



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 27 JULY 2005  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

**A G E N D A**

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Appointment of Vice-Chairman**
4. **Minutes of the Meeting held on 26th January 2005**  
(previously circulated)
5. **Items of urgent business authorised by the Chairman**
6. **Audit and Inspection Plan 2005 - 2006** (Pages 1 - 14)  
- Report of the Audit Commission
7. **Statement of Accounts 2004/05** (Pages 15 - 72)  
- Report of Head of Financial Services
8. **Internal Audit Plan 2005/06** (Pages 73 - 78)  
- Report of Internal Audit Manager
9. **Results of Internal Audit Work report** (Pages 79 - 132)  
- Report of Internal Audit Manager
10. **Risk Management Progress and Proposed Work Plan** (Pages 133 - 146)  
- Report of Head of Financial Services

**ADMINISTRATIVE ARRANGEMENTS**

**(i) Membership**

Councillors Malcolm Thomas (Chairman), John Gilbert, Ian Barker, Jon Barry,  
Keith Budden, David Whitaker and Geoff Wilson

**(ii) Substitute Membership**

Councillors Susan Bray, Shirley Burns, Chris Coates, Paul Gardner, Janice Hanson, Alex Stone and Joyce Taylor

**(iii) Queries regarding this Agenda**

Please contact James Doble, Administration Services - telephone (01524) 582057 or email [jdoble@lancaster.gov.uk](mailto:jdoble@lancaster.gov.uk).

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

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

MARK CULLINAN  
CHIEF EXECUTIVE  
TOWN HALL,  
LANCASTER LA1 1 PJ

Published on 18<sup>th</sup> July 2005

## Audit and Inspection Plan

### Lancaster City Council

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- Appendix 2 – Audit and inspection fee
- Appendix 3 – Planned outputs
- Appendix 4 – The Audit Commission's requirements in respect of independence and objectivity

<b>Reference:</b>	LA007 Audit and Inspection Plan - FINAL
<b>Date:</b>	April 2005

## Introduction

This plan sets out the audit work that we propose to undertake in 2005/06. The plan has been drawn up from our risk-based approach to audit planning and reflects:

- the impact of the new Code of Audit Practice which comes into effect in April 2005;
- your local risks and improvement priorities;
- current national risks relevant to your local circumstances; and
- the impact of International Standards on Auditing (UK and Ireland) (ISAs).

Your relationship manager, Michael Thomas, will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:

- the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
- the Local Government Act 1999 with regard to best value inspection and audit.

The Code has been revised with effect from 1 April 2005. The key changes include:

- the requirement to draw a conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual Statement on Internal Control.

Further details of the new Code are set out in Appendix 1.

## The fee

The total fee estimate for the audit and inspection work planned for 2005/06 is £110,760 a reduction of 11 per cent from the 2004/05 fee. The fee is based on the Audit Commission's fee guidance contained within its operational plan and reflects the Council's comprehensive performance assessment (CPA) overall score of 'fair'.

Further details are provided in Appendix 2 including the assumptions made when determining the fee.

Changes to the plan and the fee may be necessary if our risk assessment changes during the course of the audit. We will formally advise you of any changes if this is the case.

## Summary of key audit and inspection risks

This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:

- provide an opinion on your financial statements;
- provide a conclusion on the arrangements for ensuring value for money in the use of resources;
- provide a scored judgment on the use of resources; and
- provide a report on the Council's best value performance plan.

Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including internal audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

The expected outputs from this work are outlined in Appendix 3.

## CPA and inspections

Following the Council's classification as a 'Fair' council in January 2004 following a Comprehensive Performance Assessment inspection, we have applied the principles of strategic regulation. As a consequence of the CPA score our inspection activity will focus on the following:

- direction of travel statement; and
- environmental inspection.

SUMMARY OF INSPECTION ACTIVITY	
Inspection activity	Reason/impact
Direction of travel statement.	This is an annual piece of work carried out at all councils. It assesses the progress you are making in achieving continuous improvement. The conclusions will be included in the CPA scorecard update in December 2005.
Environment inspection	The inspection will assess progress in environmental services since the CPA inspection and how well the council is strengthening its approach to sustainable development. The inspection will use the Commission's new inspection methodology and examine if the services meet the needs of the community and users. We will discuss with you in more detail whether the inspection looks comprehensively at environmental performance or focuses on waste, transport or planning, after taking account of up to date performance indicators and other relevant information.

## Use of resources

The new Code of Audit Practice requires us to undertake a use of resources assessment. This will involve reviewing five areas using a key lines of enquiry matrix covering:

- financial management;
- financial standing;
- financial reporting;
- internal controls; and
- value for money.

We are also required to issue a separate conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. In meeting this responsibility, we will:

- review evidence that is relevant to the Council's corporate performance management and financial management arrangements; and
- consider relevant cross cutting and national risks that affect both the Council and other relevant organisations.

Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk which we will address through our use of resources work.

SUMMARY OF USE OF RESOURCES AUDIT RISKS	
Audit risk	Response
An increasing number of national and local objectives are delivered through partnerships. Effective working relationships, especially between the districts and Lancashire County Council, are key to the successful delivery of effective partnership working.	We will carry out a cross cutting review of partnership working arrangements across Lancashire to assess how well partners are working together to deliver key public services. This work will include a review of effectiveness and potential for future improvements. The scope of the work and specific probes is still to be agreed with partners.
The Council's financial position, whilst currently sound remains under pressure. The Council has highlighted that it anticipates some difficulties in financing its future revenue and capital expenditure proposals. The Council is known to be working to continue to effectively manage the position.	We will continue to review closely how the Council is developing its approach to financial management including its response to key spending pressures, and its proposals to bridge the future revenue and capital programme funding gaps.
We reviewed the Council's performance management arrangements last year and the Council is committed to improving these arrangements across a wide range of areas from improving consultation to implementing effective risk management and improving the way in which it monitors and manages performance across services and partners.	We will follow up progress against the areas for improvement raised in our report to ensure that our VFM conclusion is based upon the up to date position at the Council.
One of the Council's highest priorities is to implement the changes recommended from its review of access to services. Success in this area will be a key factor in the Council's ability to deliver its strategic objectives and will be wide ranging in its impact.	Our inspection of accessible services in June 2005 will provide us with a clear picture of how the Council is developing its approach to this. As the Council's plans proceed further we will need to consider the wider implications for the Council's financial and other resources, any legality issues and other organisational factors which would impact on a use of resources conclusion.
The Council's Regeneration activities are now developing significantly with larger schemes obtaining approval and an increasing number of partnership arrangements being entered into to deliver them.	We will review the arrangements the Council has in place to deliver its Regeneration plans with a particular focus on its accountable body role, implications for the management of the capital programme and its approach to any partnering contracts.
The Council has a range of policies and procedures in place to ensure that officers and members act in an ethical way to demonstrate good governance standards.	We will review the way in which the Council ensures compliance with its policies and procedures around such areas as codes of conduct, hospitality, fraud and corruption strategy and will consider whether specific testing of any areas is required by ourselves. This will include a brief review of how the Council is following up the results of the national fraud initiative, (NFI), data matching exercise.
To arrive at an appropriate conclusion on the Council's arrangements for ensuring legality it is important that we are aware of how the Council is responding to changes in legislative requirements.	We will review the Council's responses to relevant legislative requirements including the Local Authorities (indemnities for officers and members) Order 2004 and the Race Relations 1976 (statutory duties) Order 2001.

## SUMMARY OF USE OF RESOURCES AUDIT RISKS

Audit risk	Response
The Council's Internal Audit function is a key element within its systems of internal control. Auditing standards require us to undertake a full assessment of the quality of the Internal Audit function every three years.	We will undertake a full review of internal audit against the standards laid down in the CIPFA Code for Internal Audit.

We are also required to audit your Best Value Performance Plan and provide an opinion on whether it complies with the legislative requirements. A key element of this work relates to the audit of the Council's performance indicators which we will again be auditing following liaison with your staff over the requirements and timing. We will continue to work closely with officers to try to improve the quality of performance indicators.

## Financial statements

We will carry out our audit of the 2005/06 financial statements and have regard to the newly introduced ISAs.

In carrying out our audit of financial statements we are required to follow the auditing standards which are issued by the Auditing Practices Board. The APB has recently adopted a new set of auditing standards, the International Standards on Auditing (UK and Ireland), for the audit of all financial statements for periods commencing on or after 15 December 2004. The ISAs therefore apply to the audit of your financial statements for the year ended 31 March 2006.

ISAs largely reflect the previous requirements of UK auditing standards (SASs) but there are some important differences. The most significant change involves ISA 315 *Understanding the entity and its environment and assessing the risks of material misstatement*. As you have a good control environment, we have previously concentrated on your core accounting processes and generally relied upon Internal Audit work on other significant systems. With ISA 315, we need to understand where all the material figures in your accounts are derived from, what controls you have in place to detect any material errors or misstatements and ensure those are tested. This would be expensive for us to undertake and we are working closely with Internal Audit to ensure audit work is aligned to address these requirements as far as possible.

Internal Audit and ourselves have always co-operated on work to be undertaken on financial systems. However it is not sufficient to agree which systems each of us should audit. It is necessary to document the system, identify the relevant controls and ensure they are suitably tested, a process which currently involves service managers, internal audit and ultimately chief officers and members through the production of a Statement of Internal Control, (SIC). We propose initially to discuss with internal audit the arrangements in place to provide assurance for the SIC, (since IA have a co-ordinating role in this respect), the work they are currently planning to do to test systems, and the availability of system documentation. We will then seek to reach agreement with the Chief Internal Auditor and the Chief Financial Officer on the detailed approach and respective contributions needed.

We are also required to review whether the Statement of Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with our knowledge of the Authority.



On the basis of our preliminary work to date we have identified the following audit risks.

SUMMARY OF OPINION RISKS	
Opinion risks	Response
The requirement to achieve an earlier closedown of the accounts in 2005/06 will put increased pressure on staff and could lead to poorer quality accounts and working papers.	We will work alongside accountants to review the robustness of the closedown process and will share good practice where possible.  We will be as clear as possible about the audit requirements which will follow once the accounts are closed down and will complete early testing of the accounts where it is thought this will be useful.
In 2005/06 the Council has implemented a new NNDR system from April 2005. Ensuring the accuracy of the new system and its interface with the ledger will be important to ensuring the material accuracy of the Council's accounts.	We will include the NNDR system in the list of those systems to be tested for the 2005/06 accounts.

However, we have yet to undertake the audit of the 2004/05 financial statements and our 2005/06 financial statement audit planning will continue as the year progresses. This will take account of:

- the 2004/05 opinion audit;
- our documentation and initial testing of material systems; and
- our assessment of the 2005/06 closedown arrangements.

When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

## Grant claim certification

We will continue to certify the Council's grant claims.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

## Voluntary improvement work

There may be potential for us to undertake voluntary improvement work in the following areas in 2005/06. In particular we could:

- Assist the Council complete a self assessment of its financial management against CIPFA's Improvement through better financial management (ITBFM) model. This model is not about improving financial management for its own sake; it is really concerned with how better financial management helps authorities to improve services and community outcomes.

If agreed, work specifications and fees will be agreed with the appropriate officers.

## The team

Name	Title
Michael Thomas	Appointed Auditor and Relationship Manager
Fiona Blatcher	Audit Manager
Wanda Rossiter	Area Performance Lead
Dawn Watson	Audit Team Leader

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

In relation to the audit of your financial statements we will comply with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Status of our reports to the Council

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

*ISA 260 ('Communication of audit matters to those charged with governance') requires us to report relevant matters relating the audit to those charged with governance. For the Council, we have previously agreed that this responsibility will be discharged by reporting relevant matters to Performance Improvement Community Forum*

## The new Code of Audit Practice

### The Audit Commission's objectives in revising the Code

The Commission's objectives in revising the Code are to achieve the following key outcomes:

- a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
- better and clearer reporting of the results of audits.

The new Code has been developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

### The main changes being made through the introduction of the new Code

The main changes being introduced through the new Code are:

- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, will be replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will in future largely be covered by their work on the accounts – reflecting recent developments in auditing standards – with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
- a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
- a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
- an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
- a new style narrative audit report to meet statutory and professional requirements.

