAS 19 requires councils to recognise an accrual for employee benefits though the Authority has not adjusted the accounts for this accrual as it is not material.

Component accounting is required for additions and valuations under IAS 16. We have tested the Authority's approach to this and have confirmed that the treatment is in accordance with the Code.

Key audit risk	Issue	Findings
Employee Benefits	**Impact of IAS 19** • A new liability will be recognised on the balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay. • At present the Authority has prepared an accrual for employee benefits based on accrued annual leave and accrued flexi-time. This information has been collected for the separate service areas and the expenditure recorded in each of the relevant services. **Our audit work** • During the audit of the re-stated 2009/10 balances we will assess the Authority's process for calculating the employee benefit and need. • We will also audit the balance using the data collated by the Authority to ensure it is line with the requirements of the standard.	We have assessed the Authority's methodology and computation of the accrual for employee benefits. We have agreed the calculations back to source documentation and tested the method of calculating the accrual. The Authority has reflected this appropriately within in its financial statements.
Property, plant & equipment	**Expected impact of IAS 16** • Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which significantly different depreciation methods or rates are appropriate each component is accounted for separately. For example, a house will be split between structure, roof, windows and any other significant components. **Our audit work** • During the interim visit we will assess the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register. • During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.	During the interim visit we assessed the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register. The main area affected is in relation to housing assets. The Authority has continued to use the Major Repairs Allowance (MRA) as a proxy for depreciation, despite having a componentised register. The Authority demonstrated to us that component accounting did not have a material impact on the depreciation charge. As a result, the use of MRA is allowable under the Code.

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Section three – financial statements

Critical accounting matters (continued)

Under IFRS entities have to consider the power of control as opposed to UK GAAP which emphasises the substance of control. This interpretation was correctly applied by the finance staff though no additional consolidations were required.

Luneside East continues to be recognised as a contingent liability, though the Lands Tribunal is expected to make a ruling by the end of the Calendar year.

Key audit risk	Issue	Findings
Consolidation & Associates	**Expected impact of IAS 27 & 28** • UK GAAP emphasises the **substance** of control eg rather than legal voting rights whereas IFRS considers the **power** to control. As a result there may be a different interpretation of those entities consolidated into group financial statements. **Our audit work** • During the interim audit we will consider the Authority's evaluation of its relationships with external partners to assess whether they should now be consolidated under the new standards. • We will audit the consolidated statements during the final phase in line with IAS 27 & 28.	As part of our interim visit we assessed the Authority's relationships with a number of external partners but found the change from substance of control to power to control to have no impact on these existing relationships and no consolidation was required. We updated our understanding at the final visit but again there were no material entities that required consolidating.
Contingent Liabilities	The contingent liabilities disclosed in the financial statements in 2009/10 could be financially significant if they were to crystallise. Therefore, if the Authority does not reflect the latest position in relation to these events the financial statements could be significantly mis-stated. • We have discussed the latest position of Luneside East with the Head of Financial Services. We will also meet with the Monitoring Officer to keep aware of further developments. • We will critically review any correspondence received from legal representatives regarding Luneside East and take account of any hearings, rulings or appeals.	The Land Tribunal is expected to be concluded at the end of the Calendar year. Therefore, the appropriate treatment for this case remains a contingent liability. The Authority has set aside reserves for the funding of a potential ruling against the Authority. This reflects appropriate financial planning in what is already a financially pressured economic environment.

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Critical accounting matters (continued)

We have discussed the new arrangements for the Shared Service for revenues and benefits with the authority and will continue to monitor the situation into the new accounting period.

Key audit risk	Issue	Findings
Revenue and Benefits Shared Service	The use of new Shared Service for revenues and benefits with Preston City Council to administer and collect the revenues and benefits applicable to Lancaster from 1 July 2011 will pose particular challenges for the Authority. These will include a change to processes in relation to revenues and benefits and ensuring the Authority maintains close oversight of the performance and control environment of this Shared Service centre. In addition, the Authority will need to ensure that the Shared Service delivers the planned efficiencies in the budget. ● We have discussed the arrangements for the move to the Shared Service for revenues and benefits processing with the Accountancy Services manager and will update our understanding at the interim visit. ● We will test the controls around revenue and benefits, in liaison with Preston City Council's auditors, to ensure that our audit approach is efficient and to gain assurances that appropriate controls are in place over balances, so that they are not materially mis-stated.	We have updated our knowledge of the progress of the revenues and benefits shared service with the Head of Financial Services. To date, the service is delivering what it set out to. Much of the savings have already been achieved and performance is being maintained. There will be new challenges facing the service going forward as more details of the Government's plans to reform the Welfare Benefits system are released and implemented. This could affect the future operation of the service. Lancaster City Council's own internal audit function will be reviewing the controls of the shared service in the coming months. We will liaise with the Internal Audit Manager to ensure that we can place maximum reliance on this work so as to avoid any duplication of audit effort. In addition, we will liaise with the Audit Commission over the next month to ensure that we effectively co-ordinate our audit of the housing benefit claim.

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Accounts production and audit process

The Authority has good financial reporting processes and working papers to support the financial statements

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

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the 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 a very strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 4th July 2011.
Quality of supporting working papers	Our '*Prepared By Client List Protocol'* which sets out our working paper requirements for the audit. , was issued to Officers before the audit. The working papers met these requirements and were provided in line with the agreed timescales and were of a good standard.
Response to audit queries	All additional audit queries were resolved quickly and efficiently by finance staff at the Authority.

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Completion

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 2011, 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 4 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 Andrew Clark. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

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New VFM audit approach

We follow a new VFM audit approach this year.

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.

Overview of the new VFM audit approach

For 2010/11, 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.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

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

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
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.

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Specific value for money risks

We have considered the specific VFM risks we set out in our *Audit Fee Letter 2010/11.*

The Authority is responding well to the financial challenges that it is facing,

Our risk assessment was included in our *Audit Fee Letter 2010/11*. This identified financial resilience as a key risk for the Authority. As a result, our work to support our value for money opinion has focussed on the Authority's financial planning and management over the medium to long-term period.

Further details of our findings are contained below.

VFM risk	Focus of work	Preliminary assessment
Financial Pressures	The Authority faces financial pressures due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review.	We have been reviewing the Authority's financial position and financial plans over the last 12 months. The Authority planned in advance of the comprehensive spending review (CSR), by completing sensitivity analysis of the potential outcomes. The Authority's plans had assumed for a worse outcome than CSR delivered. The Authority had a change in political leadership following the May elections. It will be critical for the new leadership to determine what its priorities are for the 2012/13 financial year. This will give clarity to the decision making process (for example, regarding the redirection of resources) so that the Authority can set a balanced budget. The budget savings requirement for 2012/13 is currently expected to be around £1 million. Plans are in place to commence the options consideration and consultation process from October. Members have received financial training, which should help them to discharge their duties around the budget setting process and in making other strategic decisions which may have a financial impact. Whilst the Authority still has a number of challenges ahead, the advanced planning and early indications, suggest that a balanced budget will be achieved for 2012/13 and the medium term.

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Appendix 1: Key issues and recommendations

We have given our recommendations risk ratings 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 our recommendations next year. We will monitor progress against these recommendations through discussions with management.

Priority rating for recommendations		
Priority one: 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.	***Priority two***: 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.	***Priority three***: 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.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	(three)	**General Ledger/Debtors and creditors reconciliations** The Authority's reconciliation between the general ledger and the creditors and debtors systems is not signed as prepared or reviewed. This means that there is a limited audit trail over the timeliness of preparation and review of the control The Authority should ensure that the reconciliation and review process is fully documented to provide a sufficient audit trail.	**Systems Support Accountant / September 2011** The debtors system is reconciled to the GL control account on a monthly basis. However, due to the nature of creditors constantly changing and only interfacing with the GL at authorisation time it is impracticable to reconcile on a monthly basis, so this is achieved as part of the year end process. Both reconciliations are undertaken by the Systems Support Accountant and are to be agreed and signed off by the Accountancy Services Manager.
2	(three)	**System access rights to financial systems** 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. Management should review the access rights to its financial systems on a periodic basis to ensure that access rights remain appropriate.	**Systems Support Accountant / November 2011** A report will be developed, to be circulated on an annual basis to all services containing current live users and asking the relevant officers to confirm that the access rights are correct. At present, as employees leave, there is already a procedure in place to suspend users that have left the authority and remove any access rights to the financial systems.

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Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	(three)	**General Ledger/Council Tax and NNDR reconciliation** The Authority's interface between the general ledger and Council Tax and NNDR system does not always work effectively. As a result, management have developed a reconciliation to identify the differences to ensure that the two systems reflect the appropriate information. The reconciliation involves a large amount of manual input and is very complicated in its nature. This presents a risk to the accuracy of the data within the general ledger system. In addition, the frequency of the performance of the reconciliation has reduced during the year, which increases the risk of errors going undetected. Management should review the current process of reconciling the two systems and try to: ▪ reduce the complex nature of the reconciliation; ▪ increase the accuracy of the automatic interface, so as to reduce the level of manual intervention; and ▪ increase the frequency of the reconciliation to at least a monthly basis.	**Accountancy Services Manager / March 2012** The Council acknowledges that the process for reflecting the Council Tax and NNDR system (Academy) information in the general ledger involves a substantial degree of manual intervention. To address the specific recommendations: 1. The aggregation of the collection fund accounts from the Academy data is inherently quite complex especially due to the requirements of agency accounting brought in from 2009-10. This now means that the raw data from Academy needs to be adjusted to remove or aggregate balances attributable to preceptors and central government; even with a robust automated interface there would still be significant manual intervention required to prepare the Collection Fund account at year end. There are checks and balances in place to mitigate the risk of errors in this process and as acknowledged earlier in this report, the audit difference was of a presentational nature rather than evidence that lack of internal control has lead to a fundamental inaccuracy. However, the year end working papers will be reviewed to ensure that they reflect this process as clearly as possible and that all year end controls are working effectively. 2. Information Services are currently working towards a solution to improve the quality of the feeder information. 3. The automatic feeder is already reconciled to the ledger on a monthly basis.

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Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
4	● (three)	**Testing of the disaster recovery system** Best practice would be for the Authority to test the backups of its financial systems on an annual basis to ensure that its disaster recovery plan is working effectively. As part of our IT systems work there was no evidence to support that backups of the system had been tested to ensure they recovered data effectively.	**Information Services Manager / January 2012** A report to the Business Continuity Team on the 7th September confirmed that now works had been finished at Morecambe Town Hall (the location for Disaster Recovery (DR) equipment) Information Services will be pressing ahead with the DR plan with Authority Financials being the top priority. The actual DR test for Authority Financials to be November/December.
5	● (three)	**Posting and authorising of journals.** 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.	**Accountancy Services Manager / N/A** Principal Accountants have authority to post and authorise their own journals, as the volume of journals that would require checking and authorising by the Accountancy Services Manager would be make it impractical to segregate the process.
6	● (three)	**Review of open orders** We were unable to confirm that a review of open orders had been completed by each service area as part of the accounts closedown process. The Authority should retain evidence of this review to ensure it has correctly considered what liabilities require disclosing at year end.	The systems support accountant generates a report which is distributed to all services in February/March of each year for them to review and take any necessary action on outstanding orders. As part of the year end closure process it is assumed that orders still on the system are those services require the commitment being rolled forward into the following year. Services have responsibility to review all outstanding orders and either submit accruals lists or carry forward requests as appropriate. The accruals lists and carry forward requests are considered to be appropriate evidence that outstanding orders have been reviewed accordingly.

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Appendix 1: Key issues and recommendations (continued)

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
7	(three)	**Physical verification of property, plant and equipment** 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. Management should introduce a process to ensure that its fixed asset records remain accurate.	**Internal Audit Manager / March 2012** Internal Audit are to undertake a corporate review of arrangements for compiling and maintaining inventories during 2011/12. This will be scoped so as to cover the points raised and aim to ensure that robust, proportional and cost-effective processes are operated in all services.
8	(three)	**Payroll controls** There were a number of payroll control weaknesses we detected as part of our audit work. These included: ▪ No independent review of payroll exception reports; and ▪ The payroll system and personnel systems do not reconcile. These weaknesses increase the likelihood of the payroll costs in the accounts being misstated.	**Payroll - Exchequer Services Manager / September 2011** **Payroll / HR System – Human Resources Manager / Accountancy Services Manager / April 2012.** Payroll exception reports – the Exchequer Services Manager is to review and sign off all future payroll exception reports. Payroll and Personnel system – it has been acknowledged for some time there is a lack of integration between the two system and the authority are currently undergoing an exercise of reviewing the two systems with the intention of procuring an integrated solution for implementation by April 2012.

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Appendix 2: Audit differences

We identified one material audit difference. This has been corrected by management.

We also identified a number of presentational amendments, which have also been corrected by management.

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 the Authority's 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

The following table sets out the significant audit differences identified by our audit of Lancaster City Council's financial statements for the year ended 31 March 2011. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Impact (£000s)					Basis of audit difference
Income and expenditure statement	**Adjustments btw. accounting basis & statute**	**Assets**	**Liabilities**	**Reserves**	
Cr Collection fund - Income from Business Ratepayers £1,845 Dr Collection fund - Payment to National Pool £1,845	-	-	-	-	Due to a year end journal error the income from business rate payers was understated by £1.845 million and the payment to the pool was also understated by the same amount.
Dr/Cr £0	**Dr/Cr £0**	**Dr/Cr £0**	**Dr/Cr £0**	**Dr/Cr £0**	**Total impact of adjustments**

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Appendix 3: 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.

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 Audit Partner 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.

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Appendix 3: 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 2011, we confirm that there were no relationships between KPMG LLP and the 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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Appendix 4: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the Authority financial statements of Lancaster City Council ("the Authority"), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Lancaster City Council as at 31 March 2011 and of its income and expenditure for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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:
   - give a true and fair view of the financial position of Lancaster City Council as at 31 March 2011 and of its income and expenditure for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

   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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require 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 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 the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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Appendix 4: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

8. 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 financial statements communicated by employees, former employees, analysts, regulators or others.

9. 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. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

11. 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;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 21 September 2011.

Yours faithfully,

[Chair of the Audit Committee] , [Chief Financial Officer]

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Statement of Accounts

2010/11

For the year ended 31 March 2011

Contents **Page No.**

1 Introduction

This document sets out the City Council's annual accounts for the financial year ended 31 March 2011. The format follows the requirements for publication of financial information as set out 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 2010/11 and assist in the interpretation of the accounting statements.

2 Revenue Position

2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for 2010/11. It shows the actual variances for each service area but excludes any notional charges that are required for the formal financial statements, as these can distort the position in terms of understanding where actual spending and income variances have occurred.