## Audit and inspection fee

Audit area	Plan 2004/05	Plan 2005/06
	£	£
Accounts	*	31,990
Use of resources	*	67,420
Total audit fee	109,870	99,410
Inspection	14,730	11,350
Total audit and inspection fee	124,600	110,760
Estimate for grant claim certification	36,000	36,000
Voluntary improvement work	0	0

\* Comparative information is not available for 2004/05 due to the change in the Code of Audit Practice which has reduced the three areas under the old Code to two areas.

The fee (plus VAT) will be charged in 12 equal instalments from April 2005 to March 2006.

## Assumptions

In setting the fee we have assumed:

- you will inform us of significant developments impacting on our audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all material systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing;
- officers will provide good quality working papers and records to support the accounts;
- officers will provide requested information within agreed timescales; and
- officers will provide prompt responses to draft reports.

Where these requirements are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Changes to the plan will be agreed with you. These may be required if:

- new risks emerge; and
- additional work is required of us by the Audit Commission or other regulators.

## Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Start date	Draft due date	Key contact	Officer key contact
Audit plan*	February 2005	April 2005	Michael Thomas	Roger Muckle
Interim audit memorandum	March 2006	June 2006	Fiona Blatcher	Roger Muckle
BVPP opinion and PI audit memorandum	May 2005	October 2005	Fiona Blatcher	Richard Tulej
Report to those charged with governance (ISA 260)	August 2006	September 2006	Fiona Blatcher	Roger Muckle
Final accounts memorandum	1 July 2006	October 2006	Fiona Blatcher	Nadine Muschamp
Use of resources judgement	April 2005	October 2005	Fiona Blatcher/Wanda Rossiter	Nadine Muschamp
Performance management follow-up memorandum	June 2006	July 2006	Fiona Blatcher/Wanda Rossiter	Peter Loker
Environment inspection	TBA	TBA	Wanda Rossiter	Peter Loker
Annual audit and inspection letter (including direction of travel assessment)	October 2006	December 2006	Michael Thomas	Roger Muckle

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2005/06 interim visit.

## The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. Ethical standard 1 also places requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Board on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;

- auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

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**Meeting of:** AUDIT COMMITTEE  
**Date:** 27 JULY 2005  
**Report of:** HEAD OF FINANCIAL SERVICES  
**Reference:** HFS/soa2005  
**Title:** STATEMENT OF ACCOUNTS 2004/05

## **PUBLIC/EXEMPT ITEM**

This report is for consideration in the public part of the meeting.

## **PURPOSE OF THE REPORT**

This report seeks Members' approval of the draft Statement of Accounts for 2004/05 and outlines the audit process for information.

## **RECOMMENDATIONS**

1. That Committee consider the attached Accounts and issues arising.
2. That the draft Statement of Accounts for the financial year ended 31 March 2005 be approved, and that the Chairman signs and dates the Accounts accordingly.

## **REPORT**

### **1 ACCOUNTS AND AUDIT REGULATIONS 2003**

- 1.1 Each year Councils must make arrangements for the production, approval, inspection and audit of their accounts. The Account and Audit Regulations set out various requirements in relation to the process, and in 2003 they were updated to provide for the following:

- Date of Approval  
 Previously, Councils had to gain approval of their accounts by 30 September. This deadline is being brought forward on a phased basis as shown below.

	<i>Approval by:</i>
2003/04 Accounts	31 August 2004
2004/05 Accounts	31 July 2005
2005/06 Accounts	30 June 2006 (and 30 June for subsequent years)

Financial Services have aimed broadly to meet the new deadlines a year in advance. This is a practical way to see how big a challenge future statutory deadlines represent and whether any changes in practices or procedures need to be introduced. It is pleasing to report that for 2004/05 the accounts were completed by 30 June, although given lead times for agenda publication etc. and practicalities surrounding urgent business procedures, it was decided to leave formal Member approval of the accounts to this meeting. This is still within the

statutory deadlines, but for next year consideration is being given as to how best to facilitate gaining Member approval by 30 June whilst still ensuring sufficient opportunity for Members to review the content of the accounts and consider any issues arising.

- Signing of Accounts by Chairman  
The intention behind this requirement is that the chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for him to sign does not relate to the role of the chief financial officer. That officer alone is responsible for certifying that the statement of accounts is a proper reflection of the Council's financial position.
- Inclusion of statement of internal control  
This will be the subject of a specific report for the October meeting. An item elsewhere on the agenda also provides an outline of associated work.
- Publication of Accounts  
The deadline for publication is also being brought forward in stages to 30 September for 2005/06 accounts. (Deadline for 2004/05 accounts is 31 October).

## 2 APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 2.1 Under the Constitution, this Committee has specific authority to approve the Statement of Accounts. Subject to this approval being gained, the Chairman is asked to sign and date a copy of the accounts for the purpose outlined above.
- 2.2 The draft accounts are attached at **Appendix A**. Outline information on interpreting the accounts and the key issues arising are included in the 'Foreword' section, and Members may find this a useful overview and starting point in their deliberations.
- 2.3 The District Auditor commenced the audit of accounts on Tuesday 05 July. The four week public inspection period commenced on Monday 18 July, and the District Auditor will be available to answer local electors' questions relating to the accounts on Wednesday 17 August. In accordance with the Regulations, these dates have been advertised recently in the local press and on the website. In addition, the website is to be used to gain stakeholders' views on publication of the accounts with the aim of seeing how best to present such information. The Committee's views on this would also be welcomed.
- 2.4 If any significant issues or 'non-trifling' matters arise during the audit these will need to be reported back for consideration by the Committee. In any event, the outcome of the audit will be included within the District Auditor's Annual Audit and Inspection Letter to the Authority, which will be reported to all Members in due course.
- 2.5 Once audited, the Statement of Accounts will be published by 31 October. Copies will be available in various public buildings and they will also be available on the Council's website. If practicable, supporting information will also be made available as appropriate, further to the consultation.

## FINANCIAL IMPLICATIONS

The Statement reflects the 2004/05 provisional outturn position as reflected in the Cabinet report for 26 July, subject to the outcome of the audit. Any further implications arising for

current and future years are currently being assessed and will feed through into this year's corporate financial monitoring and/or the review of the Medium Term Financial Strategy.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no comments to add.

**COMMUNITY SAFETY IMPLICATIONS**

None directly arising.

**HUMAN RIGHTS ACT IMPLICATIONS**

None directly arising.

**RACIAL EQUALITY AND EQUAL OPPORTUNITIES IMPLICATIONS**

None directly arising.

**SUSTAINABILITY IMPLICATIONS**

None directly arising.

**MONITORING OFFICER'S COMMENTS**

The report and its recommendations outline the process to be followed to comply with the statutory deadlines for approving the 2004/05 Statement of Accounts.

**DEPUTY SECTION 151 OFFICER'S COMMENTS**

This report was prepared by the s151 officer as part of her responsibilities. Clearly the subject of the report is subject to external audit, the outcome of which will also be reported to Members.

**LIST OF BACKGROUND PAPERS**

Accounting and Audit Regulations 2003.

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# Statement of Accounts



**LANCASTER  
CITY COUNCIL**

Promoting City, Coast & Countryside

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# STATEMENT OF ACCOUNTS

## EXPLANATORY FOREWORD

### 1 INTRODUCTION

This document sets out the City Council's annual accounts for the financial year ended 31 March 2005. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting. It 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 2004/05 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 the financial year 2004/05.

Expenditure	2004/05 Original Estimate £000	2004/05 Revised Estimate £000	2004/05 Actual £000	Variance from Revised Estimate £000
Central Services to the Public	772	849	907	58
Cultural, Environmental and Planning Services	14,512	15,092	14,871	(221)
Highways, Roads & Transport Services	629	475	473	(2)
Housing Services	2,318	3,680	3,217	(463)
Corporate & Democratic Core	1,968	2,141	2,082	(59)
Unapportionable Central Overheads	876	536	350	(186)
<b>Net Cost of General Fund Services</b>	<b>21,075</b>	<b>22,773</b>	<b>21,900</b>	<b>(873)</b>
Corporate Income & Expenditure	(1,370)	(1,102)	(1,751)	(649)
Appropriations	(848)	(2,695)	(1,791)	904
Parish Precepts	234	234	234	--
<b>Contribution to/(from) General Fund Reserve</b>	<b>(337)</b>	<b>(456)</b>	<b>162</b>	<b>618</b>
<b>BUDGET REQUIREMENT</b>	<b>18,754</b>	<b>18,754</b>	<b>18,754</b>	<b>--</b>
<b>Funded by :</b>				
Revenue Support Grant	(8,613)	(8,613)	(8,613)	--
National Non Domestic Rates	(3,638)	(3,638)	(3,638)	--
Council Tax	(6,503)	(6,503)	(6,503)	--
Collection Fund Balance	--	--	--	--
<b>TOTAL FUNDING</b>	<b>18,754</b>	<b>18,754</b>	<b>18,754</b>	<b>--</b>

## 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 local authority housing (see section 2.3 below). The General Fund Revenue Budget for 2004/05 was originally approved at £18.754M (including £235,000 for precept payments to parishes) by Council on 03 March 2004 and assumed that balances would be £1.175M by 31 March 2005, which were increased by a further £214,000 following the 2003/04 outturn.

Overall, there has been an underspend of £618,000 against the Revised Budget. The main savings areas have been staff turnover, grounds maintenance, additional car parking income and investment interest. However, there has been an additional £140,000 contribution made to the insurance provision, and a new provision created to cover liabilities in respect of the new decriminalisation of parking account. It should also be noted that the introduction of the Licensing Act 2003 has had a significant impact on the outturn position, and as a result of fewer licenses being applied for than anticipated there has been a £63,000 shortfall in income. As a result of all these changes, the General Fund unallocated balance stands at £2.007M, which is well in excess of the minimum £1M balance. This is before consideration of any requests to carry forward budgets; if any are approved this will effectively reduce available unallocated balances.

## 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 2005, the working balance on the Housing Revenue Account amounted to £1.033M, representing an increase of £201,000 from the position as at the end of the previous year, and an increase of £396,000 on the estimated position. This increase is mainly due to reduced spending on repair and maintenance, additional investment interest, reduced contribution to the bad debt provision. Current Council Policy is to maintain housing balances at £350,000.

## 2.4 Former Direct Service Organisations (City Contract Services)

The remaining functions are Building Maintenance and Highways which still operate as trading accounts, however Building Maintenance has been consolidated with Council Housing with effect from 1<sup>st</sup> April 2005.

For 2004/05, the financial performance of Highways was better than estimated, with a surplus of £75,000 against a budgeted surplus of £42,000. The Building Maintenance section's deficit was higher than estimated however, being £71,000 against a budgeted deficit position of £42,000.

## 3 CAPITAL POSITION

In 2004/05 the City Council spent £11.754M on capital schemes (including £147,000 brought forward from 2003/04), and an analysis of the expenditure and funding is shown diagrammatically on the following page.

The Council's capital programme for 2004/05 was £22.936M, however due to delays in starting a number of schemes (and one major scheme in particular), £12M of this spend will now be rolled forward into 2005/06.

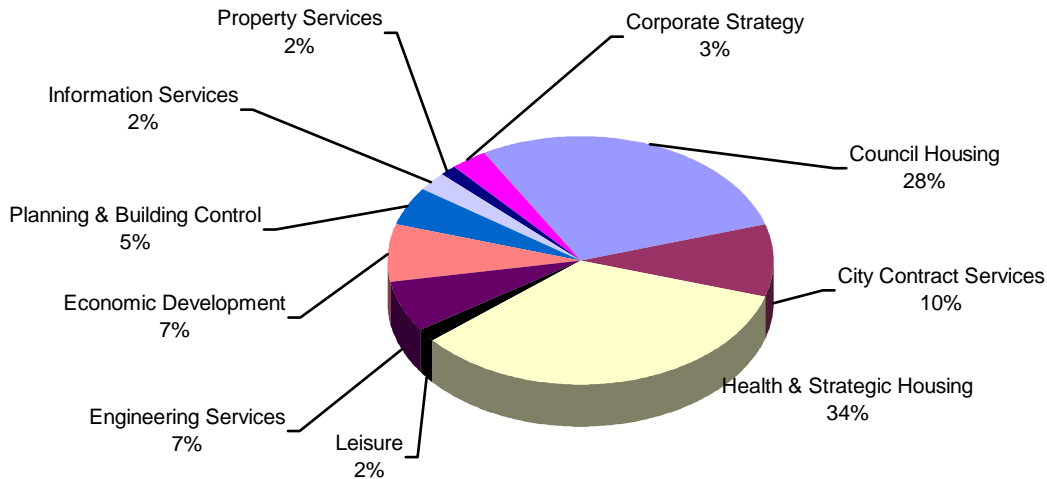
Last year saw the introduction of the new Prudential Borrowing framework which allows authorities to borrow for capital purposes providing they can meet certain criteria, such as affordability. The new framework replaces the previous regime whereby the Government provided authorities with annual borrowing limits. However, certain elements of the Council's capital programme such as those relating to Sea and River defence works still receive specific Government support for associated borrowing costs. In 2004/05 the cost of financing external borrowing was £2.4M, and the value of long term debt owed as at 31 March 2005 amounted to £41.5M, which is an increase of £679,000 on the previous year. The overall level of debt should be viewed in relation to the Council's assets, which have a net book value of £228M as at 31 March 2005.