	2010/11			Variance from
	Original Budget	**Revised Budget**	**Actual**	**Revised Budget**
Expenditure:	£000	£000	£000	£000
Community Engagement	4,511	4,620	4,355	(265)
Environmental Services	5,235	4,795	4,572	(223)
Financial Services	2,334	2,396	2,300	(96)
Governance	1,444	1,473	1,345	(128)
Health & Housing	2,375	2,314	2,360	46
Information Services	1,036	970	922	(48)
Office of the Chief Executive	524	609	605	(4)
Property Services	1,863	1,891	1,641	(250)
Regeneration & Policy	2,304	1,997	1,626	(371)
Corporate Accounts	1,724	981	1,197	216
Net Cost of General Fund Services	**23,350**	**22,046**	**20,923**	**(1,123)**
Interest Payable & Similar Charges	1,419	1,448	1,503	55
Parish Precepts	528	528	528	0
Contribution to General Fund Balance	70	1,342	2,429	1,087
NET REVENUE EXPENDITURE	**25,367**	**25,364**	**25,383**	**19**
Funded by:				
General Government Grants	(99)	(96)	(115)	(19)
Revenue Support Grant	(2,076)	(2,076)	(2,076)	0
National Non Domestic Rates	(14,301)	(14,301)	(14,301)	0
Council Tax	(8,891)	(8,891)	(8,891)	0
TOTAL FUNDING	**(25,367)**	**(25,364)**	**(25,383)**	**(19)**

2.2 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 2.3 below). The General Fund Revenue Budget for 2010/11 (including parish precepts) was originally approved by Council on 03 March 2010 at £25.268M, representing net revenue expenditure of £25.367M less general government grants of £99K. It assumed that balances would be just over £1M at 31 March 2011, though these were increased by a further £140K following the 2009/10 outturn.

At outturn for 2010/11 there has been a net underspending of £1.087M against the Revised Budget, some of the main areas where underspending has occurred are shown below:

Employees – vacant posts and turnover	-£289K
Vehicles – mainly procurement savings	-£108K
Utilities - gas and electricity contract and usage saving	-£141K
Refuse Collection – efficiency savings	-£145K
Repair & Maintenance of sea defences & public realm	-£126K
Reclaim of VAT	-£170K
Delayed Business Improvement District Development Project	-£80K
Salt Ayre Sports Centre / Community Pools net savings	-£76K
Local Development Framework/Morecambe Action Plan	-£63K
Additional Premises Rental Income	-£97K
Provision of Parking – reduced costs & additional income	-£56K
Revenue financing of Capital Programme	-£42K

Additional spend has also been incurred on contributions to the Insurance Provision (£134K) and the Capital Support Reserve (£350K) to cover additional claims experience in the case of insurance, and to provide cover for increases in capital spend which are anticipated during 2011/12.

At the end of 2010/11, after taking account of principal repayments the Council still had £4.94M of investments outstanding with the three Icelandic banks that are in administration (the original total value was £6M). A decision by the Icelandic District Court effectively gives the Council preferred creditor status for £4M of the outstanding deposits and if retained, this status should improve recovery prospects significantly. The final outcome is currently subject to appeal through the Icelandic Supreme Court, however, and therefore the provisions to cover estimated losses on the £4M have not been reduced; they still allow for a worse case scenario. Unless circumstances warrant it, the provisions will only be reassessed when a final ruling has been received.

As a result of the outturn, General Fund unallocated Balances stand at £3.674M as at 31 March 2011, 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. Also it should be noted that contributions totalling £1.6M are already budgeted to be taken from Balances over the next two years, to help create an Invest to Save Reserve. Effectively this means that just under £1.1M of available Balances are currently unallocated (equivalent to the underspending in 2010/11).

2.3 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.

As at 31 March 2011 the working balance on the Housing Revenue Account amounted to £452K. As a result of net underspendings during the year, Balances increased by £102K when compared with the Revised Budget position, before considering any requests to carry forward budgets into 2011/12. The main variances relate to efficiency savings on responsive maintenance (£62K), contract savings and delays on planned maintenance (£103K) and additional rental income (£34K) as a result of less voids. There has, however, needed to be an increase in the bad debt provision of £135K. Current Council Policy is to maintain unallocated housing balances at no less than £350K.

3 Capital Position

In 2010/11 the City Council spent £10.918M on capital schemes, summarised as follows:

Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£000	Capital Financing	£000
Council Housing	4,185	Grants & Contributions	3,258
Environmental Services	1,642	Reserves	4,590
Community Engagement	46	Unsupported Borrowing	2,352
Health & Housing Services	1,495	Capital Receipts	718
Information Services	80		
Regeneration & Policy	2,600		
Property Services	870		
Financial Services	0		
Total	**10,918**	**Total**	**10,918**

The Council's revised Capital Programme for 2010/11 was £10.163M, but £1.335M of vehicles and bin replacements, which were originally assumed to be leased, were subsequently purchased outright and capitalised in accordance with approved protocols. This effectively increased expected capital spending in last year. Separately, however, for a number of other schemes around £1.006M of slippage is expected to be rolled forward into 2011/12, due to various changes and delays.

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. As at 31 March 2011, the Council held around £7.8M in reserves, specifically to help support future years' capital investment plans.

In 2010/11 the net cost of financing external borrowing (e.g. interest charges) was £2.677M, and the value of long term debt owed as at 31 March 2011 amounted to £42.6M, of which £3.4M relates to finance lease liabilities and £39.2M relates to PWLB long term borrowing. Total long term borrowing is £0.5M lower than the previous year due to payment of finance leases. 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 £254M as at 31 March 2011.

4 Pension Liabilities

In accordance with accounting practice, the Council must show the present surplus or deficit position on its share of the Pension Fund. The Local Government Pension Scheme administered by Lancashire County Council underwent a full valuation as at March 2010, the results of which were published in March 2011. This valuation saw an increase in net deficit on the Fund to £993M (£710M in 2007).

For Lancaster, the net position as at 31 March 2011 showed a net liability of £35.958M compared to £59.743M for the previous financial year. This represents a decrease in net liabilities of £23.785M. A proportion of this change (£7.270M) is as a result of the Government's decision to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI). The actuary has assumed that over the long term CPI will be less than RPI by 0.5% per annum, which has the effect of reducing the calculated value of an employer's liabilities for accounting purposes.

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.

Not withstanding these points, however, the future costs and funding of pensions continue to be national high profile issues, under consideration by Government.

5 Changes in Accounting Policies

The move to an International Financial Reporting Standards (IFRS) based Code from a UK Generally Accepted Accounting Practice (UK GAAP) based Statement of Recommended Practice (SORP) results in a number of significant changes in accounting practice. The main elements of which are as follows:

- Grants and contributions for capital purposes are recognised as income immediately rather than being deferred and released to revenue to match depreciation.
- The main financial statements have changed, and now include additional segmented reporting requirements which show income and expenditure on a service by service basis.
- There is now a greater emphasis on component accounting for assets.
- Property leases are classified and accounted for as separate leases for land and buildings.
- Investment properties are now defined as properties which are held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver Council services.
- A new classification of non-current assets call "assets held for sale" has been introduced. Assets meeting this classification are those where the value of the asset will be recovered mainly by selling the asset rather than through usage.
- The value of outstanding annual leave and flexible working entitlement earned (employee benefits) must be accrued for within the relevant accounting year.

6 Conclusion

Although 2010/11 has been an uncertain year financially, as at 31 March the Council has improved its financial standing overall by generating net efficiency savings and through other underspendings. Balances are significantly higher than forecast. Whilst there are still uncertainties surrounding the outcome of Icelandic investments, the Council has retained its provisions to cover 'worse case' estimated losses and therefore potentially there is scope for its financial position to improve further, should a positive ruling be forthcoming. Looking forward, the Council has earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years. Given funding prospects the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings initiatives will be needed in future in order to ensure a balanced annual budget and financial stability.

Summary of Financial Statements

THE CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into "usable reserves" and other reserves. The Surplus or (Deficit) on the Provision of Service shows the true economic cost of providing the authority'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 General Fund Balance and the Housing Revenue Account for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and 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 accounting of providing services cost 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 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 for the main Income and Expenditure Account 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, subsidy and other income.

Collection Fund

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

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.

Statement of Responsibilities for the Statement of Accounts

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 Head of Financial Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

2 The Head of Financial Services' Responsibilities

The Head of Financial Services 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 Kingdo*m ("the Code").

In preparing this Statement of Accounts, the Head of Financial Services 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 Head of Financial Services has also:

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

3 Head of Financial Services' Certificate

I certify that the Statement of Accounts present a true and fair view of the financial position of the authority at 31 March 2011 and the income and expenditure for the year then ended.

Nadine Muschamp, CPFA
Head of Financial Services

Date : 30 June 2011

Movement in Reserves Statement

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 authority as a result of movements in the fair value of its assets
- movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Useable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31/3/2010	**1,245**	**6,480**	**523**	**2,287**	**6,868**	**150**	**0**	**17,553**	**172,575**	**190,128**
Movements in 2010/11										
Surplus/(deficit) on the provision of services	11,475	0	(31,314)	0	0	0	0	(19,839)	0	(19,839)
Other Comprehensive Income and expenditure	32	0	0	0	0	0	0	32	13,666	13,698
Total comprehensive income and expenditure	11,507	0	(31,314)	0	0	0	0	(19,807)	13,666	(6,141)
Adjustments between accounting & funding basis under regulations	(9,745)	0	31,266	0	(287)	(150)	373	21,457	(21,457)	0
Net Increase/Decrease before transfers to earmarked reserves	1,762	0	(48)	0	(287)	(150)	373	1,650	(7,791)	(6,141)
Transfers (to)/from earmarked reserves	667	(667)	(23)	23	0	0	0	0	0	0
Increase/(decrease) in 2010/11	**2,429**	**(667)**	**(71)**	**23**	**(287)**	**(150)**	**373**	**1,650**	**(7,791)**	**(6,141)**
31/3/2011 balance c/fwd	**3,674**	**5,813**	**452**	**2,310**	**6,581**	**0**	**373**	**19,203**	**164,784**	**183,987**

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by the authority during the financial year. As the authority 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 authority 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 authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

2009/10					**2010/11**		
Gross Exp	**Gross Inc**	**NET**		***NOTES***	**Gross Exp**	**Gross Inc**	**NET**
	Restated						
£000	£000	£000	*Continuing Operations:*		£000	£000	£000
12,375	(11,067)	1,308	Central Services to the Public		12,736	(11,620)	1,116
31,677	(14,541)	17,136	Cultural, Environmental, Regulatory and Planning Services		29,622	(13,069)	16,553
4,822	(3,096)	1,726	Highways and Transport Services		4,682	(3,846)	836
15,489	(18,375)	(2,886)	Local Authority Housing (HRA)		16,336	(18,981)	(2,645)
40,086	(38,243)	1,843	Other Housing Services		43,714	(41,356)	2,358
3,309	(934)	2,375	Corporate and Democratic Core		3,205	(990)	2,215
978	(195)	783	Non Distributed Costs		845	(75)	770
			Exceptional Items:				
11,909	0	11,909	Impairments re Local Authority Housing	*37*	34,181	0	34,181
0	0	0	Negative Past Service Pension Cost	*39*	(7,270)	0	(7,270)
120,645	**(86,451)**	**34,194**	**Cost of Services**		**138,051**	**(89,937)**	**48,114**
1,325	(835)	490	Other Operating Expenditure	*8*	1,641	(689)	952
19,412	(12,899)	6,513	Financing and Investment Income and Expenditure	*9*	17,942	(19,997)	(2,055)
0	(29,358)	(29,358)	Taxation and Non Specific Grant Income	*10*	0	(27,172)	(27,172)
		11,839	**(Surplus)/Deficit on Provision of Services**				**19,839**
		2,310	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets				3,280
		16,627	Actuarial (Gains)/Losses on Pension Assets/Liabilities	*39*			(16,946)
		0	Other Comprehensive Income and Expenditure				(32)
		18,937	**Other Comprehensive Income and Expenditure**				**(13,698)**
		30,776	**Comprehensive Income and Expenditure**				**6,141**

Balance Sheet

The Balance Sheet summarises the authority'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 authority does not have equity, the bottom half is comprised of reserves that show the disposition of the authority'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).

01 April 2009 *Restated* £000	31 March 2010 *Restated* £000		NOTES	31 March 2011 £000
277,815	263,806	Property, Plant & Equipment	11	224,721
20,052	19,827	Investment Property	12	26,913
474	306	Intangible Assets	13	233
0	0	Assets Held for Sale	18	452
0	2,857	Long Term Investments	14	1,925
29	19	Long Term Debtors	14	14
298,370	**286,815**	**Long Term Assets**		**254,258**
12,588	7,538	Short Term Investments		8,995
353	312	Inventories		323
14,538	9,391	Short Term Debtors	16	6,583
0	0	Cash & Cash Equivalents	17	858
27,479	**17,241**	**Current Assets**		**16,759**
(1,858)	(214)	Cash & Cash Equivalents		0
(8,999)	(498)	Short Term Borrowing		(504)
(9,053)	(9,667)	Short Term Creditors	19	(7,180)
(19,910)	**(10,379)**	**Current Liabilities**		**(7,684)**
(223)	(223)	Long Term Creditors		(223)
(641)	(430)	Provisions	20	(487)
(43,262)	(43,153)	Long Term Borrowing		(42,648)
(40,910)	(59,743)	Other Long Term Liabilities		(35,988)
(85,036)	**(103,549)**	**Long Term Liabilities**		**(79,346)**
220,903	**190,128**	**Net Assets**		**183,987**
16,048	17,553	Usable Reserves	21	19,203
204,855	172,575	Unusable Reserves	22	164,784
220,903	**190,128**	**Total Reserves**		**183,987**

Cash Flow Statement

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

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

2009/10 *Restated* £000		NOTES	2010/11 £000
(11,839)	Net surplus or (deficit) on the provision of services		(19,839)
27,419	Adjustments to net surplus or deficit on the provision of services for non-cash movements		34,209
(6,497)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(4,377)
9,083	**Net cash flows from Operating Activities**		**9,993**
(398)	Investing Activities	*24*	(5,574)
(7,041)	Financing Activities	*25*	(3,347)
1,644	**Net increase or decrease in cash and cash equivalents**		**1,072**
(1,858)	Cash and cash equivalents at the beginning of the reporting period		(214)
(214)	**Cash and cash equivalents at the end of the reporting period**		**858**

Notes to the Accounts

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:

1 ACCOUNTING POLICIES

1.1 General

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at 31 March 2011. The accounts of the authority 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 Changes to Accounting Policies

The Code 2011/12 has introduced a change in accounting policy in relation to the treatment of heritage assets held by the authority and the measurement of community assets, which will need to be adopted fully by the authority in the 2011/12 financial statements.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the authority. However, at the time of reporting the management information on which to base reasonable estimates of the heritage assets held by the authority and reasonable valuation estimates of community assets was not available. This does not have any impact on the 2010/11 financial statements, and a review will be undertaken in time for the authority to comply with the requirements of the 2011/12 Code.

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 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.7 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.

1.8 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.

1.9 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 5.5%.

- 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
  - **unitised 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.

1.10 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.

1.11 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 spreads 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 to 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 (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assts 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).

1.12 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.

1.13 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.

Area Based Grant
Area based grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

1.14 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 (eg 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.

1.15 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.

1.16 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.

1.17 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 dependant 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 that 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 impairments 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 (eg 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 (eg 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.

1.18 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 *Best Value Accounting Code of Practice 2010/11* (BVACOP). 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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.19 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 (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The 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 (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following basis:

- **dwellings 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.

1.20 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 (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the 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.

1.21 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.

1.22 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.

1.23 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 RESTATEMENT OF PRIOR YEAR ACCOUNTS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short- term accumulating compensated absences
Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment entitlement to which is built up as they provide services to the council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holiday as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Leases
Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or building element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the council is the lessee) will be unchanged. Where the council is the lessor, the regulations allow the council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

Government Grants
Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Accounts at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 01 April 2009 Balance Sheet.
- Portions of government grant deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

A reconciliation of the changes to the 2009/10 accounts is as follows:

Comprehensive Income and Expenditure Statement

	Gross Exp	Gross Inc	NET	Accumulated Absences	Finance Leases	Revaluation of Investment Properties	Govt Grants	Other Prior Year Adjs on Fixed Assets	Other CIE	Restated 2009/10 Balance
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Central Services to the Public	12,382	(11,067)	1,315	(7)						1,308
Cultural, Env and Planning Services	31,780	(15,442)	16,338	(2)	(102)		903			17,137
Highways,Roads & Transport Services	4,822	(3,371)	1,451		(1)		275			1,725
Local Authority Housing (HRA)	27,416	(18,332)	9,084	21		(43)		(40)		9,022
Other Housing Services	40,075	(38,243)	1,832	10						1,842
Corporate and Democratic Core	3,263	(949)	2,314	2		43	16			2,375
Non Distributed Costs	980	(195)	785		(1)					784
Net Cost of Services	**120,718**	**(87,599)**	**33,119**							**34,194**
(Gains) or Loss on Disposal of Fixed Assets	595	(835)	(240)					127		(113)
Precepts of Local Precepting Authorities			515							515
Surplus or Deficit of Trading Undertakings or Other Operations, including Dividends from Companies	4,561	(4,817)	(256)		(133)					(389)
Interest Payable & Similar Charges			2,234		450					2,684
Amounts Payable into the Housing Capital Receipts Pool			88							88
Investment losses			1,249							1,249
Unattached Capital Receipts			0							0
Interest & Investment Income			(371)			(75)				(446)
Pensions Interest Cost & Expected Return on Pensions Assets			3,415							3,415
Extraordinary Items			0							0
Capital grant income			0				(3,608)			(3,608)
Net Operating Expenditure			**39,753**							**37,589**
Demand on the Collection Fund			(8,558)							(8,558)
General Government Grants			(4,197)							(4,197)
Distribution from Non-Domestic Rate Pool			(12,995)							(12,995)
(Surplus) / Deficit for the Year			**14,003**							**11,839**
Surplus/deficit on revaluation of property, plant and equipment			0						2,310	2,310
Actuarial gains/losses on pension assets and liabilities			0						16,627	16,627
Other Comprehensive Income and Expenditure										**30,776**

Balance Sheet

	Original balance 31/03/2010	B/Fwd changes from 01/04/2009	Accumulated Absences	Finance Leases	Govt Grants	Revaluation of Investment Property	Other Prior Year Adjs on Fixed Assets	Restated balance 31/03/2010
	£000	£000	£000	£000	£000	£000	£000	£000
Intangible Assets	306	0						306
Tangible Fixed Assets								
Operational Assets :								
Council Dwellings	142,165	0						142,165
Other Land & Buildings	49,641	6,876		(209)			(136)	56,172
Vehicles, Plant & Equipment	4,487	2,226		(111)				6,602
Infrastructure	32,854	(643)					(21)	32,190
Community Assets	8,066	442						8,508
Non Operational Assets :								
Investment Properties	20,446	(551)					127	20,022
Assets Under Construction	4,183	13,790					(98)	17,875
Surplus assets, held for disposal	15,441	(15,471)					129	99
TOTAL FIXED ASSETS	**277,589**	**6,669**						**283,939**
Long Term Investments	2,857	0						2,857
Long Term Debtors	19	0						19
TOTAL LONG TERM ASSETS	**280,465**	**6,669**						**286,815**
Current Assets		0						
Stocks & Work in Progress	312	0						312
Debtors	9,391	0						9,391
Investments	7,538	0						7,538
Current Liabilities		0						
Short Term Borrowing		0						0
Short term finance lease liability	0	(495)		(3)				(498)
Creditors	(9,475)	(168)	(24)					(9,667)
Bank Overdraft	(214)	0						(214)
TOTAL ASSETS LESS CURRENT LIABILITIES	**288,017**	**6,006**						**293,677**
Long Term Borrowing	(39,215)	0						(39,215)
Lease liability		(4,047)		110				(3,937)
Deferred Liabilities	(223)	0						(223)
Govt Grants & Contributions Deferred	(56,409)	53,995			2,414			0
Provisions	(431)	0						(431)
Liability related to defined benefit pension scheme	(59,743)	0						(59,743)
TOTAL ASSETS LESS LIABILITIES	**131,996**	**55,954**						**190,128**
Capital Adjustment Account	(155,889)	(62,804)		213	(2,414)	(75)	84	(220,885)
Revaluation Reserve	(18,916)	6,682				75	(85)	(12,245)
Financial Instruments Adj Account	668	0						668
Collection Fund Adjustment Account	(30)	0						(30)
Usable Capital Receipts Reserve	0	0	24					24
Deferred Credits	(150)	0						(150)
Pension Reserve	(19)	0						(19)
Major Repairs Reserve	59,743	0						59,743
Earmarked Reserves	(6,868)	0						(6,868)
Accumulated absences reserve	(8,767)	168						(8,599)
Fund Balances : General Fund	(1,245)	0						(1,245)
HRA	(523)	0						(523)
Collection Fund	0	0						0
TOTAL EQUITY	**(131,996)**	**(55,954)**	0	0	0	0	0	**(190,128)**

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 a high degree of uncertainly 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.

- As at 31 March the Council still had £4.94M deposits outstanding with three Icelandic banks that are in administration. A decision by the Icelandic District Court effectively gives the Council preferred creditor status for £4M of the investments outstanding (in Glitnir and Landsbanki) and if retained this should improve recovery prospects. The final outcome is currently subject to appeal through the Icelandic Supreme Court, however, and so the impairment on these deposits has not been re-measured since determining the closing 2009/10 values. This will only be done when there is a final decision from the Icelandic courts, to mitigate the risk of the Council's priority status being overturned. The values for the remaining deposit in KSF, which is not subject to the ruling over creditor status, have been re-measured in line with the latest CIPFA LAAP bulletin (82, update 4), which has resulted in £220K being written back against a £2.1M capitalisation directive applied in 2009/10, reducing the Council's underlying borrowing requirement (Capital Financing Requirement).

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.

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Impairment Reserve	The Authority has set aside an amount it estimates would need to be applied to write off losses relating to investments in failed Icelandic banks. The amount set aside assumes a worse case scenario whereby the Authority does not receive preferred creditor status.	If the current decision to grant preferred creditor status is upheld at appeal then the application of the remaining capitalisation directive will be reversed and the majority of the impairment reserve will not be required. This will have a material impact on the Council's combined reserves; the indicative value is £3M.

5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Financial Services on 30 June 2011. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 30 June and they provided information about conditions existing at 31 March 2011, the figures in the financial statement and notes would be adjusted as appropriate in all material respects to reflect the impact of this information. There have been no such events after the balance sheet date leading to such adjustments, however.

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.

2009/10 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
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(6,310)	(11,833)					18,143
Revaluation losses on Property Plant and Equipment							
Movements in the market value of Investment Properties							
Amortisation of intangible assets							
Capital grants and contributions applied	5,658	2					(5,660)
Movement in the Donated Assets Account							
Revenue expenditure funded from capital under statute	(4,238)						4,238
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	(659)	(62)					721
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	2,076						(2,076)
Capital expenditure charged against the General Fund and HRA balance	345	1,153					(1,498)
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement							
Application of grants to capital financing transferred to the Capital Adjustment Accounts							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	707	128	(835)				
Use of the Capital Receipts Reserve to finance new capital expenditure							
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(88)		88				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement							
Adjustment primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA		(2,304)		2,304			
Use of the Major Repairs Reserve to finance new capital expenditure		2,448		(2,448)			
Adjustments primarily involving the Financial Instruments Adjustment Account:							
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	1,201	158					(1,359)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(18,537)	(295)					18,832
Employer's pension contributions and direct payments to pensioners payable in the year							
Adjustments primarily involving the Collection Fund Adjustment Account:							
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	39						(39)
Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure	(2,310)						2,310
Adjustments relating to other comprehensive income and expenditure							
Appropriations to/from earmarked reserves	1,737	388			(2,125)		
Adjustments to employee absences account	(3)	(21)					24
Total Adjustments	(20,382)	(10,238)	(747)	(144)	(2,125)	0	33,636
Total adjustment to Comprehensive Income and Expenditure	**(30,620)**						

	2010/11						
	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
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(4,190)	(34,141)					38,331
Revaluation losses on Property Plant and Equipment							
Movements in the market value of Investment Properties	4,719	205					(4,924)
Amortisation of intangible assets	(151)	(12)					163
Capital grants and contributions applied	3,314						(3,314)
Movement in the Donated Assets Account							
Revenue expenditure funded from capital under statute	(2,197)						2,197
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	(858)	(98)					956
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	2,120						(2,120)
Capital expenditure charged against the General Fund and HRA balance	459	1,823					(2,282)
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	373					(373)	
Application of grants to capital financing transferred to the Capital Adjustment Accounts							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	481	208	(689)				
Use of the Capital Receipts Reserve to finance new capital expenditure			719				(719)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(158)		158				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(7)				7
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement							
Adjustment primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA		2,307		(2,307)			
Use of the Major Repairs Reserve to finance new capital expenditure		(2,825)		2,593	173		59
Adjustments primarily involving the Financial Instruments Adjustment Account:							
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		158					(158)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	20,191	549					(23,698)
Employer's pension contributions and direct payments to pensioners payable in the year	2,561	397					
Adjustments primarily involving the Collection Fund Adjustment Account:							
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	8						(8)
Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure	(3,280)						3,280
Adjustments relating to other comprehensive income and expenditure	31		(31)				
Appropriations to/from earmarked reserves	(666)	123			543		
Adjustments to employee absences account	(13)	(8)					21
Total Adjustments	22,744	(31,314)	150	286	716	(373)	7,791
Total adjustment to Comprehensive Income and Expenditure	**(8,570)**						

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 2010/11.

	Balance at 1 April 2009	Transfers Out	Transfers in	Balance at 31 March 2010	Transfers Out	Transfers in	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Revenue Support	**0**	0	800	**800**	(800)	0	**0**
Municipal Buildings	**0**	0	0	**0**	0	300	**300**
Open Spaces Commuted Sums	**263**	(57)	10	**216**	(61)	37	**192**
Other Commuted Sums	**535**	(39)	659	**1,155**	(237)	435	**1,353**
Restructuring	**943**	(989)	720	**674**	(705)	697	**666**
Renewals	**198**	(134)	115	**179**	(188)	119	**110**
Capital Support	**1,231**	(724)	0	**507**	(584)	615	**538**
Job Evaluation	**653**	(42)	0	**611**	(272)	0	**339**
Project Implementation	**197**	(108)	0	**89**	(89)	0	**0**
Planning Delivery Grant	**175**	(106)	21	**90**	(57)	14	**47**
Access to Services	**139**	(139)	0	**0**	0	0	**0**
Concessionary Travel	**0**	(100)	200	**100**	(30)	0	**70**
Performance Reward Grant	**0**	0	239	**239**	(15)	85	**309**
Market Reserve	**0**	0	0	**0**	0	140	**140**
Impairment Reserve	**0**	0	1,363	**1,363**	0	0	**1,363**
Other Reserves £100K and under	**408**	(181)	230	**457**	(176)	105	**386**
Total	**4,742**	**(2,619)**	**4,357**	**6,480**	**(3,214)**	**2,547**	**5,813**

HRA:							
Hsg Mgt System Replacement	**227**	0	87	**314**	(24)	57	**347**
Flats Planned Maintenance	**713**	(27)	132	**818**	(10)	136	**944**
Central Control Equipment	**128**	(65)	10	**73**	0	10	**83**
Fixed Lifeline Equipment	**109**	0	15	**124**	(95)	15	**44**
Sheltered Housing Reserves	**609**	(52)	139	**696**	(107)	137	**726**
Other Reserves £100K and under	**92**	0	170	**262**	(166)	70	**166**
Total	**1,878**	**(144)**	**553**	**2,287**	**(402)**	**425**	**2,310**

8 OTHER OPERATING EXPENDITURE

	2009/10	**2010/11**
	£000	£000
Parish council precepts	515	528
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	88	157
(Gains)/losses on the disposal of non-current assets	(113)	267
	490	**952**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2009/10	**2010/11**
	£000	£000
Interest payable and similar charges	2,678	2,880
Pensions interest cost and expected return on pensions	3,415	1,326
Interest receivable and similar income	(365)	(489)
Income and expenditure in relation to investment properties and changes in their fair value	0	(5,046)
Other investment income and expenditure	785	(726)
	6,513	**(2,055)**

10 TAXATION AND NON SPECIFIC GRANT INCOME

	2009/10	2010/11
	£000	£000
Council tax income	(8,558)	(8,899)
Non domestic rates	(12,995)	(14,300)
Non-ringfenced government grants	(4,197)	(2,192)
Capital grants and contributions	(3,608)	(1,781)
	(29,358)	**(27,172)**

11 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	**Total Property, Plant and Equipment £000**
Cost of Valuation								
at 1 April 2010	**167,020**	**62,618**	**10,433**	**40,474**	**8,508**	**491**	**17,875**	**307,419**
additions	4,159	607	1,608	903	30	0	1,089	**8,396**
donations	0	25	11	0	21	0	0	**57**
revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,494)	31	0	0	0	36	0	**(2,427)**
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	675	2	0	0	0	0	0	**677**
derecognition - disposals	(124)	0	(479)	0	0	0	(317)	**(920)**
assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	(120)	**(120)**
other movements in cost or valuation	0	(2,421)	0	0	0	0	0	**(2,421)**
At 31 March 2011	**169,236**	**60,862**	**11,573**	**41,377**	**8,559**	**527**	**18,527**	**310,661**
Accumulated Depreciation and Impairment								
at 1 April 2010	**(24,855)**	**(6,396)**	**(3,831)**	**(8,284)**	**0**	**(247)**	**0**	**(43,613)**
depreciation charge	(2,306)	(1,205)	(1,346)	(1,666)	0	(18)	0	**(6,541)**
impairment losses/(reversals) recognised in the Revaluation Reserve	0	(1,530)	0	0	0	0	0	**(1,530)**
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(34,181)	(101)	0	0	0	0	0	**(34,282)**
derecognition - disposals	26	0	0	0	0	0	0	**26**
At 31 March 2011	**(61,316)**	**(9,232)**	**(5,177)**	**(9,950)**	**0**	**(265)**	**0**	**(85,940)**
Net Book Value								
at 31 March 2010	**142,165**	**56,222**	**6,602**	**32,190**	**8,508**	**244**	**17,875**	**263,806**
at 31 March 2011	**107,920**	**51,630**	**6,396**	**31,427**	**8,559**	**262**	**18,527**	**224,721**