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**Capital Expenditure Analysed by Service**

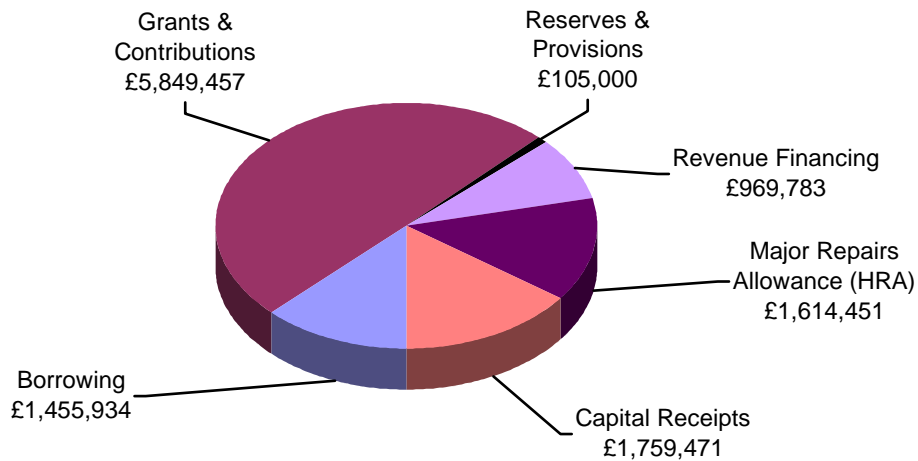

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**Capital Funding Analysed by Source**


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#### 4 PENSION LIABILITY

In accordance with new accounting practice, the Council must show the present surplus or deficit position on its share of Pension fund. For Lancaster, the net position showed a liability of £34.983M compared to a liability of £17.626M for the previous financial year. This is a trend experienced by other local authorities. It represents an increase of £17.357M, however £12.359M is directly attributable to a change in discount rate applied to defined benefit pension scheme liabilities. Previously, the recommended practice was to use a rate determined by the Government Actuary's Department, however this has now changed and an "AA" Corporate Bond Rate is applied.

The liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. It is emphasised that such liabilities will not become due immediately or all at once, as they relate to pensions payable to current scheme members on their normal retirement dates. The position represents a snapshot as at the end of the financial year, based on prevailing market and other economic conditions. As such, it may fluctuate markedly from one year to the next.

Notwithstanding this, the future funding of pensions is a national issue, which is currently being considered by Government.

#### 5 CHANGES TO ACCOUNTING POLICIES

The first change to the accounting policies affects Deferred Charges, and it requires assets such as software licenses previously categorised as deferred charges to be recognised as Intangible Assets on the balance sheet. The change not only recognises the requirements of Financial Reporting Standard (FRS)

10 "Goodwill and Intangible Assets", but also brings the terminology in line with UK GAAP (Generally Accepted Accounting Practice). As a result, the 2003/04 Consolidated Balance Sheet has been restated for comparative purposes. Further details of the change are explained within the accounting policies section.

The second change relates to capital receipts. 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.

## **6 BEST VALUE PERFORMANCE PLAN**

The production of the 2004/05 Statement of Accounts has again been produced one month earlier than the previous year, which is also one month in advance of the statutory 31 July deadline. As a result of this improvement it has been possible to provide final outturn figures for the 2004/05 Best Value Performance Plan, which will be presented to the Budget and Performance Panel on 05 July 2005.

## **7 CONCLUSION**

As at 31 March 2005, the Council's overall financial position is still in a healthy position, in line with the improvements made in previous years, and as in previous years General Fund balances are at a level in accordance with its stated policy. It has kept its net spending well within budget and whilst there are some areas of overspending, the majority of underspends have been on controllable income and expenditure areas.

A more detailed report on the outturn position will be presented to Cabinet and the Budget and Performance Panel. This scrutiny of the 2004/05 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2005/06 corporate financial monitoring process.

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## SUMMARY OF FINANCIAL STATEMENTS

### **Statement of Responsibilities**

This explains the statutory responsibilities of the Council and its appropriate officers for the compilation and approval of the Statement of Accounts.

### **Statement of Accounting Policies**

This explains the basis of the figures shown in the accounts. It sets out the policies that have been followed in dealing with major items to help with understanding the accounts.

### **Statement on the Systems of Internal Control and Corporate Governance**

This sets out the framework within which internal control and corporate governance are managed and reviewed, and highlights any major weaknesses and corrective action.

### **Consolidated Revenue Account**

This reports the costs for the year of the major functions for which the Council is responsible and compares that cost with the finance provided from Council Tax, redistributed Non Domestic Rates and Revenue Support Grant from Central Government.

### **Housing Revenue Account**

This 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 and Police Authority) and the Council's own General Fund.

### **Consolidated 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

### **Statement of Total Movements in Reserves**

This statement brings together all the recognised gains and losses of the Authority during the year and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

### **Cash Flow Statement**

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

### **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 Consolidated Balance Sheet.

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

These show the accounts of various funds for which the Council is Trustee.

# AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO LANCASTER CITY COUNCIL

**To be updated**

# STATEMENT OF ACCOUNTS

## STATEMENT OF RESPONSIBILITIES

### 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, with the Chairman of the appropriate Committee signing and dating the statement accordingly.

### 2 AUDIT COMMITTEE CHAIRMAN'S CERTIFICATE

I certify that the Statement of Accounts for the financial year 2004/05 was approved by the Audit Committee at its meeting held on 27 July 2005, prior to the audit being completed.

Cllr M Thomas

### 3 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 Kingdom ("the Code of Practice").

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 Code of Practice.

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.

### 4 HEAD OF FINANCIAL SERVICES' CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the authority as at 31 March 2005 and the income and expenditure for the year then ended.

Nadine Muschamp, CPFA  
Head of Financial Services

**STATEMENT OF INTERNAL CONTROL AND CORPORATE GOVERNANCE**

**To be updated**

**To be updated**

**To be updated**



## STATEMENT OF ACCOUNTING POLICIES

### 1 GENERAL

The accounts of the authority have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2004 : A Statement of Recommended Practice* (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and also with the supplementary guidance notes issued by CIPFA on the application of the Statement of Recommended Accounting Practice to local authorities.

The purpose of this statement 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. This statement provides this information.

### 2 ACCRUALS OF INCOME AND EXPENDITURE

All expenditure and income, both revenue and capital, has been accrued and accounted for in the period to which it relates.

### 3 FIXED ASSETS

#### 3.1 Recognition

Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a fixed asset, provided that the fixed asset yields benefits to the Authority and the services it provides for a period of more than one year. Generally where such expenditure is less than the de minimis level of £10,000, it is not capitalised, but is charged to revenue in the year in which it is incurred.

Assets acquired under finance leases are capitalised and included together with a liability to pay future rentals.

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset is recognised and included in the balance sheet at fair value.

Capital expenditure incurred on fixed assets, which does not materially add to the value of the assets concerned, is charged in full to the relevant fixed asset with the excess of any cost over value being written off to the fixed asset restatement reserve.

#### 3.2 Measurement

De minimis levels have been set so that assets of small value do not have to be included in the balance sheet. This is done on the grounds that their exclusion has no material effect.

Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Properties regarded by the Authority as operational have been valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Vehicles and moveable plant are regarded as operational, and are included in the balance sheet at depreciated replacement cost. Where depreciated replacement cost is not available, historic cost has been used as a proxy.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

Fixtures, fittings and immovable plant are included in the valuation of the buildings.

### **3.3 Revaluations**

Where an asset is included in the balance sheet at current value, it should be formally revalued at intervals of not more than five years and the revised amount included in the balance sheet.

The value at which each category of assets is included in the balance sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, and that the change is likely to be other than temporary, the valuation is adjusted accordingly. Any such general reductions in asset values are disclosed as impairment changes.

### **3.4 Disposals**

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where applicable, the proportion reserved for the repayment of external loans is credited to the capital financing reserve.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

### **3.5 Depreciation**

Depreciation is now provided for all relevant categories of fixed assets with a finite useful life, including council dwellings. For council dwellings the Major Repairs Allowance (MRA) is used as a proxy for depreciation.

For other assets, provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use. The depreciation methods used are the ones which are the most appropriate to the type of asset and their use in the provision of services.

The useful lives of assets are estimated on a realistic basis, reviewed regularly and, where necessary, revised.

Depreciation is not provided for freehold land (whether operational or non-operational). Depreciation is based on the amount at which the asset is included in the balance sheet, whether net current replacement cost or historical cost.

## **4 DEFERRED CHARGES**

Following changes to the 2004 SORP the heading for deferred charges has been replaced with intangible assets, which brings the terminology in line with UK GAAP and recognises the requirements of FRS10 "Goodwill and Intangible Assets"

Deferred charges should be amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Local Authority. Because of the types of expenditure to which deferred charges usually apply, eg improvement grants, a local authority will seldom control the economic benefit arising from the expenditure and in such cases 100% of the deferred charge is amortised to revenue in the year the deferred charge is recognised.

## **5 INTANGIBLE ASSETS**

In those cases where the authority does control the economic benefit arising from the expenditure then it is recognised as an asset in the balance sheet. Purchased intangible assets (eg software licenses) are now capitalised as assets based on actual cost, and are amortised to revenue over a five year period.

Prior to 1<sup>st</sup> April 2004, software licences were categorised as a deferred charge on the balance sheet. For comparative purposes, the 2003/04 balance sheet figures have been restated to reflect this change in accounting policy (see Note 1 to the Consolidated Balance Sheet).

## **6 BASES FOR CHARGES FOR CAPITAL**

Each service within the City Council is charged with a capital charge for all fixed assets used in the provision of that service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net value at which the asset is included in the balance sheet.

## **7 DEBTORS AND CREDITORS**

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS 18. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. There are minor exceptions but these are not material compared with the total for the year.

## **8 STOCKS AND WORKS IN PROGRESS**

Goods and materials chargeable to revenue, which have not been consumed by the end of the year, have been carried forward to be charged in the accounting period in which they are consumed. SSAP9 requires that stocks should be shown at the lower of cost or net realisable value. Stocks held in stores are shown in the accounts at their latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of their net realisable value. Other stocks are shown at cost price.

Work in progress at the year end is included in the accounts at cost price.

## **9 OVERHEADS**

Charges or apportionments covering all support service costs are made to all their users, including services to the public, divisions of services, trading undertakings, capital accounts, services provided for other bodies and other support services.

The cost of service management (comprising all management except corporate management) is in the same way apportioned to the accounts representing the activities managed.

The bases of apportionment adopted is consistent for all the heads to which apportionments are made.

The costs of corporate management and unapportionable central overheads are allocated to separate objective headings kept for these purposes and are not reapportioned to any other heading.

## **10 PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

Provision has been made for doubtful debts, and known uncollectable debts have been written off during the year.

## **11 RESERVES**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. No expenditure is charged directly to any reserve.

Capital reserves are not available for revenue purposes and certain elements of them can only be used for specific statutory purposes. The fixed asset restatement account, usable capital receipts, and capital financing account are examples of such reserves.

## **12 PENSIONS**

The attributable assets (if any) of each scheme should be measured at their fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses should be deducted. The attributable scheme liabilities should be measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i. any benefit promised under the formal terms of the scheme; and

- ii. any constructive obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

The surplus/deficit in a scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. An authority should recognise an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme. An authority should recognise a liability to the extent that it reflects its legal or constructive obligation.