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 – 10-15 years
- Infrastructure – 10-40 years

Capital Commitments

At 31 March 2011, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2010/11 and future years budgeted to cost £1.987M. Similar commitments at 31 March 2010 were £983K. The major commitments are:

- Council Housing Choice Based Lettings £67,000
- Council Housing Interior Refurbishments £16,000
- Luneside East Lands Tribunal £232,000
- Strategic Housing Developments £29,000
- Artle Beck Flood Alleviation Scheme £126,000
- Municipal Building Works £1,513,000

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	Other Land and Buildings	Vehicles, Plant, Furniture and Equip't	Surplus Assets	Total
	£000	£000	£000	£000	£000
Carried at historical cost	**59,732**	**10,881**	**11,573**	**235**	**82,422**
valued at fair value as at:					
31 March 2011	109,503	129	0	292	**109,924**
31 March 2010	0	35,486	0	0	**35,486**
31 March 2009	0	14,296	0	0	**14,296**
31 March 2008	0	70	0	0	**70**
31 March 2007	0	0	0	0	**0**
Total Valuation	**169,236**	**60,862**	**11,573**	**527**	**242,198**

12 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

	2009/10	2010/11
	£000	£000
Rental income from investment property	1,722	1,587
Direct operating expenses arising from investment property	(1,650)	(1,719)
Net gain/(loss)	**72**	**(132)**

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

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

	2009/10	2010/11
	£000	£000
Balance at start of the year	**20,052**	**19,827**
Additions:		
■ Purchases	0	0
■ Construction	11	0
■ Subsequent expenditure	0	12
Disposals:	(225)	(61)
Net gains/losses from fair value adjustments	75	5,045
Transfers:		
■ to/from Inventories	0	0
■ to/from Property, Plant & Equipment	30	2,090
Other changes	(116)	0
Balance at end of the year	**19,827**	**26,913**

13 INTANGIBLE ASSETS

The Authority 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 Authority. The useful life assigned to the major software suites used by the Authority 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.

	2009/10	2010/11
	£000	£000
Balance at start of year:		
■ Gross carrying amounts	1,029	730
■ Accumulated amortisation	(554)	(424)
Net carrying amount at start of year	**475**	**306**
Additions:		
■ Purchases	47	90
Assets reclassified as held for sale	0	0
Revaluations increases or decreases	0	0
Impairment losses recognised or reversed directly in the Revaluation Reserve	0	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0	0
Amortisation for the period	(216)	(163)
Net carrying amount at the end of year	**306**	**233**
Comprising:		
■ Gross carrying amounts	730	723
■ Accumulated amortisation	(424)	(490)
	306	**233**

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

14 FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£000	£000	£000	£000
Investments				
Loans and receivables	2,857	1,925	7,538	8,995
Total investments	**2,857**	**1,925**	**7,538**	**8,995**
Debtors				
Loans and receivables	19	14	9,391	6,583
Total Debtors	**19**	**14**	**9,391**	**6,583**
Bank account	0	0	0	858
Total assets	**2,876**	**1,939**	**16,929**	**16,436**
Borrowings				
Financial liabilities at amortised cost	39,215	39,215		
Finance lease liabilities	3,938	3,433	498	504
Total borrowings	**43,153**	**42,648**	**498**	**504**
Creditors				
Financial liabilities at amortised cost	223	223	9,667	7,180
Total Creditors	**223**	**223**	**9,667**	**7,180**
Bank overdraft	0	0	214	0
Total liabilities	**43,376**	**42,871**	**10,379**	**7,684**

Income, Expense, Gains and Losses

	2009/10					2010/11				
	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	0	(2,677)	0	0	**(2,677)**	0	(2,656)	0	0	**(2,656)**
Losses on derecognition	0	0	0	0	**0**	0	0	0	0	**0**
Reductions in fair value	0	0	0	0	**0**	0	0	0	0	**0**
Impairment losses	0	(1,294)	0	0	**(1,294)**	0	222	0	0	**222**
Total expense in Surplus or Deficit on the Provision of Services	**0**	**(3,971)**	**0**	**0**	**(3,971)**	**0**	**(2,434)**	**0**	**0**	**(2,434)**
Interest income	0	108	0	0	**108**	0	99	0	0	**99**
Interest income accrued on impaired financial assets	0	261	0	0	**261**	0	172	0	0	**172**
Increases in fair value	0	0	0	0	**0**	0	0	0	0	**0**
Gains and derecognition	0	0	0	0	**0**	0	0	0	0	**0**
Total income in Surplus or Deficit on the Provision of Services	**0**	**369**	**0**	**0**	**369**	**0**	**271**	**0**	**0**	**271**
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	(1,201)	0	0	**(1,201)**	0	0	0	0	**0**
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**(1,201)**	**0**	**0**	**(1,201)**	**0**	**0**	**0**	**0**	**0**
Net gain/(loss) for the year	**0**	**(4,803)**	**0**	**0**	**(4,803)**	**0**	**(2,163)**	**0**	**0**	**(2,163)**

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 4.09% and 4.14%.

	31 March 2010		31 March 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	£000	£000	£000
Financial liabilities	53,532	64,592	50,332	62,955
Long-term creditors & provisions	653	653	710	710

The fair value of the liabilities is greater (a larger liability) than the carrying amount because the current market 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 2010		31 March 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000	£000	£000	£000
Loans and receivables	10,395	10,395	11,778	11,778
Long-term debtors	19	19	14	14

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

15 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Client Services Work in Progress		Total	
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	**2009/10**	**2010/11**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Balance outstanding at start of year	32	39	209	191	86	81	26	1	**353**	**312**
Written off balances	0	0	0	0	0	0	0	0	**0**	**0**
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0	**0**	**0**
Movement in Year	7	(3)	(18)	(9)	(5)	19	(25)	4	**(41)**	**11**
Balance outstanding at year-end	**39**	**36**	**191**	**182**	**81**	**100**	**1**	**5**	**312**	**323**

16 DEBTORS

	31 March 2010	31 March 2011
	£000	£000
Council Taxpayers	2,168	376
Central Government Bodies	2,501	2,807
Housing Rents	247	198
Other Local Authorities	1,019	587
Commercial Ratepayers	73	72
Other entities and individuals	3,383	2,543
	9,391	**6,583**

17 CASH AND CASH EQUIVALENTS

	31 March 2010	31 March 2011
	£000	£000
Bank current account	(214)	858
	(214)	**858**

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.

18 ASSETS HELD FOR SALE

	Current		Non Current	
	2009/10	**2010/11**	**2009/10**	**2010/11**
	£000	£000	£000	£000
Balance at start of the year.	**0**	**0**	**0**	**0**
Assets newly classified as held for sale:				
■ Property, plant and equipment	0	0	0	452
Revaluation losses	0	0	0	0
Revaluation gains	0	0	0	0
Impairment losses	0	0	0	0
Transfers and other movements	0	0	0	0
Balance at end of the year.	**0**	**0**	**0**	**452**

19 CREDITORS

	31 March 2010	31 March 2011
	£000	£000
Council Taxpayers	(81)	(117)
Central Government Bodies	(976)	(1,422)
Housing Rents	(154)	(119)
Other Local Authorities	(1,802)	(1,286)
Commercial Ratepayers	(1,958)	0
Other entities and individuals	(4,696)	(4,236)
	(9,667)	**(7,180)**

20 PROVISIONS

	REVENUE		CAPITAL	
	Insurance	**Williamson Park**	**General Fund Clawback**	**Total**
	£000	£000	£000	**£000**
Balance at 1 April 2010	**273**	**100**	**57**	**430**
Additional provisions made	264	0	0	**264**
Amounts used	(207)	0	0	**(207)**
Balance at 31 March 2011	**330**	**100**	**57**	**487**

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.

During 2010/11 Williamson Park Limited ceased trading and the management of the park transferred to the Council. As part of this process the company is being wound up and at some point during 2011/12 the Council will need to cover the remaining net current liabilities.

The clawback provision is in respect of outstanding liabilities where the Council has sold land originally financed by Derelict Land Grant.

21 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and in the following tables.

	31 March 2010	**31 March 2011**
	£000	£000
General Fund Balance	1,245	3,674
HRA Balance	523	484
Major Repairs Reserve	6,868	6,581
Housing Mgt System replacement Reserve	314	347
Flats Planned Maintenance	818	944
Sheltered Equipment	231	258
Sheltered Planned Maintenance	328	304
Job Evaluation	711	422
Sheltered Support Grant Maintenance	137	164
Fixed Lifeline Equipment	125	45
Renewals Reserve	179	110
Impairment Reserve	1,363	1,363
Performance Reward Grant Reserve	239	308
Market Reserve	0	140
Concessionary Travel Reserve	100	70
Capital Support	507	538
Open Spaces Commuted Sums	216	192
Other Commuted Sums	1,155	1,353
Revenue Support	800	0
Municipal Buildings Reserve	0	300
Restructuring Reserve	774	666
Capital Grants Unapplied	0	373
Capital Receipts Unapplied	150	0
Other Reserves under £100K	770	567
Total usable reserves	**17,553**	**19,203**

22 UNUSABLE RESERVES

	31 March 2010	**31 March 2011**
	£000	£000
Revaluation Reserve	12,244	8,752
Financial Instruments Adjustment Account	(667)	(509)
Capital Adjustment Account	220,885	192,748
Pensions Reserve	(59,743)	(36,045)
Deferred Credits	19	14
Accumulated Absences Account	(193)	(214)
Collection Fund Adjustment Account	30	38
Total unusable reserves	**172,575**	**164,784**

Revaluation Reserve
The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of it 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.

	2009/10	2010/11
	£000	£000
Balance at 1 April	**14,845**	**12,244**
Upwards revaluation of assets	7,669	789
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services.	(9,994)	(4,069)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services.	(2,325)	(3,280)
Difference between fair value depreciation and historical cost depreciation.	(264)	(212)
Accumulated gains on assets sold or scrapped.	(12)	0
Amount written off to the Capital Adjustment Account.	(276)	(213)
Balance at 31 March	**12,244**	**8,752**

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 Authority 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 Authority.

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.

	2009/10	2010/11
	£000	£000
Balance at 1 April	**233,098**	**220,885**
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	(20,563)	(40,724)
■ Amortisation of Intangible Assets	(215)	(164)
■ Revenue Expenditure funded from Capital under statute.	(4,040)	(2,196)
■ Amounts of non current assets written of on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(702)	(956)
Sub total	207,578	176,845
Adjusting amounts written out of the Revaluation Reserve	274	213
Net written out amount of the cost of non current assets consumed in the year.	207,852	177,058
Capital financing applied in the year:		
■ Use of Capital Receipts Reserve	1,409	718
■ Use of the Major Repairs Reserve	2,304	2,767
■ Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	5,670	3,314
■ Application of grants to capital financing from the Capital Grants Unapplied Account.	0	0
■ Statutory provision for the financing of capital investment charged against General Fund and HRA balances	2,076	2,121
■ Capital expenditure charged against the General Fund and HRA balances	1,499	1,823
Sub total	220,810	187,801
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	75	4,947
Movement in the Donated Asset Account credited to the Comprehensive Income and Expenditure Statement	0	0
Balance at 31 March	**220,885**	**192,748**

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 Authority 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 Authority’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 2011 will be reversed into the General Fund over the next 41 years. The element relating the HRA will be effectively written off in 2016/17.

	2009/10	2010/11
	£000	£000
Balance at 1 April	**(2,027)**	**(667)**
Net reversal of Icelandic bank impairments and notional interest	1,201	0
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	159	158
Balance at 31 March	**(667)**	**(509)**

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 Authority 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 Authority 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 Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2009/10	2010/11
	£000	£000
Balance at 1 April	**(40,910)**	**(59,743)**
Actuarial gains or losses on pensions assets and liabilities	(16,627)	16,946
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(5,433)	2,867
Employer's pension contribution and direct payments to pensioners payable in the year	3,227	3,885
Balance at 31 March	**(59,743)**	**(36,045)**

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.

	2009/10	2010/11
	£000	£000
Balance at 1 April	0	30
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	30	8
Balance at 31 March	**30**	**38**

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.

	2009/10	2010/11
	£000	£000
Balance at 1 April	**(168)**	**(193)**
Settlement or cancellation of accrual made at the end of the preceding year	168	193
Amounts accrued at the end of the current year	(193)	(214)
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	**(25)**	**(21)**
Balance at 31 March	**(193)**	**(214)**

23 CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

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

	2009/10	2010/11
	£000	£000
Interest received	(108)	(98)
Interest paid	2,678	2,656

24 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2009/10	2010/11
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(10,382)	(8,529)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	835	689
Acquisition of short and long term borrowing	0	(500)
Other receipts from investing activities	9,149	2,766
Net cash flows from investing activities	**(398)**	**(5,574)**

25 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2009/10	2010/11
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(495)	(498)
Repayment of short term borrowing	(8,504)	0
Payments and receipts relating to NNDR	1,958	(2,849)
Net cash flows from financing activities	**(7,041)**	**(3,347)**

26 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice.* However, decisions about resource allocation are taken by the 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.

Income and Expenditure 2010/11	Community Engagement	Corporate Accounts	Environmental Services	Financial Services	Governance	Health and Housing	Information Services	Office of Chief Executive	Property Services	Regeneration & Policy	**TOTAL**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Customer Fees & Charges	(1,696)	(25,391)	(2,605)	(6,589)	(555)	(14,431)	(1)	0	(4,518)	(752)	**(56,538)**
Government Grants	(44)	0	0	(49,894)	(235)	(56)	0	0	(1,203)	(106)	**(51,538)**
Interest	(3)	(17)	0	(11,101)	0	(1,098)	0	0	0	0	**(12,219)**
Other Grants & Contributions	(973)	(213)	(1,263)	(573)	(12)	(2,470)	0	(6)	(29)	(1,033)	**(6,572)**
Total income	**(2,716)**	**(25,621)**	**(3,868)**	**(68,157)**	**(802)**	**(18,055)**	**(1)**	**(6)**	**(5,750)**	**(1,891)**	**(126,867)**
Employee expenses	6,059	0	9,809	4,171	2,147	5,064	654	601	6,695	4,075	**39,274**
Premises	867	0	1,815	458	20	4,069	0	0	2,628	382	**10,239**
Transport	130	0	1,664	89	36	483	16	5	18	93	**2,535**
Supplies & Services	2,637	854	2,014	6,256	854	6,458	477	11	3,653	3,250	**26,464**
Total expenditure	**9,693**	**854**	**15,302**	**10,974**	**3,057**	**16,074**	**1,147**	**617**	**12,994**	**7,800**	**78,512**
Net expenditure	**6,977**	**(24,767)**	**11,434**	**(57,183)**	**2,255**	**(1,981)**	**1,146**	**611**	**7,244**	**5,909**	**(48,355)**

Income and Expenditure 2009/10 Comparative Figures	Community Engagement	Corporate Accounts	Environmental Services	Financial Services	Governance	Health and Housing	Information Services	Office of Chief Executive	Property Services	Regeneration & Policy	**TOTAL**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer Fees & Charges	(1,793)	(24,932)	(2,798)	(6,993)	(517)	(14,135)	(2)	0	(4,647)	(1,037)	**(56,854)**
Government Grants	(84)	(828)	0	(46,250)	(105)	(106)	0	0	(498)	(17)	**(47,888)**
Interest	(3)	261	0	(3,349)	0	(758)	0	0	0	0	**(3,849)**
Other Grants & Contributions	(1,327)	(578)	(1,218)	(466)	(112)	(2,446)	(2)	(25)	(63)	(1,622)	**(7,859)**
Total income	**(3,207)**	**(26,077)**	**(4,016)**	**(57,058)**	**(734)**	**(17,445)**	**(4)**	**(25)**	**(5,208)**	**(2,676)**	**(116,450)**
Employee expenses	3,507	0	6,411	4,533	1,358	5,161	983	565	1,011	2,746	**26,275**
Premises	939	0	2,638	536	17	4,987	0	0	2,625	454	**12,196**
Transport	121	0	1,689	48	24	440	6	9	18	102	**2,457**
Supplies & Services	2,809	824	2,058	6,523	928	5,605	550	32	3,264	2,977	**25,570**
Total expenditure	**7,376**	**824**	**12,796**	**11,640**	**2,327**	**16,193**	**1,539**	**606**	**6,918**	**6,279**	**66,498**
Net expenditure	**4,169**	**(25,253)**	**8,780**	**(45,418)**	**1,593**	**(1,252)**	**1,535**	**581**	**1,710**	**3,603**	**(49,952)**

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.

	2009/10	**2010/11**
	£000	£000
Net expenditure in Service analysis	**(49,952)**	**(48,355)**
Net expenditure of services and support services not included in the analysis	5,746	4,814
Amounts in the Comprehensive Income and Expenditure statement not reported to management in the analysis	63,567	87,547
Amounts included in the analysis not included in the Comprehensive Income and Expenditure statement	14,833	4,108
Cost of Services in the Comprehensive Income and Expenditure Statement	**34,194**	**48,114**

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.

2010/11	Service Analysis	Services included in Analysis but not NCS	**Net Cost of Services**	Corporate amounts	**Total**
	£000	£000	**£000**	£000	**£000**
Customer Fees and Charges	(56,538)	34,569	**(21,969)**	0	**(21,969)**
Government Grants	(51,538)	1,153	**(50,385)**	0	**(50,385)**
Interest	(12,219)	11,980	**(239)**	0	**(239)**
Other Grants and Contributions	(6,572)	45	**(6,527)**	0	**(6,527)**
Recharges	0	(8,422)	**(8,422)**	0	**(8,422)**
Capital Financing Income	0	(2,394)	**(2,394)**	0	**(2,394)**
Taxation & Non Specific Grant Inc	0	0	**0**	(27,172)	**(27,172)**
Total Income	**(126,867)**	**36,931**	**(89,936)**	**(27,172)**	**(117,108)**
Employee expenses	39,274	(33,514)	**5,760**	0	**5,760**
Premises	10,239	(1,758)	**8,481**	0	**8,481**
Transport	2,535	(767)	**1,768**	0	**1,768**
Supplies & Services	26,464	(8,064)	**18,400**	0	**18,400**
Other Operating Expenditure	0	0	**0**	952	**952**
Financing & Investment Inc & Exp	0	0	**0**	(2,055)	**(2,055)**
Transfer Payments	0	49,395	**49,395**	0	**49,395**
Support Services	0	13,700	**13,700**	0	**13,700**
Capital Charges	0	40,546	**40,546**	0	**40,546**
Total expenditure	**78,512**	**59,538**	**138,050**	**(1,103)**	**136,947**
Surplus or Deficit on the Provision of Services	**(48,355)**	**96,469**	**48,114**	**(28,275)**	**19,839**

2009/10 Comparative Figures	Service Analysis	Services included in Analysis but not NCS	**Net Cost of Services**	Corporate amounts	**Total**
	£000	£000	£000	£000	**£000**
Customer Fees and Charges	(56,854)	34,623	**(22,231)**	0	**(22,231)**
Government Grants	(47,888)	2,062	**(45,826)**	0	**(45,826)**
Interest	(3,849)	3,770	**(79)**	0	**(79)**
Other Grants and Contributions	(7,859)	30	**(7,829)**	0	**(7,829)**
Recharges	0	(8,539)	**(8,539)**	0	**(8,539)**
Capital Financing Income	0	(1,946)	**(1,946)**	0	**(1,946)**
Taxation & Non Specific Grant Inc	0	0	**0**	(29,358)	**(29,358)**
Total Income	**(116,450)**	**30,000**	**(86,450)**	**(29,358)**	**(115,808)**
Employee expenses	26,275	(14,057)	**12,218**	0	**12,218**
Premises	12,196	(2,084)	**10,112**	0	**10,112**
Transport	2,457	(733)	**1,724**	0	**1,724**
Supplies & Services	25,570	(9,348)	**16,222**	0	**16,222**
Other Operating Expenditure	0	0	**0**	490	**490**
Financing & Investment Inc & Exp	0	0	**0**	6,513	**6,513**
Transfer Payments	0	45,707	**45,707**	0	**45,707**
Support Services	0	14,855	**14,855**	0	**14,855**
Capital Charges	0	19,806	**19,806**	0	**19,806**
Total expenditure	**66,498**	**54,146**	**120,644**	**7,003**	**127,647**
Surplus or Deficit on the Provision of Services	**(49,952)**	**84,146**	**34,194**	**(22,355)**	**11,839**

27 ACQUIRED AND DISCONTINUED OPERATIONS

Williamson Park Limited is wholly controlled by the Council by virtue of its right to nominate five of its councillors as Directors of the company. The principal activity of the company was the preservation of the park and the provision of amenities for the public benefit. The Company ceased trading on 30 November 2010 with park operations returning directly to the Council from 01 December 2010.

Arrangements are in hand for the Company to be wound up and this is expected to occur during 2011/12, at which point the Council will be responsible for any outstanding net liabilities arising, for which the Council has already made provision for *(see also Notes 20 and 34)*.

28 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 tab

	2008/09	**2009/10**	**2010/11**
Highways	£000	£000	£000
Turnover	(1,207)	(1,253)	(1,223)
Expenditure	1,025	1,201	956
Surplus	(182)	(52)	(267)
Trade Waste			
Turnover	(848)	(910)	(1,039)
Expenditure	715	764	857
Surplus	(133)	(146)	(182)
Markets			
Turnover	(794)	(814)	(1,095)
Expenditure	1,455	1,189	1,388
Deficit	661	375	293
Commercial Properties / Industrial Units			
Turnover	(1,132)	(1,026)	(887)
Expenditure	2,994	593	539
Surplus	1,862	(433)	(348)
Consolidated			
Turnover	(3,981)	(4,003)	(4,244)
Expenditure	6,189	3,747	3,740
Surplus	**2,208**	**(256)**	**(504)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement and form an integral part of the Authority'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.

	2009/10	**2010/11**
	£000	£000
Net surplus on trading operations	(256)	(504)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	0	0
Net surplus posted to other operating expenditure	**(256)**	**(504)**

29 AGENCY SERVICES

The Authority 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.

	2009/10	2010/11
	£000	£000
Expenditure on agency arrangement	159	133
Income on agency arrangement	(122)	(104)
Net deficit arising on agency arrangements (local top-up)	**37**	**29**

30 MEMBERS ALLOWANCES

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

	2009/10	2010/11
	£000	£000
Basic Allowances	197	197
Special Responsibility Allowances	96	83
Expenses	6	4
Total	**299**	**284**

31 OFFICERS REMUNERATION

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

2010/11	*Salary, Fees and allowances* £000	*Expenses & Benefits in Kind* £000	*Redundancy Payments* £000	***Total Remuneration (excluding pension contributions)*** £000	*Employer Pension contribution* £000	***Total Remuneration (including pension contributions)*** £000
Chief Executive - M Cullinan	107	2	0	**109**	20	**129**
Deputy Chief Executive - H McManus	77	2	0	**79**	15	**94**
Head of Community Engagement - R Tulej	62	0	0	**62**	12	**74**
Head of Environmental Services - M Davies	59	1	0	**60**	11	**71**
Head of Financial Services - N Muschamp	62	2	0	**64**	11	**75**
Head of Governance - S Taylor	62	0	0	**62**	12	**74**
Head of Health & Housing - S Lodge	60	2	0	**62**	11	**73**
Head of Property Services - G Cox	55	2	0	**57**	10	**67**
Head of Regeneration & Policy - A Dobson	62	2	0	**64**	12	**76**
Head of Democratic Services - G Noall (★)	63	1	66	**130**	5	**135**
Head of Council Housing - S Milce (★)	55	1	66	**122**	3	**125**
Head of Information Services - J Alder (★★)	12	1	0	**13**	2	**15**
Corp. Director (Fin & Perfmnce) - R Muckle (★)	39	1	89	**129**	7	**136**
Corp. Director (Comm Services) - P Loker (★)	39	1	94	**134**	7	**141**

★ The Corporate Directors for Community Services and Finance & Performance and the Head of Democratic Services all took early retirement at the end of September 2010. In addition, the Head of Council Housing took early retirement at the end of July 2010.

★★The Head of Information Services resigned from her post with effect from 20 June 2010.

2009/10 Comparative Figures	*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
Chief Executive - M Cullinan	108	1	0	**109**	19	**128**
Corp. Director (Fin & Perfmnce) - R Muckle	78	1	0	**79**	14	**93**
Corp. Director (Comm Services) - P Loker	78	1	0	**79**	14	**93**
Corp. Director (Regeneration) - H McManus	77	1	0	**78**	14	**92**
Head of Financial Services - N Muschamp	63	1	0	**64**	11	**75**
Head of Legal & Human Resources - S Taylor	62	0	0	**62**	11	**73**
Head of Council Housing - S Milce	58	0	0	**58**	10	**68**
Head of Information Services - J Alder	56	0	0	**56**	10	**66**
Head of Corporate Strategy - R Tulej	55	0	0	**55**	10	**65**
Head of Health & Housing - S Lodge	56	0	0	**56**	10	**66**
Head of City Contract Services - M Davies	56	0	0	**56**	10	**66**
Head of Planning & Blding Control - A Dobson	56	0	0	**56**	10	**66**
Head of Cultural Services - D Owen	56	1	62	**119**	10	**129**
Head of Revenue Services - R Mason	56	0	65	**121**	10	**131**
Head of Econ Dev & Tourism - P Sandford	56	1	61	**118**	10	**128**
Head of Property Services - G Cox	54	1	0	**55**	10	**65**
Head of Democratic Services - G Noall	56	1	0	**57**	10	**67**

The following table shows the total number of other employees, who are not classed as senior officers, who received remuneration above £50,000 (excluding employer's pension contributions).

Remuneration band	2009/10 Number of Employees	2010/11 Number of Employees
£50,000 - £54,999	1	1
£55,000 - £59,999	-	3
£60,000 - £64,999	-	-
£65,000 - £69,999	1	-
£70,000 - £74,999	1	-
£75,000 - £79,999	1	-
£80,000 - £84,999	1	-

32 EXTERNAL AUDIT COSTS

The Authority 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 Authority's external auditors.

	2009/10	**2010/11**
	£000	£000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	130	169
Rebate of fee in respect of IFRS work	0	(10)
Fees payable in respect of other statutory inspections	8	0
Fees payable for the certification of grant claims and returns for the year	45	43
Total	**183**	**202**

33 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11.

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them 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:

	2009/10	2010/11
Credited to Taxation and Non Specific Grant Income	£000	£000
Revenue Support Grant	2,999	2,077
Area Based Grant	329	98
Planning Delivery Grant	818	0
Lancashire County Council - Performance Reward Grant	0	324
Big Lottery Happy Mount Park Natural Adventure	55	0
DfT Cycling England	562	290
Lancashire County Council Cycling England	129	77
Environment Agency Artle Beck Flood Defences	16	174
Environment Agency Mill Head Warton Flood Defences	345	22
Regional Housing Pot Bold Street Renovation Scheme	127	633
NWDA Lancaster Science Park	2,168	0
NWEIP Neighbourhood Quick Response Vehicles	72	0
Other Grants under £50K	185	278
Total	**7,805**	**3,973**

	2009/10	2010/11
Credited to services	£000	£000
DCLG YMCA Places of Change Grant	713	720
DCLG Disabled Facilities Grant	653	625
Regional Housing Pot Disabled Facilities Grant	436	100
Grant: Sefton BC Strategic Monitoring	0	79
Regional Housing Grant Bold Street Renovation Scheme	0	182
Regional Housing Grant Marlborough Road Redevelopment	0	110
Regional Housing Grant Marlborough Road Demolition	18	0
Regional Housing Grant West End Flats	126	0
Capital Grant Exemplar Scheme	0	76
Strand 2 - Exercise Referral Project: Other Grants	101	71
Parliamentary Elections: Government Grants	0	200
Arnside & Silverdale AONB Grants	210	172
Planning Delivery: Government Grants	246	106
Concessionary Travel: Government Grants	248	1,203
Council Tax Benefit Grant: Government Grants	10,146	10,527
Standard Rent Allowances: Government Grants	27,477	29,032
War Widows Benefit Grant: Government Grants	63	27
Rent Rebates - Council Housing: Government Grants	8,686	8,903
NNDR Administration: Government Grants	211	234
Other Grants Under £50K	180	421
Total	**49,514**	**52,788**

	2009/10	2010/11
Capital grants receipts in advance	£000	£000
Capital Element - Performance Reward Grant	239	0
Townscape Heritage Initiative Common Fund	250	250
Poulton Pedestrian Route, Section 106	127	127
Artle Beck Improvements, Environment Agency	0	237
Ffrances Passage, Section 106: External funder	0	73
YMCA places of change, DCLG	283	63
Marlborough Road Adactus Scheme, Regional Housing Grant	89	0
Bold St Renovation, Regional Housing Grant	360	100
EP Exemplar Project Funding	76	0
EP Exemplar Project Funding, Bus station	99	99
Other Grants Under £50K	212	158
Total	**1,735**	**1,105**

34 RELATED PARTIES

The Authority 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 Authority.