Any unpaid contributions to the scheme should be presented in the balance sheet as a creditor due within one year.

The change in the defined benefit asset or liability (other than that arising from contributions to the scheme) should be analysed into the following components:

- i. Periodic costs:
  - a. current service cost;
  - b. interest cost;
  - c. expected return on assets; and
  - d. actuarial gains and losses; and
- ii. Non-periodic costs:
  - a. past service costs; and
  - b. gains and losses on settlements and curtailments.

The current service cost should be included within Net Cost of Services (except in so far as the related employee remuneration is capitalised in accordance with the Code and Statute). The net of the interest cost and the expected return on assets should be 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 should be recognised in the Statement of Total Movements for the period.

Past service costs should be recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost should be recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions should be measured at the date on which the authority becomes demonstrably committed to the transaction and recognised in Net Cost of Service at that date. Gains arising on a settlement or curtailment now allowed for in the actuarial assumptions should be measured at that date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

For the 2004/05 statement of accounts, the Statement of Recommended Practice requires that the discount rate for defined benefit pension scheme liabilities be changed from a rate determined by the Government Actuary's Department to an "AA" Corporate Bond Rate. This represents the current rate of return on a high quality bond linked to the term of the Authority's scheme liabilities. This change represents a change in an estimation technique only, and does not comprise a change in accounting policies.

### **13 INVESTMENT INTEREST**

Interest is credited to the General Fund and the Housing Revenue Account based on the equated level of their respective fund balances.

### **14 INVESTMENTS**

Current investments are shown in the Consolidated Balance Sheet at cost less any provision required for loss in value. Dividends on Longer Term Investments have been credited to revenue when paid. Details of the Council's holdings in any companies are set out in the notes to the Consolidated Balance Sheet.

### **15 GOVERNMENT GRANTS**

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants-deferred

account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

## **16 LEASES**

Rental payments under finance leases are apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals is charged to the asset management revenue account.

Rentals payable under operating leases are charged to revenue on an accruals basis.

## **17 DEBT RESCHEDULING**

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the consolidated revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing is coupled with a refinancing or restructuring of borrowing with substantially the same economic effect when viewed as a whole, gains and losses are recognised over the life of the replacement borrowing. The balance of any outstanding premia is held on the balance sheet as deferred premium.

## **18 MINIMUM REVENUE PROVISION**

In accordance with the requirements of the Local Government and Housing Act 1989 the Authority is required to set aside a minimum revenue provision for repayment of debt. This is the aggregate of 4% of the Adjusted Credit Ceiling at the beginning of the year for the General Fund. If depreciation does not equal this amount a transfer to/from the Capital Financing Account is required for the difference. From 1<sup>st</sup> April 2004 the 2% provision in respect of the Housing Revenue Account is no longer required

## **19 CAPITAL RECEIPTS**

Previously, capital receipts from the disposal of assets were treated in accordance with the provisions of the Local Government and Housing Act 1989, whereby 75% of council house sales were set aside to repay debt, however Section 11 (2)(b) of the Local Government Act 2003 now requires all or part of these receipts to be pooled and paid to the Secretary of State.

Capital receipts other than from the sale of council houses can be fully utilised to finance capital expenditure. Capital receipts from asset sales are held in the usable capital receipts reserve until such time as they are required to fund other capital expenditure. There is a statutory de minimis level of £10,000 in respect of capital receipts and sums received up to this limit are credited into the appropriate revenue account.

## **20 VALUE ADDED TAX**

VAT is fully recoverable from Customs and Excise except in certain exceptional cases. Consequently all expenditure, whether revenue or capital, is shown in the accounts as net of VAT.

## **21 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS**

Exceptional items should be included in the cost of the service to which they relate or on the face of the consolidated revenue account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item should be given within the notes to the accounts.

Extraordinary items should be disclosed and described on the face of the consolidated revenue account after dealing with all items within the ordinary activities of the authority and should be explained fully in a note to the accounting statements.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and should be accounted for accordingly. Material adjustments applicable

to prior years arising from changes in accounting policies or from fundamental errors should be accounted for by restating the comparative figures for the preceding period in the statement of account and notes and adjusting the opening balance or reserves for the cumulative effect. The cumulative effect of the adjustments should also be noted at the foot of the Statement of Total Movement in Reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period should be disclosed where practicable.

## **22 POST BALANCE SHEET EVENTS**

Where a material post balance sheet event occurs which:

- provides additional evidence relating to conditions existing at the balance sheet date; or
- indicates that application of the going concern concept to a material part of the authority is not appropriate.

changes should be made in the amounts to be included in the Statements of Accounts.

The occurrence of a material post balance sheet event which concerns conditions which did not exist at the balance sheet date should be disclosed. The disclosure should state the nature of the event and, where possible, an estimate of the financial effect of the event.

## **23 FOREIGN CURRENCY TRANSLATION**

Income and expenditure arising from a transaction denominated in a foreign currency should be translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate should be used.

At each balance sheet date, monetary assets and liabilities denominated in a foreign currency should be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

## **24 CONTINGENT ASSETS**

Contingent assets should not be accrued in the accounting statements, they should be disclosed by way of notes if the inflow of a receipt or economic benefit is probable.

## **25 CONTINGENT LIABILITIES**

Contingent liabilities should not be accrued in the accounting statements, they should be disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits.

## CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH

2003/04 £000		EXP £000	INC £000	NET £000	Notes
	<b>NET COST OF SERVICES</b>				
1,091	Central Service to the Public	9,730	(8,823)	907	
12,206	Cultural, Environmental & Planning Services	22,438	(7,567)	14,871	
306	Highways, Roads & Transport Services	3,587	(3,114)	473	
5,098	Housing Services	45,800	(39,410)	6,390	
2,081	Corporate & Democratic Core	2,208	(127)	2,081	
626	Non Distributed Costs	350	---	350	
<b>21,408</b>	<b>NET COST OF SERVICES</b>	<b>84,113</b>	<b>(59,041)</b>	<b>25,072</b>	
	<b>CORPORATE INCOME &amp; EXPENDITURE</b>				
223	Precept of Local Precepting Authorities			235	4
733	(Surpluses) / Deficits on trading undertakings			(474)	2
(3,879)	Asset Management Revenue Account			(5,821)	1
0	Contribution to pooled capital receipts			2,170	
2,206	Loss on the early settlement of borrowing			193	
(473)	Interest and investment income			(657)	
1,131	Pensions Interest Costs & Expected Return on Pensions Assets			629	9
<b>21,349</b>	<b>NET OPERATING EXPENDITURE</b>			<b>21,347</b>	
	<b>APPROPRIATIONS</b>				
279	(Deficit)/Surplus transferred to HRA			201	
44	Contribution to or (from) HRA Earmarked Reserves			168	
(18)	Contributions to or (from) General Fund Earmarked Reserves			345	
(127)	Contributions to or (from) DSO Earmarked Reserves			21	
(1,917)	Contributions to or (from) Capital Reserves			(436)	
(958)	Contribution to or (from) Pensions Reserve			(884)	9
0	Transfer from Usable Capital Receipts			(2,170)	
<b>18,652</b>	<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS</b>			<b>18,592</b>	
(5,881)	Demand on Collection Fund			(6,503)	
(8,633)	Revenue Support Grant			(8,613)	
(4,677)	Contribution from NNDR Pool			(3,638)	
<b>(539)</b>	<b>(SURPLUS) / DEFICIT FOR YEAR</b>			<b>(162)</b>	
(1,306)	Balance on General Fund brought forward			(1,845)	
(1,845)	Balance on General Fund carried forward			(2,007)	

## DISCLOSURE NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The Accounting Code of Practice (ACOP) on Local Authority Accounting requires the publication of additional financial information as notes to the Consolidated Revenue Accounts. The figures contained in these notes are either not shown separately on the face of the main financial statements, or they disclose information in relation to responsibilities and functions which the Council undertakes on behalf of other bodies.

### 1 ASSET MANAGEMENT REVENUE ACCOUNT

The purpose of the Asset Management Revenue Account is to ensure that capital charges do not impact on the level of Council Tax and that the Council's accounts are charged only with the true capital financing costs. The account is summarised below:

<b>Transactions on the Asset Management Revenue Account</b>		
<b>Income</b>	<b>£000</b>	<b>£000</b>
Capital Charges :		
General Fund	(3,958)	
Housing Revenue Account	(7,684)	
Government Grants Deferred	(319)	
		(11,961)
<b>Expenditure</b>		
Depreciation	3,667	
External Interest Charges	2,473	
		6,140
<b>Balance to Consolidated Revenue Account</b>		<b>(5,821)</b>

### 2 TRADING SERVICES

Trading services cover undertakings with the public or with other third parties, and include such activities as markets, trade refuse collection, industrial units and the remainder of the former Direct Service Organisations (DSO's) which have not been consolidated into their relevant service area.

The DSO's were set up originally to allow the Council to bid for work under the Compulsory Competitive Tendering (CCT) legislation. However, from 02 January 2000 this legislation was abolished and replaced by a new Best Value system designed to establish a continuing process of cost effective service improvements. Most of the former DSO activities have now been consolidated into the General Fund.

For 2004/05, the Council still operated trading accounts for Building Maintenance and Highways Contractor. Building Maintenance has been consolidated with Council Housing with effect from April 2005, and a review of the working arrangements under the Highways Partnership is due to take place.



	Income £000	Expenditure £000	2004/05 (Surplus) / Deficit £000	2003/04 (Surplus) / Deficit £000
General highway and sewer work	(1,583)	1,508	(75)	(38)
Other maintenance work	(1,958)	1,970	12	5
Trade refuse collection	(775)	538	(237)	(236)
Salt Ayre Sports Centre †	-	-	-	1,281
Markets	(755)	938	183	188
Commercial Properties / Industrial Units	(933)	576	(357)	(467)
<b>Total (Surplus) / Deficit on Trading Undertakings</b>	<b>(6,004)</b>	<b>5,530</b>	<b>(474)</b>	<b>733</b>

† Salt Ayre Sports Centre is no longer treated as a trading activity for the purposes of this note. The cost of the operation is contained within the Cultural and Environmental Services line within the Consolidated Revenue Account.

### 3 LEASING AND OTHER LONG TERM COMMITMENTS

The following table summarises current operating lease obligations for future years.

<b>Leased Assets – Rentals (excluding staff car leases)</b>	
	<b>Operating Leases £000</b>
Total rentals paid in 2004/05	466
Outstanding undischarged leasing obligations:	
2005/06	474
2006/07	483

At 31 March 2005, 66 cars were leased for staff. The total cost in 2004/05 was £315,000 and after contributions by staff of £30,000 it resulted in a charge to the Authority of £285,000.

The Council had no outstanding obligations in respect of finance leases as at 31 March 2005, nor did it have any outstanding obligations arising from other long term contracts such as Private Finance Initiative agreements.

### 4 PARISH PRECEPTS

2004/05 was the ninth year that local parishes levied their own precept within their parish boundaries. In total the precepts levied amounted to £234,520.03. Full details of individual parish precepts are available from the Head of Financial Services at Lancaster Town Hall.

### 5 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 enables a local authority to make contributions to charities operating in the UK and to not for profit making bodies providing public services in the UK. This expenditure is limited to £1.90 per head of relevant population as defined by statute. For Lancaster, this produces a spending limit for 2004/05 of £258,020. The actual expenditure under this provision in 2004/05 was £45,985, analysed as follows ;

<b>Analysis</b>	<b>£</b>
Victim Support	4,400
Council for Voluntary Service	17,700
Lancaster DISC	5,500
Relate	6,400
Miscellaneous Grants	8,185
Twinning	3,800
<b>Total</b>	<b>45,985</b>

In 2003/04, a similar sum of £44,649 was incurred.

## 6 PUBLICITY EXPENDITURE

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. The Act does not provide a clear definition of Publicity, but the following analysis shows the elements of expenditure which are judged to be relevant.

<b>2003/04</b>	<b>Section 5 Local Government Act 1986</b>	<b>2004/05</b>
<b>£000</b>		<b>£000</b>
159	Promotions and Publicity	152
124	Recruitment Advertising	91
38	Other Advertising	27
<b>321</b>	<b>TOTAL</b>	<b>270</b>

## 7 BUILDING CONTROL TRADING ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit for 2004/05 divided between the chargeable and non-chargeable activities.