Central Government
Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis Note 25 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 26.

Members
Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 30. There are no other material transactions to disclose in respect of elected members.

Officers
Senior officer remuneration is disclosed in Note 31, and there are no other material transactions to disclose in respect of officers.

Entities Controlled or Significantly Influenced by the Authority
The Council controls Williamson Park Ltd by virtue of its right to nominate five of its Councillors as Directors. The principal activity of the company being the preservation of the park and the provision of amenities for the public benefit. The Council provided revenue grant support of £76,100 to the company for the period 01 April to 30 November 2010 at which point the company ceased trading and operations returned directly to the Council from 01 December 2010 (*see also Notes 20 and 27)*.

Payment of revenue grant support totalling £154,200 was made to the Dukes Playhouse Ltd in 2010/11 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 £12,500. 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 £8,000 to the Council in respect of this. Although the Council has nominated four of its City Councillors as trustees of the company there is no ultimate controlling party.

The Council nominates one of its Councillors onto the Board of Heysham Mossgate (Community Facilities) Company Ltd. There is no ultimate controlling party however, and the Council made no financial support to the company during 2010/11. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

Payment of revenue grant support totalling £28,300 was made to the Storey Ltd in 2010/11. The principal activity of the company is the operation of the Storey Creative Industry Centre on a non-profit making basis. Although the Council nominates one of its Councillors as a member of the company there is no ultimate controlling party.

35 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2009/10	2010/11
	£000	£000
Opening Capital Financing Requirement	**50,398**	**50,810**
Capital investment		
Property, Plant and Equipment	9,066	8,397
Investment Properties	39	12
Intangible Assets	27	90
Revenue Expenditure Funded from Capital Under Statute	4,228	2,197
Sources of financing		
Capital receipts	(1,409)	(718)
Government Grants and other contributions	(5,660)	(3,258)
Direct revenue contributions	(1,499)	(1,823)
Minimum Revenue Provision	(2,076)	(2,121)
Major Repairs Reserve	(2,304)	(2,767)
Closing Capital Financing Requirement	**50,810**	**50,819**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by government financial assistance)	412	9
Increase/(decrease) in Capital Financing Requirement	**412**	**9**

36 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.

	31/03/10	31/03/11
	£000	£000
Operational Land and buildings	7,087	10,308
Vehicles, Plant, Furniture & Equipment	2,115	1,605
Total	**9,202**	**11,913**

Finance lease liabilities (net present value of minimum lease payments):	31/03/10	31/03/11
	£000	£000
▪ Current	498	505
▪ Non-current	3,937	3,432
Finance costs payable in future years	25,095	24,666
Minimum lease payments	**29,530**	**28,603**

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

	Minimum lease payments		Finance cost	
	31/03/10	31/03/11	31/03/10	31/03/11
	£000	£000	£000	£000
Not later than 1 year	498	505	429	401
Later than 1 year and not later than 5 years	1,306	909	1,468	1,397
Later than 5 years	2,630	2,523	23,199	22,868
Minimum lease payments	**4,434**	**3,937**	**25,096**	**24,666**

The minimum lease payments include rents that are contingent following rent reviews. In 2010/11 £113K contingent rents were payable by the Authority (2009/10 £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 £8K.

37 IMPAIRMENT LOSSES

During 2010/11 the Authority has recognised impairment losses of £42.191M in relation to fixed asset valuations. This is largely due to declining housing market reducing the value of both the housing stock (£36.675M) and some investment properties valued for residential use (£3.837M) as well as the demolition of the Dome building in Morecambe (£1.630M).

38 TERMINATION BENEFITS

The Authority approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2010/11, incurring liabilities of £814K (£602K in 2009/10) in respect of redundancy costs. Of this total, £315K was paid to 2 Directors and 2 Service Heads, in the form of compensation for loss of office (redundancy) as disclosed in Note 31. The remaining £499K was paid to 23 officers from 8 different services whose applications for ER/VR were approved as part of the council's overall review of services.

39 DEFINED BENEFIT PENSION SCHEMES

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

The Authority 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 revered out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2009/10	2010/11
Comprehensive Income and Expenditure Statement	£000	£000
Cost of services:		
Current service cost	2,018	3,020
Employer contributions	(3,340)	(3,885)
Past Service cost	0	(8,727)
Settlements and curtailments	113	342
Financing & Investment Income & Expenditure		
Interest costs	8,248	8,920
Expected return on scheme assets	(4,833)	(6,422)
Total Post Employment Benefit Charged to Provision of Services	**2,206**	**(6,752)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	16,627	(16,946)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**18,833**	**(23,698)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(2,206)	6,752
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	(16,627)	16,946
Net charge in relation to pension adjustments	0	0
Actual amount charged against Funds for pensions in the year - employers contributions	3,671	3,545

Assets and Liabilities in Relation to Post-employment Benefits
Reconciliation of present value of the scheme liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2009/10	2010/11	2009/10	2010/11
	£000	£000	£000	£000
Opening balance	**(112,966)**	**(154,929)**	**(4,379)**	**(5,281)**
Current service cost	(2,018)	(3,020)	0	0
Interest costs	(7,947)	(8,632)	(301)	(288)
Contributions by scheme participants	(1,056)	(1,003)	0	0
Actuarial gains and losses	(35,987)	12,887	(869)	1,446
Benefits paid	5,158	5,623	268	262
Past service costs	0	8,525	0	202
Curtailments	(113)	(285)	0	0
Closing balance	**(154,929)**	**(140,834)**	**(5,281)**	**(3,659)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2009/10	2010/11
	£000	£000
Opening balance	**76,435**	**100,467**
Expected rate of return	4,833	6,422
Actuarial gains and losses	20,229	2,613
Employer contributions	3,072	3,885
Contributions by scheme participants	1,056	1,003
Benefits paid	(5,158)	(5,885)
Settlements	0	0
Curtailments	0	0
Closing balance	**100,467**	**108,505**

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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £6.422M (2009/10 £4.833M).

	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000
Present value of liabilities	(131,840)	(138,363)	(117,345)	(160,210)	(144,493)
Present value of assets	104,037	96,846	76,435	100,467	108,505
Surplus/deficit in the scheme	(27,803)	(41,517)	(40,910)	(59,743)	(35,988)

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £144.493M has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £35.958M. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £3.248M

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. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Mercer Human Resource Consulting Ltd, and independent firm of actuaries, estimates for the County Council Fund being based on the latest formal actuarial valuation of the scheme as at 31 March 2010.

	2009/10	2010/11
	%	%
Return on assets (%):		
Equity investments	7.5	7.5
Bonds	4.9	4.7
Other	4.8	4.8
Longevity at 65 for current pensioners (yrs):		
Men	21.2	21.6
Women	24.0	24.2
Longevity at 65 for future pensioners:		
Men	22.2	23.0
Women	25.0	25.8
Rate of inflation (%)	3.3	3.4
Rate of increase in salaries (%)	5.1	4.9
Rate of increase in pensions (%)	3.3	2.9
Rate of discounting for scheme liabilities (%)	5.6	5.5
Take up of option to convert annual pension into retirement lump sum (yrs)	50.0	50.0

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	Local Government Pension Scheme	
	2009/10	**2010/11**
	%	**%**
Equity investments	66.0	64.0
Debt instruments	19.0	21.0
Other assets	15.0	15.0
	100.0	**100.0**

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

	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	%	%	%	%	%
Differences between the expected and actual return on assets	0.70	13.40	34.30	20.10	2.40
Experience gains and losses on liabilities	0.00	5.70	0.00	0.00	9.80

40 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2011:

Luneside East Regeneration Scheme – In assembling land for this project, the Council used compulsory purchase powers and one significant compensation claim is still outstanding. The timing and likely settlement values are uncertain, although it is possible that settlement may be achieved towards the end of 2011/12. The council has some financial provision available in connection with this claim, but at this stage any 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. Given the ongoing commitment of partners to progress this scheme, however, and the specific market conditions giving rise to the current position, it is still probable that a positive outcome will be forthcoming, thereby avoiding any material liabilities falling on the Council as at 31 March 2011.

41 CONTINGENT ASSETS

The following material contingent asset existed as at 31 March 2011:

Luneside East Regeneration Scheme – The council has submitted an application for costs in connection with a Lands Tribunal hearing regarding the above claim; but any economic benefits are contingent on the outcome of the Tribunal and the application itself.

42 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Authority'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 Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority'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 authority'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 2010/11 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the authority are as detailed below:

	Minimum across all three ratings			Money Limit[7]	Time Limit[8]
	Fitch	Moody's	Standard & Poors		
Upper Limit[1]	F1+/AA-	P-1/AA3	A-1+/AA-	£4M	Instant access only
				£2M	3 months
Middle Limit[2]	F1/A	P-1/A2	A-1/A	£2M	Instant access only
Other Institutions[3]	N/A	N/A	N/A	£4M	1 Year
Money Market Funds[4]	AAA	AAA	AAA	£4M	Instant Access Only
DMADF deposit[5]	N/A	N/A	N/A	£20M	1 Year
Sovereign rating to apply to all non UK counterparties[6]	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).
4: Sterling, constant net asset value funds only.
5: The DMADF facility is direct with the UK government, it is extremely low risk and hence the higher limit.
6: UK investments are defined as those listed under UK banks or building societies in the Butler's counterparty listing.
7: Money limits apply to principal invested and do not include accrued interest.
8: Time Limits start on the trade date for the investment.

The Authority's maximum exposure to credit risk in relation to its investments of £7.8M (not including Icelandic deposits) 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 Authority's deposits, but for the £7.8M, there was no evidence at 31 March 2011 that this was likely to materialise.

The following analysis summarises the Authority'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 31/03/11	**Historical experience of default**	**Exposure at 31/03/11**	**Exposure at 31/03/11**
	£000	%	£000	£000
	(a)	(b)	(a * c)	
AAA rated counterparties	4,100	0.00%	0	-
AA rated counterparties	2,400	0.03%	1	-
A rated counterparties	1,300	0.08%	1	2
Icelandic investments	3,120	Impairment provision	1,363	1,363
Trade debtors	2,277	Bad debt provision	427	371
Total	**13,197**		**1,792**	**1,736**

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

The Authority does not generally allow credit for customers, such that £1.45M of the £2.27M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/10	**31/03/11**
	£000	£000
Current, < 28 Days	905	827
28-59 Days	157	256
60-91 Days	79	80
92-183 Days	210	197
184-364 Days	226	191
365+ Days	608	726
Total	**2,185**	**2,277**

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). Balances held in Icelandic banks are split between current and long term assets in line with CIPFA's projected repayment timetable, as per Note 14.

	31/03/10	31/03/11
	£000	£000
Less than one year	0	0
More than 30 years	39,215	39,215
Total	**39,215**	**39,215**

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 2010/11.

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 a number of fixed term 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. Sensitivity to an increase of 1% on interest rates during 2010/11 would have had the following effect:

	Actual	+1%
	£000	£000
New or variable investments:		
Fixed term	9	39
Call accounts	90	149
Total	**99**	**188**

This highlights that the Council's borrowings were insensitive to interest rate changes during 2010/11 but 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 £99K vs. £108K 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. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2009/10 £000		NOTES	2010/11 £000	2010/11 £000
	Expenditure			
4,236	Repairs and maintenance		3,792	
3,012	Supervision and management		3,198	
93	Rent, rates, taxes and other charges		128	
947	Negative HRA Subsidy payable	*7*	1,749	
14,269	Depreciation and impairment of non-current assets	*4&5*	36,519	
1	Debt management costs		1	
210	Movement in the allowance for bad debts		315	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	*10*	0	
22,768	**Total Expenditure**			**45,702**
	Income			
(11,416)	Dwelling rents		(11,755)	
(184)	Non-dwelling rents		(198)	
(1,875)	Charges for services and facilities		(1,801)	
(8)	Contributions towards expenditure		(8)	
(168)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(170)	
(13,651)	**Total Income**			**(13,932)**
9,117	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**			**31,770**
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**
9,117	**Net Cost for HRA Services**			**31,770**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement			
(65)	Gain or Loss on sale of HRA non-current assets			(109)
799	Interest payable and similar charges			724
(33)	Interest and investment income			(236)
482	Pension interest cost and expected return on pension assets	*8*		(836)
0	Capital grants and contributions receivable			0
10,300	**(Surplus) or deficit for the year on HRA Services**			**31,313**

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.

2009/10 £000		2010/11 £000
(494)	**Balance on the HRA at the end of the previous year**	**(523)**
10,300	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	31,313
1,083	Adjustments between accounting basis and funding basis under statute	3,037
11,383	**Net (increase) or decrease before transfers to or from reserves**	**34,350**
(11,412)	Transfers to or (from) reserves	(34,279)
(29)	**(Increase) or decrease in year on the HRA**	**71**
(523)	**Balance on the HRA at the end of the current year**	**(452)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2011 the Council held the following number of dwellings:

		2009/10	2010/11
Bedsits		116	96
1 Bedroom	Houses & Bungalows	649	657
	Flats & Maisonettes	511	531
2 Bedroom	Houses & Bungalows	506	498
	Flats & Maisonettes	681	682
3 Bedroom	Houses & Bungalows	1,258	1,249
	Flats & Maisonettes	7	8
4 or more bedroomed dwellings		82	86
TOTAL DWELLINGS		**3,810**	**3,807**

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

	Value as at 01/04/2010 £000	Value as at 31/03/2011 £000
Operational Assets:		
Council Dwellings	142,165	107,918
Other land and buildings	129	82
	142,294	**108,000**
Non-operational Assets	1,232	1,422
TOTAL	**143,526**	**109,422**

Dwellings are valued on the basis of Existing Use Value (Social Housing). 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, which has now been undertaken to update all values to 01 April 2010. This has resulted in a decrease in asset values of £32,661,110 in the year, which is the major 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. The Major Repairs Allowance of £2,307,041, for 2010/11 has been used as a proxy for depreciation on dwellings. Non-dwelling assets were also revalued at 01 April 2010.