<b>2004/05</b>	<b>Chargeable</b>	<b>Non-Chargeable</b>	<b>Total Building Control</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>			
Employee Expenses	309	126	435
Transport	25	10	35
Supplies & Services	82	3	85
Central & Support Recharges	96	18	114
<b>TOTAL EXPENDITURE</b>	<b>512</b>	<b>157</b>	<b>669</b>
<b>Income</b>			
Building Regulation Charges	(426)	--	(426)
Miscellaneous Income	(50)	--	(50)
<b>TOTAL INCOME</b>	<b>(476)</b>	<b>--</b>	<b>(476)</b>
<b>(Surplus)/Deficit for Year</b>	<b>36</b>	<b>157</b>	<b>193</b>

**Comparatives for 2003/04**

Expenditure	327	112	439
Income	(465)	--	(465)
<b>(Surplus)/Deficit for Year</b>	<b>(138)</b>	<b>112</b>	<b>(26)</b>

The 2004/05 deficit has resulted from increased investment in software applications aimed at streamlining processes within the Building Control function.

**8 AGENCY SERVICES**

The Council entered into the Lancashire Highways Partnership (LHP) on 1st July 2003 which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Contract Services (CCS) are involved as a sub-contractor. The only area of work falling outside the single works contract is Highways Grounds Maintenance, which is carried out by CCS and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £75,680, which was fully reimbursed.

In accordance with recommended accounting practice, only the net cost of agency activities is shown (where applicable) in the Consolidated Revenue Account.

**9 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970**

Under the Act the Council is empowered to provide goods and services to other public bodies. The authority provided grounds maintenance, cleansing, trade refuse and other minor services for Lancashire County Council to the value of £153,558 during 2004/05. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Consolidated Revenue Account.

**10 PENSION COSTS**

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, and this commitment needs to be disclosed over the time that employees earn their future entitlement.

The Authority participates in one principal pension scheme.

The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council – this is a funded 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.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against the Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the Consolidated Revenue Account during the 2004/05 year in accordance with FRS 17.

<b>Net Cost of Services:</b>	£000
Current Service Costs	2,599
Past Service & Curtailment Costs	34
<b>Net Operating Expenditure</b>	
Interest Costs	5,675
Expected return on Assets in the scheme	(4,992)
<b>Amounts to be met from Government Grants &amp; Local Taxation</b>	
Movement from Pensions Reserve	(884)
Actual amount charged against Council Tax for pensions in the 2003/04 year	0
<b>Employer's contributions payable to the scheme</b>	(2,432)
<b>Overall cash impact of FRS 17 transactions</b>	<b>0</b>

For the purposes of the 2004/05 accounts, the Council has applied FRS 17 to the Housing Revenue Account (HRA) in full.

Note 21 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 7 to the Statement of Total Movements in Reserves gives details on the expected return on pensions investments.

## 11 MINIMUM REVENUE PROVISION (MRP)

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculating the provision is defined by statute. For 2004/05 the amount is £678,000 (2003/04 £788,417) as set out below.

	2003/04	2004/05
	£000	£000
Non-housing amount - 4% of opening Capital Financing requirement (adjusted re commutation)	431	678
Housing amount – 2% of credit ceiling	357	0
<b>Minimum Revenue Provision</b>	<b>788</b>	<b>678</b>
Amount charged as depreciation (net)	(1,148)	(1,161)
Net credit to Consolidated Revenue Account	(360)	(483)

Following the introduction of the Major Repairs Allowance there is no longer a requirement for the Housing Revenue Account to set aside a minimum revenue provision.

## 12 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Only five officers of the Council received in excess of this amount during 2004/05.

Remuneration Band	No. of Employees	
	2003/04	2004/05
£50,000 - £59,999	2	1
£60,000 - £69,999	1	2
£70,000 - £79,999	0	1
£80,000 - £89,999	0	0
£90,000 - £99,999	1	1

The emoluments are in respect of taxable pay and values associated with car benefits.

**13 MEMBERS ALLOWANCES**

The total amounts of allowances paid to Members are as follows.

Type of Allowance	2003/04 £	2004/05 £
Basic Allowance	162,959	169,835
Special Responsibility Allowance	71,228	84,592
Carer Allowance	1,071	1,670
<b>Total For All Members</b>	<b>235,258</b>	<b>256,097</b>

Further details can be obtained by contacting the Head of Administration Services at the Town Hall, Dalton Square Lancaster.

**14 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS**

As a result of changes to the classification of deferred charges, under the 2004 SORP, software licenses have been restated in the balance sheet for 2003/04 as Intangible Assets. In addition, the balance of premia relating to previous debt rescheduling is now recognised as Deferred Premium in the balance sheet, and again the 2003/04 figures have been restated for comparative purposes.

**15 RELATED PARTY TRANSACTIONS**

Under the Accounting Code of Practice, the Council is required to disclose details of any material transactions with third parties. A number of these transactions have already been disclosed within the financial statements as follows:

- 1 Transactions with Central Government have been disclosed within both the Consolidated Revenue Account and the Cash Flow Statement, as well as in other notes to the accounts.
- 2 Transactions with the Lancashire Pensions Fund have been disclosed within the Statement of Accounting Policies and the notes to the Consolidated Revenue Account and Consolidated Balance Sheet.
- 3 Transactions with associated companies have been disclosed within the notes to the Consolidated Balance Sheet.

There are no other material transactions to disclose in respect of other Elected Members or Directors (including their close families), or regarding grants to voluntary and other organisations.

**16 AUDIT COSTS**

In 2004/05 Lancaster City Council incurred the following fees relating to external audit and inspection :

	2003/04 £	2004/05 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	87,800	120,400
Fees payable to the Audit Commission in respect of statutory inspection	14,000	7,900
Fees payable to the Audit Commission for the certification of grant claims and returns	37,500	39,800
Fees payable in respect of other services provided by the appointed auditor	132,100	22,000
	<b>271,400</b>	<b>190,100</b>

The fees for other services payable in both 2003/04 and 2004/05 related to work carried out on Crinkley Bottom for both Legal Fees and Audit Fees.

The fees disclosed above do not account for accruals or prepayments; they represent purely the Audit & Inspection fees paid in the year.

## HOUSING REVENUE ACCOUNT

The purpose of the Housing Revenue Account is to record the expenditure and income relating to Council dwellings. The Council is obliged by law to fund revenue expenditure on Council dwellings only from housing rent income.

The expenditure and income on the Housing Revenue Account is brought into the Consolidated Revenue Account in order to include it within the total cost of services provided by the Council. The surplus or deficit is then appropriated from the Consolidated Revenue Account to the Housing Revenue Account working balance.

2003/04 £000		2004/05		NOTES
		£000	£000	
	<b>INCOME</b>			
(9,357)	Gross rental income - dwellings	(9,530)		
(144)	- other	(147)		
(1,307)	Charges for services and facilities	(1,348)		
(8)	Contributions towards Expenditure	(8)		
(6,551)	HRA subsidy receivable	-		
(17,367)			(11,033)	
	<b>EXPENDITURE</b>			
2,698	Repairs and maintenance	3,037		
2,547	Supervision and management	2,586		
123	Rents, rates, taxes and other charges	163		
6,972	Rent rebates	-		
0	Negative Subsidy Payable to Secretary of State	755		7
233	Increased Provision for Bad or Doubtful Debts	131		
4,208	Cost of Capital Charge	5,496		
2,188	Depreciation and Impairments of Fixed Assets	2,188		5
21	Debt management Costs	12		
18,990			14,368	
<b>1,623</b>	<b>NET COST OF SERVICES</b>		<b>3,335</b>	
(3,171)	Net Income or Expenditure on Asset Management Revenue Account		(4,587)	4
(110)	Transfers to/from General Fund as directed by Secretary of State		2,133	
157	Amortised Premiums and Discounts		207	
(93)	Investment Income		(125)	
<b>(1,594)</b>	<b>NET OPERATING EXPENDITURE</b>		<b>(963)</b>	
898	Revenue Contribution to Capital Expenditure		943	
373	Contribution to Minimum Repayment Provision		-	9
(26)	Transfer from Major Repairs Reserve		(26)	
70	Transfers to/from Earmarked Reserves		(2,081)	
<b>(279)</b>	<b>(SURPLUS)/DEFICIT FOR YEAR</b>		<b>(201)</b>	
(553)	HRA balance brought forward		(832)	
<b>(832)</b>	<b>HRA BALANCE CARRIED FORWARD</b>		<b>(1,033)</b>	

## NOTES TO THE HOUSING REVENUE ACCOUNT

1 As at 31 March 2005 the authority held the following dwellings:

Bedsits		121
1 Bedroom	Houses & Bungalows	651
	Flats & Maisonettes	506
2 Bedroom	Houses & Bungalows	520
	Flats & Maisonettes	691
3 Bedroom	Houses & Bungalows	1,336
	Flats & Maisonettes	7
4 or more bedroomed dwellings		84
<b>TOTAL ALL DWELLINGS</b>		<b>3,916</b>

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

	1 <sup>st</sup> April 2004 £'000	31 <sup>st</sup> March 2005 £'000
Operational Assets:		
Council Dwellings	114,965	152,586
Other land and buildings	425	410
	115,390	152,996
Non-operational Assets	443	432
<b>TOTAL</b>	<b>115,833</b>	<b>153,428</b>

Dwellings were revalued on the basis of Existing Use Value (Social Housing) as at 01 April 2001 following the introduction of Resource Accounting in the Housing Revenue Account. This valuation has subsequently been re-based annually and is now held at April 2004 prices. This resulted in an increase in asset values of £41,190,000 in the year. The Major Repairs Allowance has been used as a proxy for depreciation on dwellings. Non-dwelling assets were valued at 01 April 2001.

The vacant possession value of dwellings held on 01 April 2004 was £264,671,000. The difference between this and the EUV-SH valuation of £156,156,000 represents the economic cost to the Government of providing Council Housing at less than open market rents.

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

<b>Summary of Movements on Major Repairs Reserve 2004/05</b>		£'000
Opening Balance 01 April		1,593
Transfer to MRR – Depreciation		2,188
Transfer to HRA - Depreciation Adjustment		(26)
Capital Expenditure - Land		-
- Houses		(1,614)
- Other property.		-
<b>Closing Balance 31 March</b>		<b>2,141</b>

- 3 Capital expenditure of £3,267,000 was incurred during the year being £3,130,000 on improvements to dwellings and £137,000 on other property. This was financed as follows:

	£'000
Borrowing	-
Usable Capital Receipts	700
Direct Revenue Financing	838
Earmarked Reserves	105
Majors Repairs Reserve	1,614
Grants and Contributions	10
Movement in Capital Creditors	-
<b>Total Capital Financing</b>	<b>3,267</b>

Capital Receipts totalling £3,176,000 were received during the year from the following sources:

	£'000
Sale of dwellings	3,107
Sale of land	-
Repayment of Principal on Mortgages	46
Repayment of Right to Buy discounts	23
<b>Total Capital Receipts</b>	<b>3,176</b>

- 4 The Cost of Capital Charges is a notional interest charge of £5,496,000 representing 3½% of the revalued opening asset values, which is credited to the Asset Management Revenue Account. Because this exceeds the actual interest payable on HRA-related debt which is £909,000, a compensating transfer of £4,587,000 is made from the Asset Management Revenue Account.
- 5 Total depreciation charges for the year were:

	£'000
Council Dwellings	2,162
Other land and buildings	16
Non-operational Assets	10
<b>TOTAL</b>	<b>2,188</b>

- 6 No charges were made during the year in respect of deferred charges or impairment of fixed assets.



- 7** The total Negative Housing Subsidy payable for the year was £755,000. This is analysed over the various elements as follows:

	<b>£'000</b>
Management Allowance	1,337
Maintenance Allowance	2,951
Major Repairs Allowance	2,186
Admissible Allowances	85
Anti-Social Behaviour Allowance	-
Charges for Capital	1,872
Rent Rebates	-
Notional Rent	(9,191)
Interest on Receipts	(11)
Government Grants	16
<b>Total Housing Subsidy</b>	<b>(755)</b>

- 8** Total arrears of rent at 31 March 2005 amounted to £375,000. Against this an amount of £399,000 was held as provision for bad debts (including rent arrears and all other debts outstanding to the Housing Revenue Account). 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.

#### **9 ABOLITION OF THE HOUSING REVENUE ACCOUNT SET-ASIDE**

The SORP 2004 amends the content and format of the Housing Revenue Account. The financial effect under the new regulation is as follows:

Item 8 Interest Debit increased by £73,534 from £835,474 to £909,008 resulting in a reduced Cost of Capital Charge from £4,660,382 to £4,586,848.

In addition, by abolishing the Minimum Revenue Provision of 2% of the opening balance of Housing Account Credit Calling which amounted to £303,063 and the set-aside figure of £2,169,828, the Closing Credit Ceiling remained at £15,303,171 as at 31 March 2005 under the new regulations.

#### **10 THE REMOVAL OF RENT REBATES**

The SORP 2004 amends the content and format of the Housing Revenue Account to reflect the following:

As from 1 April 2004 Rent Rebates were removed from the Housing Revenue Account and transferred to the Authority's General Fund.

## COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT 2004/05

This statement represents the transactions of the Collection Fund, a statutory account that must be kept separate from other Funds of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies, including the Council's own General Fund, for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

2003/04 £000	INCOME	See Note	2004/05 £000
41,963	<b>Council Tax</b> Income from Council Tax	1	44,677
6,965	<b>Transfers from General Fund:</b> Council Tax Benefits		7,801
	<b>Council Tax Benefit Subsidy Limitation</b> Contributions from other Local Authorities		
37,332	<b>Business Rates</b> Income from Business Ratepayers	2	38,751
--	<b>Contributions</b> Towards previous year's Collection Fund deficit	5	
--	Adjustment of previous years Community Charges	3	
118	From Provisions for Council Tax Amounts Written Off		104
<b>86,378</b>	<b>TOTAL INCOME</b>		<b>91,333</b>

2003/04 £000	EXPENDITURE	See Note	2004/05 £000
38,843	<b>Precepts and Demands</b> Lancashire County Council		38,939
5,881	Lancaster City Council (including parish precepts)		6,503
3,629	Lancashire Police Authority		4,229
0	Lancashire Police Authority		2,085
37,104	<b>Business Rates</b> Payment to National Pool		38,526
228	Cost of Collection Allowance		225
118	<b>Council Tax Bad and Doubtful Debts</b> Write-offs		104
339	Contribution to Provision for Non-Collection		310
<b>86,142</b>	<b>TOTAL EXPENDITURE</b>		<b>90,921</b>

2003/04 £000	FUND BALANCE	See Note	2004/05 £000
(236)	(Surplus)/deficit for year		(412)
359	(Surplus)/deficit as at 01 April (Brought forward)	4	123
<b>123</b>	<b>(Surplus)deficit as at 31 March (Carried forward)</b>	6	<b>(289)</b>

## NOTES TO THE COLLECTION FUND ACCOUNT

The following notes are intended to explain figures contained on the Collection Fund Summary Income and Expenditure Account.

### 1 COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimating 01 April 1991 values for this specific purpose. 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 2004/05 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,471	10,979
Band B	12,688	9,868
Band C	9,628	8,559
Band D	5,259	5,259
Band E	3,324	4,063
Band F	1,668	2,409
Band G	728	1,214
Band H	37	74
<b>Total</b>	<b>49,803</b>	<b>42,425</b>
<i>Collection Rate</i>		<i>99%</i>
<b>Council Tax Base</b>		<b>42,000</b>

### 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. This was set at 45.6p per £ for 2004/05 (44.4p for 2003/04). The rateable value at 31 March 2005 was £96,587,845 (£94,099,015 for 2003/04). 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 2004/05, paid directly to the Consolidated Revenue Account, amounted to £3.638 M.

### 3 ADJUSTMENTS FOR PREVIOUS YEARS' COMMUNITY CHARGES

Although Council Tax has replaced Community Charge from 01 April 1993, the Council continues to account for residual adjustments in relation to the Community Charges raised in earlier years. A net adjustment of £100 was made with regard to Community Charge collection in 2004/05.

### 4 DISTRIBUTION OF COLLECTION FUND SURPLUSES OR DEFICITS

Collection Fund Surpluses relating to Council Tax (i.e. excluding Community Charge items) are distributed to the billing and precepting authorities in proportion to the value of their respective precepts or demands on the Fund.

At 1 April 2004 the Council Tax deficit was shown as £123,000. During 2004/05 no distribution was made to precepting authorities.

## 5 DISTRIBUTIONS OF RESIDUAL COLLECTION FUND SURPLUSES OR DEFICITS

Lancaster City Council receives the full impact of surpluses and deficits relating to residual Community Charge transactions, unlike those relating to Council Tax, which are shared (see note 4 above).

At 1 April 2004 the residual Community Charge deficit was £655.

## 6 CLOSING SURPLUS / DEFICIT BALANCES ON THE COLLECTION FUND

Surpluses and deficits relating to Community Charge transactions (residual) are administered separately from those surpluses and deficits relating to Council Tax transactions, as highlighted in notes 4 and 5 above.

The movements in the Collection Fund during 2004/05 are summarised below.

	Residual Community Charge	Council Tax	TOTAL
	£000	£000	£000
(Surplus)/Deficit 01/04/04	--	123	123
Distributions in Year	--		
Net Transaction in Year	--	(412)	(412)
<b>(Surplus)/Deficit 31/03/05</b>	<b>--</b>	<b>(289)</b>	<b>(289)</b>

Of the £289,000 surplus as at 31 March 2005, £253,000 is attributable to other Local Authorities as follows:

	£000
Lancashire County Council	(217)
Lancashire Police Authority	(24)
Lancashire Fire Authority	(12)

## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005

This shows the financial position of the Council as a whole and summarises its assets and liabilities.

2003/04 £000		2004/05 £000	Notes
240	<b>Intangible Assets</b>	465	1
	<b>Tangible Fixed Assets</b>		2
	Operational Assets :		
114,965	Council Dwellings	152,586	
31,162	Other Land and Buildings	31,482	
2,286	Vehicles, Plant and Equipment	3,500	
19,276	Infrastructure	19,667	
3,683	Community Assets	3,922	
13,785	Non Operational Assets	16,840	
<b>185,397</b>	<b>TOTAL FIXED ASSETS</b>	<b>228,462</b>	
3	Long Term Investments	3	11
362	Long Term Debtors	288	12
1,804	Deferred Premium	1,582	
<b>187,566</b>	<b>TOTAL LONG TERM ASSETS</b>	<b>230,335</b>	
	<b>Current Assets</b>		
472	Stocks and Work in Progress	409	13
9,619	Debtors	10,459	14
2,500	Investments	6,500	
36	Cash and Bank	481	
	<b>Current Liabilities</b>		
(319)	Borrowing (Amounts due within one year)	(321)	16
(7,741)	Creditors	(10,077)	15
(628)	Bank Overdraft	--	
<b>191,505</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>237,786</b>	
(40,795)	Long Term Borrowing	(41,474)	16
(223)	Deferred Liabilities	(332)	22
(156)	Deferred Credits	--	22
(255)	Provisions	(537)	18
(17,626)	Liability related to defined benefit pension scheme	(34,983)	
<b>132,450</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>160,460</b>	
91,582	Fixed Asset Restatement Account	128,926	
40,623	Capital Financing Account	41,383	
1,171	Usable Capital Receipts Reserve	2,221	
(17,626)	Pensions Reserve	(34,983)	
10,689	Government Grants & Contributions Deferred	15,019	17
1,594	Major Repairs Reserve	2,142	
1,863	Earmarked Reserves	2,423	
1,845	Balances: General Fund	2,007	
832	Housing Revenue Account	1,033	
(123)	Collection Fund	289	
<b>132,450</b>	<b>TOTAL EQUITY</b>	<b>160,460</b>	

## 1 INTANGIBLE ASSETS

Intangible fixed assets result from expenditure of a capital nature which does not impact on the acquisition or enhancement of fixed assets owned by the City Council.

<b>Software Licences</b>	<b>31/03/04</b>	<b>31/03/05</b>
	<b>£000</b>	<b>£000</b>
Opening Balance	98	240
Amounts written off to Consolidated Revenue Account		
Expenditure during the year	267	365
Written off to Revenue in 2004/05	(125)	(140)
<b>Closing Balance</b>	<b>240</b>	<b>465</b>

Software Licences are held for the Salt Ayre Computerised Booking 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 together with the software associated with implementing Electronic Government. The cost is being written off over the five year life of the licences.

## 2 FIXED ASSETS

Movements in fixed assets during the year were as follows:

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infra-structure assets	Comm-unity assets	Non-Operational properties	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Gross book value as at 01 April 2004	123,563	33,820	5,757	21,609	3,683	14,767	203,199
Additions	3,268	310	1,476	984	259	3,858	10,155
Disposals	(3,288)	(232)	(388)		(20)	(2,679)	(6,607)
Revaluations	42,786	818				2,499	46,103
Impairment						(114)	(114)
Transfers						(840)	(840)
Gross book value as at 31 March 2005	166,329	34,716	6,845	22,593	3,922	17,491	251,896

Depreciation as at 01 April 2004	(8,598)	(2,658)	(3,471)	(2,333)	--	(982)	(18,042)
Depreciation for year (on straight line basis)	(2,162)	(576)	(213)	(593)		(11)	(3,555)
Depreciation on assets sold / Transferred	(2,983)		339			342	(2,302)
Balance as at 31 March 2005	(13,743)	(3,234)	(3,345)	(2,926)	--	(651)	(23,899)

<b>Net book value as at 31 March 2005</b>	<b>152,586</b>	<b>31,482</b>	<b>3,500</b>	<b>19,667</b>	<b>3,922</b>	<b>16,840</b>	<b>227,997</b>
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## 3 CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year was £11.754M (including unfinanced expenditure of £147,000 relating to 2003/04). The following table sets out how this was funded.

2004/05	£000
<b>Opening Capital Financing Requirement</b>	<b>42,672</b>
<b>Capital Investment</b>	
Unfinanced Capital Expenditure b/f	147
Intangible Assets	365
Operational Assets	6,187
Non Operational Assets	2,977
Deferred Charges	2,078
<b>Sources of Finance</b>	
Capital Receipts	(1,760)
Government Grants, Contributions and Deferred Charges	(5,849)
Revenue Provision	(3,367)
<b>Closing Capital Financing Requirement</b>	<b>43,450</b>
<b><u>Explanation of Movements in Year</u></b>	
Increase in underlying need to borrow (supported by Government financial assistance)	(778)
Increase in underlying need to borrow (unsupported by Government financial assistance)	0

#### 4 CAPITAL COMMITMENTS

As at 31 March 2005 the Council was contractually committed to capital works, which amounted to approximately £4.252M. Major contracts included the following schemes:-

Capital Projects	£000
Poulton Homezone	750
External Refurbishments & Renewals	953
Kitchen Renewals	650
Ryelands Regeneration	202
EDZ Cycling & Walking Network	896

#### 5 MAJOR FIXED ASSETS

The Council is required to disclose details of the major fixed assets that support its functions. The following table shows the number of each type of asset.

	Number as at 31/03/04	Number as at 31/03/05
<b>COUNCIL DWELLINGS</b>	3,991	3,916
<b>OPERATIONAL BUILDINGS</b>		
Town Halls	2	2
Other Offices	9	9
Sports Centres with Pool	1	1
Depots	4	3
Surfaced Car Parks	37	17
Multi-Storey Car Parks	2	2
Cemeteries	7	7
Museums	3	3
Public Conveniences	32	11
Other Leisure Facilities	1	-

	Number as at 31/03/04	Number as at 31/03/05
<b>OPERATIONAL EQUIPMENT</b>		
Vehicles	135	14
Heavy Plant	72	7
<b>COMMUNITY ASSETS</b>		
Community Centres	1	1
Parks	15	15
Playing Fields	6	6
<b>NON OPERATIONAL ASSETS</b>		
Commercial/Investment Properties	125	58

Following a review of asset values and deminimis levels for asset recognition there has been a reduction in the number of assets identified in the above table.

## 6 FIXED ASSET VALUATION

The freehold and leasehold properties which comprise the Authority's property portfolio were originally valued as at 01 April 1994 by the City Council's Head of Property Services, G J Cox, ARICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation.

Since then, all assets valued on a current value basis, are being revalued on a rolling five year programme. This is in accordance with the requirements of the Accounting Code of Practice.