The vacant possession value of dwellings held on 01 April 2010 was £315,210,000. The difference between this and the EUV-SH valuation of £110,323,500 (i.e. the update figure after the full valuation exercise effective as of 01 April 2010 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:

	2009/10	2010/11
	£000	£000
Opening Balance 01 April	**6,724**	**6,868**
Transfer from General Reserves	144	173
Transfer to MRR – Depreciation	2,354	2,325
Transfer to HRA - Depreciation Adjustment	(50)	(18)
Capital Expenditure		
- Land	0	0
- Houses	(2,304)	(2,767)
- Other property.	0	0
Closing Balance 31 March	**6,868**	**6,581**

3 CAPITAL EXPENDITURE

Capital expenditure of £4,185,000 was incurred during the year, of which £4,161,000 was on works and improvements to dwellings and £24,000 on intangible assets. This was financed as follows:

	2009/10	2010/11
	£000	£000
Borrowing	0	0
Usable Capital Receipts	42	53
Revenue Contributions	1,077	1,283
Earmarked Reserves	77	80
Majors Repairs Reserve	2,304	2,767
Grants and Contributions	8	2
Total Capital Financing	**3,508**	**4,185**

Capital receipts totalling £211,000 were received during the year from the following sources:

	2009/10	2010/11
	£000	£000
Sale of dwellings	113	208
Sale of land	15	0
Repayment of Principal on Mortgages	3	3
Repayment of Right to Buy discounts	0	0
Total Capital Receipts	**131**	**211**

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:

	2009/10	2010/11
	£000	£000
Council Dwellings	2,304	2,307
Other land and buildings	3	2
Non-operational Assets	7	16
Deferred Charges on Intangible Assets	8	12
Government Grants deferred write down	0	0
TOTAL	**2,322**	**2,337**

5 IMPAIRMENT CHARGES

An impairment charge of £36,675,000 in respect of Council Dwellings was made to the HRA for the financial year 2010/11. This was as a result of downward market valuations to the Council Housing Dwellings stock. £34,181,000 of the impairment charge is shown in the Income and Expenditure account, this is because there were insufficient balances against the individual assets on the Revaluation Reserve.

6 INTANGIBLE ASSETS

A charge of £12,000 was made during the year, this was made up as follows: a third year charge of £3,000 in respect of software purchased for the Task Total Repairs system, which is an upgrade of the contractor system, a second year charge of £4,000 in respect of the Testing and Implementation of Task Total Solution by Northgate and a further £5,000 for the 40% purchase of 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 SUBSIDSY

The total Negative Housing Subsidy payable for the year 2010/11 was £1,731,000 (£932,000 for 2009/10), the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £1,749,000 (£947,000 for 2009/10). The additional payment of £18,000 relates to the 2009/10 final determination and is in respect of a lower Consolidated Rate of Interest (CRI) being applied to the final determination than originally estimated.

	2009/10	2010/11
	£000	£000
Management Allowance	2,005	2,049
Maintenance Allowance	3,922	3,972
Major Repairs Allowance	2,304	2,307
Admissible Allowances	0	0
Anti-Social Behaviour Allowance	0	0
Charges for Capital	1,704	1,563
Rent Rebates	0	0
Notional Rent	(10,865)	(11,622)
Interest on Receipts	(2)	0
Government Grants	0	0
Rental Constraint Allowance	0	0
Total Housing Subsidy	**(932)**	**(1,731)**

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 2011 amounted to £402,000 (£413,000 for 2009/10). An amount of £653,000 (£420,000 for 2009/10) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The significant increase in provision this year is directly attributable to the higher number of increase debt from rechargeable repairs, court costs and tenants rent arrears. 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

	2009/10 £000	**2010/11** £000
Adjustments between accounting basis and funding basis under statute		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	159	159
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	0	0
Gain or loss on sale of HRA non-current assets.	65	109
HRA share of contributions to or from the Pension Reserve.	(295)	946
Capital Expenditure funded by the Housing Revenue Account	1,154	1,823
Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with the Code.	0	0
	1,083	**3,037**
Transfers to or (from) reserves		
Transfer to/(from) Major Repairs Reserve	144	(287)
Transfer to/(from) Housing Repairs Account	0	0
Transfer to/(from) Earmarked Reserves	409	23
Transfer to/(from) the Capital Adjustment Account	(11,965)	(34,015)
	(11,412)	**(34,279)**

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.

2009/10 £000	INCOME	NOTES	2010/11 £000
	Council Tax		
(55,939)	Income from Council Tax	*1*	(56,199)
	Transfers from General Fund:		
(10,086)	Council Tax Benefits		(10,464)
	Business Rates		
(35,738)	Income from Business Ratepayers	*2*	(32,176)
	Contributions		
(117)	From Provisions for Council Tax Amounts Written Off		(210)
(101,880)	**TOTAL INCOME**		**(99,049)**
	EXPENDITURE		
	Precepts and Demands		
47,879	Lancashire County Council		48,100
8,520	Lancaster City Council (including parish precepts)		8,872
6,138	Lancashire Police Authority		6,348
2,696	Lancashire Fire Authority		2,762
	Business Rates		
35,526	Payment to National Pool		31,943
211	Cost of Collection Allowance		234
	Council Tax Bad and Doubtful Debts		
117	Write-offs		210
484	Contribution to Provision for Non-Collection		370
	Contribution towards previous year's estimated Collection Fund surplus		
0	Council Tax		151
101,571	**TOTAL EXPENDITURE**		**98,990**
	FUND BALANCE		
(309)	(Surplus)/deficit for year		(59)
0	(Surplus)/deficit as at 01 April (Brought forward)		0
309	(Surplus)/deficit distributed in year		59
0	**(Surplus)/Deficit as at 31 March (Carried forward)**		**0**

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 and the Lancashire Police Authority 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 2010/11 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	20,230	11,299
Band B	14,790	10,250
Band C	11,055	8,971
Band D	5,879	5,315
Band E	3,612	4,154
Band F	1,811	2,491
Band G	803	1,276
Band H	43	81
Total	**58,223**	**43,838**
Collection Rate		*99%*
Council Tax Base		**43,400**

2 BUSINESS RATES

The City Council collects National Non-Domestic Rates (NNDR) for its area. NNDR is based on rateable values set by the Inland Revenue, multiplied by a Uniform Business Rate set by Central Government. For most businesses, this was set at 41.4p per £ for 2010/11 (48.5p for 2009/10). For local businesses with a rateable value of less than £18,000, a discount of 0.7p was allowed giving a rate of 40.7p per £. The rateable value at 31 March 2011 was £162,447,441 (£87,778,082 for 2009/10). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool (the NNDR pool) managed by Central Government. The Government redistributes the sums paid into the pool back to local authorities in proportion to population. Lancaster's share of the pool for 2010/11, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £14,301,000.

3 MAJOR PRECEPTORS

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

	£000
Lancashire County Council	48,100
Lancashire Police Authority	6,348
Lancashire Fire Authority	2,762
Lancaster City Council	8,872
	66,082

Bequests, Endowments and Trust Funds

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 2011 the Council was responsible for 19 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/10	Income	Transfers Out	Expenditure	Balance c/f 31/03/11
	£	£	£	£	£
Bequests and Endowments					
(a) Council sole trustee					
Ashton Memorial	0				0
Williamson Park	0				0
Other	(5,185)	(4,174)		4,347	(5,012)
(b) Council not sole trustee	(9,705)	(102)			(9,807)
School etc. Prize Funds					
(a) Council sole trustee	(24,384)	(246)	3,797		(20,833)
(b) Council not sole trustee	(1,962)	(6)	1,968		0
TOTAL	**(41,236)**	**(4,528)**	**5,765**	**4,347**	**(35,652)**

	2009/10	2010/11
	£	£
Bequests and Endowments		
(a) Council sole trustee		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	1,962	1,962
Revenue	0	0
Cash and Debtors	51,212	51,040
(b) Council not sole trustee		
Capital	0	0
Revenue	1,000	1,000
Cash and Debtors	10,750	10,852
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	874	737
Cash and Debtors	26,007	21,544
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	2,321	0
TOTAL	**94,126**	**87,135**

It is a requirement of the Charity Commission for all Bequests, Endowments and Trust funds an Income and Expenditure account for the Trusts they are responsible for with an income under £10,000. This must 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.

Income & Expenditure Account	**2009/10**	**2010/11**
	£	**£**
Income		
Interest	(4,559)	(4,528)
Capital	0	0
	(4,559)	**(4,528)**
Expenditure		
Ashton Memorial	1,092	1,088
William Smith Festival	207	224
Whalley Playground	658	659
Lune Bank Gardens	13	11
Williamson Park	1,864	1,863
War Memorial Fund	2	2
Crook of Lune	0	500
Transfers Out	0	5,765
	3,836	**10,112**
Excess (Income)/Expenditure	**(723)**	**5,584**

Balance Sheet	**2009/10**	**2010/11**
	£	**£**
Assets		
Investments	3,836	3,699
Debtors	2,143	1,167
Bank	88,147	82,269
	94,126	**87,135**
Represented by:		
Reserves as at 31st March	93,403	81,550
Income in year	723	5,585
	94,126	**87,135**

It should be noted that a total of 24 prize funds have been transferred back to the relevant schools for them to administer in future.

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.

Glossary of Terms used in the Accounting Statements

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.

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

(a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and

(b) termination, 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: HFS/LW

APPENDIX C

Financial Services

Nadine Muschamp
Head of Financial Services

Town Hall
Dalton Square
LANCASTER LA1 1PJ

DX63531 Lancaster

KPMG LLP (Public Sector Audit)
St James' Square
Manchester
M2 6DS

21 September 2011

Dear Sirs

This representation letter is provided in connection with your audit of the Authority's financial statements of Lancaster City Council ("the Authority"), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Lancaster City Council as at 31 March 2011 and of its income and expenditure for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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:

   - give a true and fair view of the financial position of Lancaster City Council as at 31 March 2011 and of its income and expenditure for the year then ended; and

   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require 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 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 the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. 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.

9. 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. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

1. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

2. 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;
      - are funded or unfunded; and
      - are approved or unapproved,

      have been identified and properly accounted for; and

   b) all settlements and curtailments have been identified and properly accounted for.

This letter was presented to the meeting of the Audit Committee held on 21 September 2011.

Yours faithfully

Nadine Muschamp
Head of Financial Services and Section 151 Officer

On behalf of Lancaster City Council

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2010/11 21 September 2011

Report of the Chief Executive

PURPOSE OF REPORT
To seek the Committee's approval for the draft Annual Governance Statement for the 2010/11 financial year.
This report is public

RECOMMENDATIONS

(1) That the draft Annual Governance Statement for 2010/11 (attached as Appendix C) be 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 in the Council and to oversee the production of the authority's annual Governance Statement and recommend its adoption.* (The Constitution, part 3 section 8).

Accounts & Audit Regulations

1.2 In England, the preparation and publication of an annual governance statement in accordance with proper practices is necessary to meet a statutory requirement set out in Regulation 4(2-4) of the Accounts & Audit (England) Regulations 2011.

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[1] 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 (this was approved by Audit Committee on 23rd January 2008) 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.

[1] "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

3.0 Proposal Details

3.1 The draft Annual Governance Statement has been drawn up following a review of the Council's framework.

Review of Compliance with the Code of Governance

3.2 A review has been undertaken of the Council's position and performance against the Code of Governance approved in January 2008. The results of the evaluation exercise are demonstrated in the Overview Charts (including a comparison with the 2009/10 results) and the Evaluation Report which 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.

3.3 The Code of Governance consists of a set of sixty-seven 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 behaviour**
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

3.4 A document has been compiled which details the identified "sources" of assurance for each element of the Code. These 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.

3.5 As in previous years, individual "assurance statements" have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.

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. This requirement represents a subtle change from previous regulations, which required a review of “the system of internal audit” which was interpreted to focus mainly on procedures and compliance with “proper practices” as defined in the CIPFA Code of Practice for Internal Audit (2006).

3.7 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.

3.8 In conclusion, 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.

Governance Review - Evaluation Results

3.9 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. It also highlights in some areas that the financial climate and organisational change being experienced raise some additional challenges to maintaining effective governance.

3.10 In consequence, the number of factors in which there remains a perceived shortfall in performance has reduced from 18 to 11. 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 and any plans to improve arrangements during 2011/12 and beyond.

The Draft Annual Governance Statement

3.11 Following the evaluation exercise, the Annual Governance Statement attached at Appendix C) has been drafted.

3.12 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 September 2011) 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

3.13 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of an Annual Governance Statement incorporates and satisfies the requirement under the Local Government Statement of Recommended Practice (SORP) to produce a Statement on Internal Financial Controls (SIFC)

Signatories to the Statement

3.14 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).

Action Plan

3.15 As in previous years, actions relating to those "Significant Governance Issues" identified in section 5 of the draft Governance Statement have already been acknowledged and reflected in the Council's Corporate Plan and individual Services' Business Plans.

4.0 Details of Consultation

4.1 As part of the assurance gathering exercise, all Service Heads have provided an assurance statement for their areas of responsibility. Significant matters raised in those statements have been included in the Governance Statement.

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 2011/12.

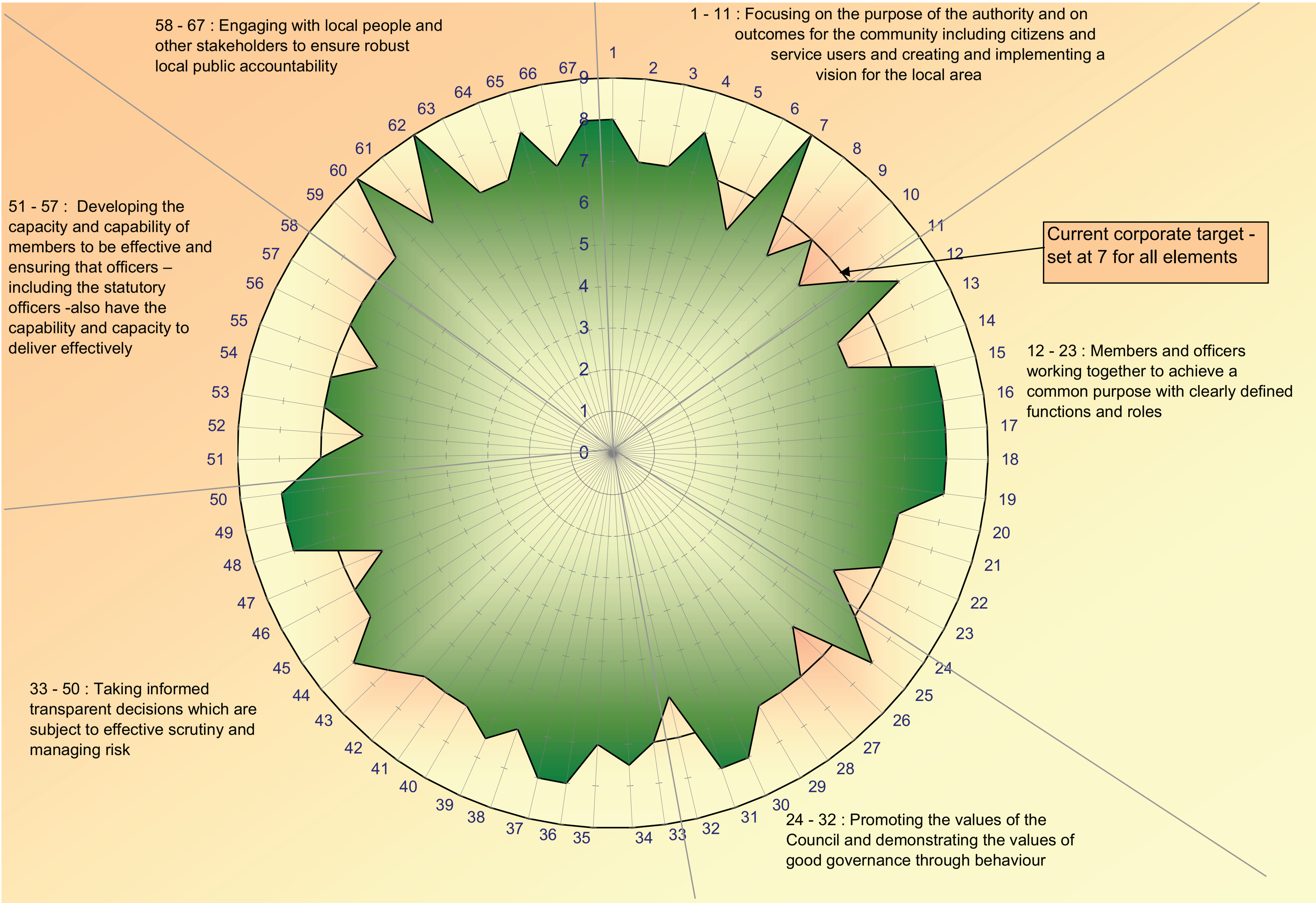
CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)** The report has no direct impact on the above issues.
FINANCIAL IMPLICATIONS There are no direct financial implications arising from this report