There has been one instance of impairment relating to Ryelands House which has been reduced in value due to physical damage. This loss has been recognised in the relevant service revenue account, the Asset Management Revenue Account and the fixed assets.

New additions during the year have been included at historic cost, and these will be formally valued in the future, as part of the rolling revaluation exercise. Specific valuation bases are disclosed within the Statement of Accounting Policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets.

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Investment Properties	Non-Operational	TOTAL
	£000	£000	£000	£000	£000	£000
Valued at Historical Cost	--	--	--	--	--	--
Valued at Current Value in :-						
1999/2000	--	(1,496)	--	(127)	--	(1,623)
2000/2001	--	2,438	--	369	--	2,807
2001/2002	(61,723)	135	--	277	--	(61,311)
2002/2003	14,146	(2)	(3)	--	--	14,141
2003/2004	31,635	2,376	--	--	798	34,809
2004/2005	44,280	818	--	--	2,499	47,597
<b>TOTAL</b>	<b>28,338</b>	<b>4,269</b>	<b>(3)</b>	<b>519</b>	<b>3,297</b>	<b>36,420</b>

## 7 FINANCE LEASES

As at 31<sup>st</sup> March 2005 there were no assets held under finance leases.



## 8 PRIVATE FINANCE INITIATIVE (PFI)

The PFI is a mechanism by which private sector investment is used to assist in the delivery of public services, normally for large schemes such as new schools, etc. The Council has not entered into any PFI arrangements and therefore there are no PFI related assets as at 31<sup>st</sup> March 2005.

## 9 NET ASSETS EMPLOYED

This summary gives details of the net assets employed during the year analysed over the Council's major accounts, namely General Fund, Housing Revenue Account and the former Direct Service Organisations. It should be noted that the latter has been consolidated into the General Fund for 2004/05, in line with the move away from operating trading accounts (see Note 2 to the Consolidated Revenue Account for more details).

In addition, the 2003/04 comparatives have been restated to include the new FRS17 requirements, as previously mentioned in Note 10 to the Consolidated Revenue Account.

	31/03/04	31/03/05
	£000	£000
General Fund	28,777	18,174
Housing Revenue Account	103,787	142,539
Former Direct Service Organisation	--	--
	<b>132,564</b>	<b>160,713</b>
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	(114)	(253)
	<b>132,450</b>	<b>160,460</b>

## 10 RELATED COMPANIES

Local authorities with material interests in subsidiary and associated companies must prepare, as supplementary information, a summarised set of accounts. These Group Accounts comprise of the local authority itself and its interests in any companies that would be regarded as its subsidiaries or associates within the Companies Act.

Lancaster City has relevant interests in the following companies:

- Williamson Park
- Dukes Playhouse Ltd
- Heysham Mossgate (Community Facilities) Company Ltd

Copies of the accounts can be obtained from the Head of Financial Services, Town Hall, Dalton Square, Lancaster.

None of the Council's interests in the above Companies are considered material when the tests as set out in the Code of Practice are applied. Consequently no Group Accounts are required to be prepared for the 2004/05 financial year.

### 10.1 WILLIAMSON PARK LTD

The Company is limited by guarantee. The principal activity of the Company during the year was the preservation of the park and the provision of amenities for the public benefit.

The Company's financial accounting period ended on 31 January 2005. Consequently the information below differs slightly from the other financial information in this summary. The City Council provided revenue grant support of £158,900 and capital grant support of £21,656 to the Company during the Council's 2004/05 financial year (2003/04 £159,900). These figures differ to those provided by the Company's accounts due to the timing difference in the respective financial year end.

	31/01/04	31/01/05
	£	£
Net assets	89,132	95,582
Profit/(Loss) before taxation	1,901	6,597
Profit/(Loss) after taxation	1,901	6,450

## 10.2 DUKES PLAYHOUSE LTD

The Company is limited by guarantee with no share capital. It is also a registered charity.

The principal activity and objective of the charity is 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. The City Council provided grant support totalling £155,800 to the Company during the 2004/05 financial year (2003/04 £155,800). This included the provision of grant in lieu of rent free accommodation to the value of £13,200 (2003/04 £13,200).

The figures shown below have been updated for 2003/04 as the Company have restated their figures for this period due to the application of additional grant against their net assets.

	31/03/04	31/03/05
	£	£
Net Assets	333,964	337,877
Profit/(Loss) before taxation	54,247	913
Profit/(Loss) after taxation		

## 10.3 HEYSHAM MOSSGATE (COMMUNITY FACILITIES) COMPANY LTD

The Company is limited by guarantee without share capital. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

	31/03/04	31/03/05
	£	£
Net Assets	244,281	Accounts not yet rec'd
Profit/(Loss) before taxation	52,602	With Auditors
Profit/(Loss) after taxation		

## 11 LONG TERM INVESTMENTS

The Council holds two small investments consisting of :

	Cost Price	Nominal Value	Value at 31/03/05
	£	£	£
3% London Consolidated Stock	4,444	5,000	2,740
3% Lincoln Redeemable Stock	606	700	360
<b>BALANCE SHEET VALUE OF ASSETS</b>	<b>5,050</b>	<b>5,700</b>	<b>3,100</b>

## 12 LONG TERM DEBTORS

Long term debtors represent the value of long term loans granted by the Council to external organisations. The main element comprises mortgages granted to occupiers of council dwellings under the council house "right to buy" scheme, and mortgages granted to housing associations.

Also included within this item is a loan of £112,000 to the Buildings at Risk Trust (BART) approved by the Council on 26 April 1995 to enable the Victoria Pavilion (Winter Gardens) to be renovated. Under the terms of the loan agreement the money will be repayable from grant monies received by BART on the Phase II redevelopment of the complex.

In addition, the Council approved on 03 July 1998 a £200,000 loan repayable over 10 years to Morecambe Football Club, to assist in the development of a new stand. The balance outstanding at 31 March 2005 was £60,000.

## 13 STOCKS AND WORK IN PROGRESS

At 31 March 2005 the City Council held stocks and work in progress to the value of £409,000 (£472,000 2003/04), after allowing for the provision of £151,000 for obsolescence / reductions in value, and excluding internal work in progress of £139,000.

## 14 ANALYSIS OF DEBTORS

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2005), there are outstanding monies owed to the Council in respect of the 2004/05 financial year which at that date were yet to be received as cash. The amount in the Consolidated Balance Sheet therefore, represents amounts owed to the Council, which had not been received at 31 March 2005.

The Council makes provision for outstanding monies which it anticipates will not be recovered. The amount in the Consolidated Balance Sheet is net of such provisions.

The Debtors balance as at 31 March 2005 is analysed as follows.

	<b>31/03/04</b>	<b>31/03/05</b>
	<b>£000</b>	<b>£000</b>
Government Departments	2,836	3,227
Other Local Authorities	1,018	1,039
Commercial Ratepayers	744	740
Council Taxpayers	4,390	4,631
Housing Rents	557	378
Sundry Debtors and Accruals	2,876	3,472
Provisions for Bad Debts	(2,802)	(3,028)
<b>Total</b>	<b>9,619</b>	<b>10,459</b>

## 15 ANALYSIS OF CREDITORS

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2005), there are outstanding monies owed by the Council in respect of the 2004/05 financial year which at that date were yet to be paid. The amount in the Consolidated Balance Sheet therefore, represents amounts owed by the Council, which had not yet been paid as at 31 March 2005.

The Creditors balance as at 31 March 2005 is analysed as follows.

	31/03/04	31/03/05
	£000	£000
Government Departments	1,772	1,526
Other Local Authorities	662	673
Commercial Ratepayers	951	1,539
Council Taxpayers	928	510
Housing Rents	96	92
Sundry Creditors and Accruals	3,332	5,737
<b>Total</b>	<b>7,741</b>	<b>10,077</b>

## 16 BORROWING

The following tables show the Council's Capital Related Longer Term Borrowing by lender and maturity.

ANALYSIS OF LOANS BY TYPE	2003/04	2004/05
	£000	£000
Public Works Loan Board	41,113	41,795

LOAN MATURITY ANALYSIS	2003/04	2004/05
	£000	£000
Maturing in 1 - 2 years	320	174
Maturing in 2 - 5 years	175	--
Maturing in 5 - 10 years	--	--
Maturing in 10 - 15 years	--	--
Maturing in more than 15 years	40,300	41,300
<b>TOTAL BORROWING (DUE AFTER ONE YEAR)</b>	<b>40,795</b>	<b>41,474</b>
Maturing within one year	319	321
<b>TOTAL BORROWING (DUE WITHIN ONE YEAR)</b>	<b>319</b>	<b>321</b>

It should be noted that loan repayments due within one year have been classified on the balance sheet under Current Liabilities – Borrowing (Amounts due within one year).

## 17 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

The balance on this account represents, in general terms, the value of capital grants and contributions that have been applied to finance the acquisition or enhancement of fixed assets held in the asset register. A proportion of the balance on this account is released to revenue in line with any depreciation charges on such assets. Where no depreciation charges are to be made for assets financed by grants and contributions, the related financing has been transferred to the capital financing reserve.

## 18 PROVISIONS SUMMARY

	Balance 01/04/04 £000	Expenditure £000	Transfers £000	Income £000	Balance 31/03/05 £000
<b>Revenue Provisions:</b>					
Insurance	198	(330)	510	22	400
Car Parking Deficit	0	0	80	0	80
<b>Capital Provisions:</b>					
General Fund Clawback	57	0	0	0	57
Long Term Investments	0	0	0	0	0
<b>TOTAL</b>	<b>255</b>	<b>(330)</b>	<b>590</b>	<b>22</b>	<b>537</b>

The closing balance on the Insurance Provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims, and as a result of an increase in the number and value of claims being made and settled, a further £240,000 has been transferred into the provision.

A new provision has been created in relation to the element of car parking income which could potentially be clawed back as part of the new decriminalised parking enforcement agreement with Lancashire County Council and Parkwise. At the present time the exact allocation of surpluses and deficits generated by on-street and off-street parking enforcement have still to be agreed.

The capital Clawback provision is in respect of outstanding liabilities, where the Council has sold land originally financed by Derelict Land Grant. It is anticipated that the balance on this provision will be paid to English Partnerships during 2005/06, however the exact date has not been agreed as yet

## 19 CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities as at 31 March 2005.

## 20 EURO COSTS

The adoption of operational and information systems to accommodate the Euro continues to be considered by the Council as part of its computing strategy. Undertakings from software suppliers are requested to the effect that systems upgrades will be received when the exact criteria for the operation of the Euro are resolved.

At present no expenditure has been specifically incurred or committed in respect of the Euro and no specific provision has been made for estimated future costs relating to its possible introduction. The Council will continue to monitor this position.

## 21 RETIREMENT BENEFITS

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these will not actually be payable until the employees retire, the Authority has a commitment to make payments that need to be disclosed on an ongoing basis as employees earn their future entitlement.

The Authority participates in one pension scheme:

*The Local Government Pension Scheme*, administered by Lancashire County Council – this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pension liabilities with investment assets.

In 2004/05, pension costs have been charged to the consolidated revenue account on the basis of benefits earned by employees and the Council's resulting liability to pay those pension benefits at some future time in accordance with FRS 17. The costs of pensions payable in the year to retired officers is also included. As at 31 March 2005, the Authority had the following overall assets and liabilities for pensions as disclosed in the balance sheet :

	<b>Local Government Pension Scheme</b>	
	<b>31 March 2005</b> £000	<b>31 March 2004</b> £000
Estimated liabilities in scheme	(114,767)	(90,838)
Estimated assets in scheme	79,784	73,212
<b>Net asset/(liability)</b>	<b>(34,983)</b>	<b>(17,626)</b>

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The overall Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd., an independent firm of actuaries. The main assumptions used in their calculations are set out below, but it should be noted that as such, the position presented above represents a estimated snapshot position as at 31 March 2005, based on prevailing market and other economic conditions. Where relevant, assumptions were made for both the position at the beginning and end of the financial year, although the figures shown below represent the average assumptions applied for the year.

The figures quoted are based on a full valuation of the Pension Fund, which was carried out during 2004/05. The deficit for accounting purposes also includes liabilities in respect of added years enhancements for non-ill health early retirements, which are a charge directly on the authority's revenue account and not a charge to the Pension Fund.