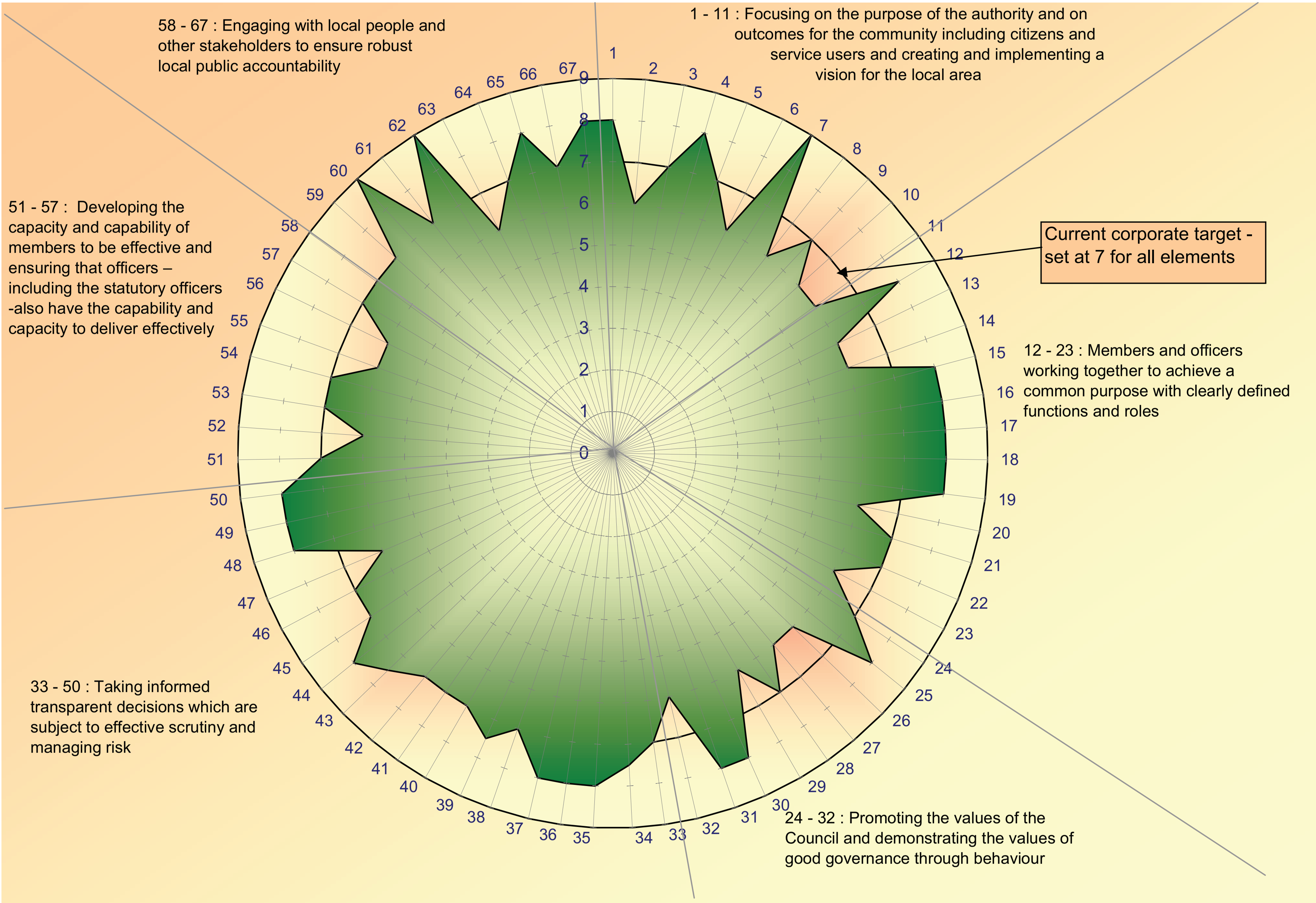
SECTION 151 OFFICER'S COMMENTS The s151 Officer has been involved in the governance review process and has no further comments.
LEGAL IMPLICATIONS There are no legal implications arising from this report
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been involved in the governance review process and has no further comments.

BACKGROUND PAPERS Accounts and Audit (England) Regulations 2011	**Contact Officer:** Derek Whiteway **Telephone:** 01524 582028 **E-mail:** dwhiteway@lancaster.gov.uk **Ref:** aud/cttee/audit/2011/110921/ags

Governance Review 2010/11 - Evaluation Results

Appendix A




1 - 11 : 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
12 - 23 : Members and officers working together to achieve a common purpose with clearly defined functions and roles
24 - 32 : Promoting the values of the Council and demonstrating the values of good governance through behaviour
33 - 50 : Taking informed transparent decisions which are subject to effective scrutiny and managing risk
51 - 57 : 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
58 - 67 : Engaging with local people and other stakeholders to ensure robust local public accountability
Current corporate target - set at 7 for all elements
0 1 2 3 4 5 6 7 8 9
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67

Principle 1 - Focussing 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
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	7	
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	7	
4	Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding	8	
5	Knowing how well the Council is performing against planned outcomes	7	As part of the review of the performance framework the PRT process has been revised for 2011/12 and aproved by Management Team. Revised corporate planning and performance management arrangements in 2011/12 provide for a more outcome focused approach to performance and improved decision making.
6	Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	6	
7	Publishing annual information on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
8	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	As nos 5 & 6.
9	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
10	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.	6	Corporate focus moved to more macro level by financial/funding constraints. Delivering value for money has become more fundamental consideration in service planning and delivery.
11	Measuring the environmental impact of policies, plans and decisions.	7	

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments
12	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	
13	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	6	Following the major management restructure undertaken during 2010/11 there is an ongoing review of key elements of the constitution, including the scheme of delegation, Financial Regulations and Contract Procedure rules. These will play a key role in determining the future management and leadership culture in the authority.
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	6	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	8	
16	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	8	
17	Making the Head of Financial Services (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	8	
18	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	8	
19	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
20	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	
21	Ensuring that effective mechanisms exist to monitor service delivery	7	

No	Element	Score	Comments
22	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	7	
23	When working in partnership, ensuring that: members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; there is clarity about the legal status of the partnership; representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	6	Not developed during 2010/11 and no partnership evaluations undertaken due to changes in partnership working arrangements and Service restructures. This area of work will be undertaken by the Partnerships and Corporate Planning and Performance Teams within Community Engagement (Partnerships) from 2011/12. After May 2011 elections heads of service briefed new portfolio holders on key responsibilities, including representation on LDLSP thematic groups.

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour

No	Element	Score	Comments
24	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
25	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	
26	Having protocols in place to ensure that standards for joint working between members and staff and between the Council, its partners and the community are defined and communicated	6	See no 23
27	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	Arrangements will be strengthened through the ongoing review of the scheme of delegation, Financial Regulations and Contract Procedure rules (see no 13) and a concurrent review of the Council's anti-fraud and corruption policy and strategy..
28	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	
29	Having arrangements in place to ensure that systems and processes are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	7	
30	Maintaining an effective standards committee	8	
31	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	8	
32	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 no 23

Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments
33	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	7	
34	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	7.5	
35	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	
36	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
37	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	8	
38	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	
39	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	7.5	
40	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	
41	Ensuring that risk management processes specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of those risks	7	
42	Ensuring that there are well-established and clear arrangements for financing risk	7	
43	Ensuring that sound financial management is promoted	7.5	
44	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	
45	Having effective arrangements to counter fraud and corruption	7	
46	Having effective arrangements in place to ensure business continuity	7	

No	Element	Score	Comments
47	Ensuring the safety of staff, contractors and visitors	6	The Council's Health & Safety Policy covers these matters and is available on the Intranet. Issues previously identified in connection with visitors have been raised during the extensive works at the two town halls. This will improve as the work is completed.
48	Ensuring that the Council's internal control framework is subject to regular independent assessment	8	
49	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	
50	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
51	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	7	
52	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	6	Greater clarity and understanding will be established as the ongoing review of the constitution (see no 13) is completed and publicised.
53	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	
54	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	
55	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	6	
56	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	
57	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
58	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
59	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
60	Producing an annual report on the activity of the scrutiny function	9	
61	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	
62	Holding meetings in public unless there are good reasons for confidentiality	9	
63	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	7	
64	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	
65	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	
66	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	
67	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

Internal Audit – Review of Characteristics of Effectiveness **Appendix B**

Characteristic of ‘effectiveness’	Evidence of achievement	Areas for development
IA operates in accordance with “proper practices” as defined in professional codes of practice.	The IA section operates to the CIPFA Code of Practice for Internal Audit (2006). IA’s compliance with the code is subject to a three-yearly review by the Council’s external auditor, the next review being due in the 2012/13 audit year. In intervening years, the external auditor updates the evaluation and reports on the extent to which he is able to rely on IA’s work	From the external auditor’s last review, there is still work required to fully define performance measures for IA.
IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.	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.	
IA understands its position in relation to the organisation’s other sources of assurance and plans its work accordingly.	Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.	
Understands the whole organisation, its needs and objectives.	The audit plan demonstrates how audit work will provide assurance in relation to the authority’s objectives. Individual audit assignments identify risks to the achievement of those objectives.	Continuing to develop consultation with Management Team will enhance this aspect.
Be seen as a catalyst for change at the heart of the organisation.	Supportive role of audit for corporate developments such as corporate governance review, risk management and efficiency/value for money. Individual assignments may be catalyst for change.	Review and consult with Management Team on the options for IA to provide a corporate role.

Internal Audit – Review of Characteristics of Effectiveness **Appendix B**

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work.	Continue to review scope and nature of IA's contribution and reflect this in future plans and development programmes.
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal audit provides help and advice on request and supports specific projects identified in plan and on *ad hoc* basis.	Continue to consider and promote scope for IA involvement in significant projects.
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.	When identifying risks and in formulating the plan changes on the national agenda are considered. 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.	Continue to develop through consultation with Management Team and service managers
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.	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.	
Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	Resource issues are addressed in the Strategic & Business and Annual Plan process. Ongoing consideration is given to alternative sources of audit resource, including areas requiring specialist skills.	

LANCASTER CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/11 (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, Lancaster City Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates 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 Lancaster City 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 the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 2011 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

The following paragraphs set out the key elements of the council's governance arrangements as incorporated in the *Code of Corporate Governance*:

- The council reviews its vision for the local area annually in the context of the Local Strategic Partnership's *Sustainable Community Strategy* and through direct consultation with the community. The council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- Performance is actively managed by the executive through the Corporate Management Team and quarterly Performance Review Team meetings and is subject to review and challenge by the Overview & Scrutiny function 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 maintained through the *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the council's *Comments, Compliments and Complaints Policy.*
- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972.
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council's key priorities and objectives. The financial management and scheme of delegation of the council is conducted in accordance with rules 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 established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.

Draft

- The Head of 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 facilitation of policy and decision making, in line with the council's overall budget and policy framework, is established through the council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the council as a whole. 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.
- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.
- 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 *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the council. Senior officers of the council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.
- The council's Internal Audit service operates to the standards set out in the *'CIPFA Code of Practice for Internal Audit in Local Government 2006'* and the council has established 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.

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The following are the main processes applied in maintaining and reviewing the effectiveness of the systems of internal control and governance:

- The Audit Committee and the Head of Governance, in her role as the council's 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 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 quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council's Standards Committee, chaired by one of four independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred for investigation by its Assessment Sub-Committees.
- 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 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 regularly 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.

SIGNIFICANT GOVERNANCE ISSUES

In October 2010 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's accounts for 2009/10. They also provided an unqualified opinion on the council's arrangements for securing value for money. The external auditors were pleased to report that there were no new recommendations arising from their 2009/10 audit work and that all prior year recommendations had either been addressed or were in the process of being implemented.

Following the audit of the 2010/11 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30th September 2011.

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.

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Following the major management restructure during 2010/11 the Council is undertaking a fundamental review of a number of key elements in its constitution, including the scheme of delegation, Financial Regulations and Contract Procedure Rules. Alongside these, the Council's anti-fraud and corruption policy and strategy are also being reviewed and updated. Once completed, these reviews will result in an environment and culture designed to enable elected Members, managers and staff to respond effectively to current and forthcoming challenges.

Given these points, the action already taken, and from the assurances provided from the review of the effectiveness of the corporate governance framework and system of internal control, it is the council's opinion that they accord with current proper practice and are working effectively.

The Council has identified its overriding challenge to be to ensure 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, and to that end the council will:

- ***Continue to seek to identify efficiencies and improve the Value for Money*** the council and its key partnerships provide, by continually reviewing everything that the council does;
- ***Implement a revised constitution*** to promote high standards in governance, establish renewed clarity in roles and responsibilities and develop the ability to respond effectively to change;
- ***Develop ways in which local people are able to be at the forefront of decision making***, by undertaking cost-effective consultations via online, postal, telephone or face to face channels, and through public speaking opportunities at council meetings;
- ***Continue to develop the effectiveness of partnership working*** by working with partners to reduce costs, make efficiencies and create resilience within the district and by encouraging sound governance within the Council's key partnerships;
- ***Complete a review of the performance management framework*** to ensure the Council can achieve its planned outcomes and objectives whilst addressing any underperformance and risk quickly and effectively;
- ***Aim to shape its services through the flexibility of the workforce,*** through robust leadership and management practice and a skilled and knowledgeable workforce that has clarity of purpose in what the Council is aiming to achieve.

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 annual review.

E Blamire
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)

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