The full valuation took into account market movements up to 31 December 2004 and projected the likely position at 31 March 2005. It also took into account the funding methodology and assumptions considered appropriate, the length of any recovery plan and any smoothing mechanisms that might be adopted.

<b>Local Government Pension Scheme</b>		
<b>Financial Assumptions</b>	<b>2004/05</b> %	<b>2003/04</b> %
Rate of inflation	2.9	2.8
Rate of increase in salaries	4.5	4.3
Rate of increase in pensions	2.9	2.8
Rate of discounting scheme liabilities	5.9	6.3

<b>Expected rate of return on assets</b>	<b>2004/05</b> %	<b>2003/04</b> %
Equity investments	7.5	7.5
Government Bonds	4.7	4.7
Other Bonds	5.5	5.5
Property	6.5	6.5
Cash/Liquidity	4.4	-
Other assets	7.5	4.0

Split of assets between investment categories	2004/05		2003/04	
	£	%	£	%
Equity investments	51,858	65.0	50,370	68.8
Government Bonds	7,181	9.0	7,102	9.7
Other Bonds	11,968	15.0	9,371	12.8
Property	3,989	5.0	4,686	6.4
Cash/Liquidity	2,394	3.0	-	-
Other Assets	2,394	3.0	1,683	2.3
	79,784	100	73,212	100

The movement in the net pension liability for the year to 31 March 2005 is as follows :

Movement in Surplus during 2004/05	£000
<b>Surplus / (Deficit) at Beginning of Year</b>	<b>(17,626)</b>
Current Service Costs	(2,599)
Employer Contributions	2,432
Past Service Cost / Curtailment Cost	(34)
Net Interest / Return on Assets	(683)
Actuarial Gain or (Loss)	(16,459)
Appropriation Adjustment re Actual Contributions	(14)
<b>Surplus / (Deficit) at End of Year</b>	<b>(34,983)</b>

The actuarial loss can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31 March 2005.

Statement of Actuarial Gains & (Losses)	£000	%
Differences between the expected and actual return on assets	3,768	(4.7% of assets)
Differences between actuarial assumptions about liabilities and actual experience	(1,546)	(1.3% of liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(18,681)	(16.3% of liabilities)
	(16,459)	(14.3% of liabilities)

## 22 DEFERRED LIABILITIES AND DEFERRED CREDITS

Deferred liabilities consist of liabilities which are payable at some point in the future. The amount in the Balance Sheet represents balances held in respect of shared ownership and leasehold sheltered dwellings where the conditions of the lease include an option for the property to be sold back to the authority at a later point.

Deferred credits represent amounts due, by way of mortgages, from sales of properties in previous years.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

The statement of total movements in reserves brings together all the recognised gains and losses of the Authority during the period and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

		2004/05	2003/04
		£000	£000
Surplus/(deficit) for the year:			
- General Fund		162	539
- Housing Revenue Account		201	279
<i>add back</i> Movements on specific revenue reserves (and suspense)		1,108	203
Deduct Appropriations from pension reserve		884	(958)
Appropriation Adjustment re Actual Contributions		14	--
Actuarial gains and losses relating to pensions		16,459	9,584
<b>Total increase/(decrease) in revenue resources</b>	<b>Note 1</b>	<b>18,828</b>	<b>9,647</b>
Increase/(decrease) in usable capital receipts		726	1,013
Increase/(decrease) in unapplied capital grants and contributions		--	--
<b>Total increase/(decrease) in realised capital resources</b>	<b>Note 2</b>	<b>726</b>	<b>1,013</b>
Gains/(losses) on revaluation of fixed assets		46,103	34,809
Impairment losses on fixed assets due to general changes in prices		--	--
<b>Total increase/(decrease) in unrealised value of fixed assets</b>	<b>Note 3</b>	<b>46,103</b>	<b>34,809</b>
<b>Value of assets sold, dispose of or decommissioned</b>	<b>Note 4</b>	<b>(8,759)</b>	<b>(5,998)</b>
Capital receipts set aside		1,759	3,921
Revenue resources set aside		(1,558)	(2,375)
Movement on Government Grants Deferred		4,341	1,187
Movement on Major Repairs Reserve		548	277
<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>	<b>Note 5</b>	<b>5,090</b>	<b>3,010</b>
Increase / (decrease) on the pensions reserve		17,357	(8,626)
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>		<b>79,345</b>	<b>33,855</b>



## NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES

### 1 MOVEMENT IN REVENUE RESOURCES DURING 2004/05

	<i>General Fund Balances</i>	<i>HRA Balances</i>	<i>Earmarked Revenue Reserves</i>	<i>Pension Reserve</i>
	£000	£000	£000	£000
Surplus / (deficit) for 2004/05	162	201	--	--
Appropriation to / from revenue	--	--	1,108	884
Appropriation Adjustment re Actual Contributions	--	--	--	14
Actuarial gains and losses relating to pensions	--	--	--	16,459
<b>Total movement on reserve</b>	<b>162</b>	<b>201</b>	<b>1,108</b>	<b>17,357</b>
Balance brought forward at 01 April 2004	1,845	832	3,457	(17,626)
Balance carried forward at 31 March 2005	2,007	1,033	4,565	(34,983)

*Earmarked Revenue Reserves* – monies set aside for specific policy purposes.

*Pensions Reserve* – a non-distributable reserve reflecting the net liability of the Council's proportion of the assets and liabilities in the pension scheme.

### 2 MOVEMENT IN REALISED CAPITAL RESOURCES DURING 2004/05

	<i>Usable Capital Receipts</i>	<i>Unapplied Capital Grants and Contributions</i>
	£000	£000
Amounts receivable	2,485	--
Amounts applied to finance new capital investment	(1,759)	--
<b>Total increase/(decrease) in realised capital resources</b>	<b>726</b>	<b>--</b>
Balance brought forward at 01 April 2004	1,171	--
Balance carried forward at 31 March 2005	1,897	--

The usable capital receipts reserve represents the balance of capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans, and any amounts repayable to Government departments.

The Council does not hold any non-specific, unapplied capital grants and contributions as at 31 March 2005.

**3 MOVEMENT IN UNREALISED VALUE OF FIXED ASSETS DURING 2004/05**

	<i>Fixed Asset Restatement Account</i>
	£000
Gains/losses on revaluation of fixed assets	46,103
In year capital expenditure not resulting in valuation changes	
Impairment losses on fixed assets due to general changes in prices	
<b>Total increase/(decrease) in unrealised capital resources</b>	<b>46,103</b>

**4 VALUE OF ASSETS SOLD, DECOMMISSIONED OR DISPOSED OF IN 2004/05**

<b>Amounts written off fixed asset balances for disposals in 2004/05</b>	<b>(8,759)</b>
Total movement on reserve	37,344
Balance brought forward at 01 April 2004	91,582
Balance carried forward at 31 March 2005	<b>128,926</b>

The Fixed Asset Restatement Account represents mainly the difference between the valuation of assets under the previous capital accounting system, and the revaluation of assets as at 01 April 1994, in accordance with the current system of capital accounting.

In addition, the account is written down by both the net book value of assets as they are disposed of, and indirectly by any capital expenditure incurred on fixed assets which does not materially add to the value of the assets concerned. Also, the account is debited or credited with the deficits or surpluses arising on any other revaluation of assets undertaken, including deficits as a result of impairment. This account cannot be used to finance any revenue or capital expenditure.

## 5 MOVEMENTS IN AMOUNTS SET ASIDE TO FINANCE CAPITAL INVESTMENT DURING 2004/05

	<i>Capital Financing Account</i>	<i>Government Grants Deferred</i>	<i>Total</i>
	£000	£000	£000
Capital receipts set aside:			
- Reserved receipts	11		
- Usable receipts applied	1,759		
Less reduction in associated debtors	(11)		
<b>Total net capital receipts set aside</b>	<b>1,759</b>		<b>1,759</b>
Revenue resources set aside:			
- Capital expenditure financed from revenue	2,688		
- Reconciling amount for provisions for loan repayment	(3,698)		
<b>Total revenue resources set aside</b>	<b>(1,010)</b>		<b>(1,010)</b>
Grants applied to capital investment		5,840	
Less grants applied against deferred charges		(1,191)	
Less credits to the asset mgmt. revenue a/c		(319)	
Less transfer to Capital Finance Reserve	11	--	
<b>Movement on government grants deferred</b>	<b>11</b>	<b>4,330</b>	<b>4,341</b>
<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>			<b>5,090</b>
Total movement on reserve	760	4,330	
Balance brought forward at 01 April 2004	40,623	10,689	
<b>Balance carried forward at 31 March 2005</b>	<b>41,383</b>	<b>15,019</b>	

The capital financing account contains the amounts which are required by statute to be set aside as a Provision for Credit Liabilities, less the amount charged as depreciation. It is also increased by the amount of capital receipts, other reserves and revenue contributions that have been used in the financing of capital expenditure. Again, this account cannot be used to support any other revenue or capital spending.

The Government Grants Deferred balance as at 31 March 2005 represents the amount of capital expenditure that has been financed by grant in recent years, less any amounts that have been applied to offset associated deferred charges or asset depreciation charges.

## 6 EARMARKED RESERVES

These represent monies which have been earmarked for specific spending purposes, and they can be used to meet both revenue and capital expenditure. Most of such reserves held by the Council have relatively small balances, however the major reserves are listed below:-

	<b>Balance as at 31/03/05</b>
	<b>£ 000's</b>
HRA Major Repairs Reserve	2,142
City Contract Services Reserves	121
Housing Revenue Account Reserves	1,014
Vehicle and Equipment Replacement	80
BEST Centre	146
Industrial Aid	156
Marsh Capital	48
Open Spaces	279
Building Regulations Reserve	158
Storm Damage	47
Job Evaluation	50
Access to Services	275
Other Minor Reserves	49
	<b>4,565</b>

## 7 PENSION RESERVE MOVEMENTS DURING 2004/05

The actuarial gains identified as movements on the Pension Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005.

	<b>Local Government Pension Scheme</b>	
	<b>£000s</b>	<b>%</b>
Differences between the expected and actual return on assets	3,768	(4.7% of assets)
Differences between actuarial assumptions about liabilities and actual experience	(1,546)	(1.3% of liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(18,681)	(16.3% of liabilities)
	<b>(16,459)</b>	<b>(14.3% of liabilities)</b>

## CASH FLOW STATEMENT

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

	Notes	2003/04		2004/05	
		£000	£000	£000	£000
<b>Revenue Activities</b>					
Cash Outflows					
Cash paid to and on behalf of employees		(24,800)		(24,056)	
Other operating cash payments		(44,599)		(49,480)	
Housing Benefit paid out		(23,651)		(32,163)	
Non-Domestic Rates payments to National Pool		(36,481)		(37,093)	
Precepts paid to the County		(42,472)		(45,253)	
<b>TOTAL PAYMENTS</b>			(172,003)		(188,045)
Cash inflows					
Rents (after rebates)		2,228		9,531	
Council Tax receipts		49,318		52,722	
NNDR receipts		37,530		38,427	
NNDR receipts from National Pool		5,881		6,503	
Revenue Support Grant		8,633		8,613	
DSS grants for benefits		22,426		23,336	
Other government grants		4,265		115	
Cash received for goods and services		12,856		33,820	
Other operating cash receipts / payments		35,431	178,568	23,928	196,995
<b>NET CASH INFLOW FROM REVENUE ACTIVITY</b>	<b>1</b>		<b>6,565</b>		<b>8,950</b>
<b>Returns on Investments and Servicing of Finance</b>					
Cash outflows : Interest paid		(2,924)		(2,478)	
Cash inflows : Interest received		545	(2,379)	423	(2,055)
<b>Capital Activities</b>					
Cash outflows : Purchase of fixed assets		(6,191)		(9,164)	
Other capital cash payments		(1,587)		(3,945)	
<b>TOTAL PAYMENTS</b>		<b>(7,778)</b>		<b>(13,109)</b>	
Cash inflows : Sale of fixed assets		4,934		4,655	
Capital grants received		2,240		5,951	
Other capital cash receipts		6		0	
<b>TOTAL RECEIPTS</b>		<b>7,180</b>		<b>10,606</b>	
<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			(598)		(2,503)
<b>NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING</b>	<b>5</b>		<b>3,588</b>		<b>4,392</b>
<b>Management of Liquid Resources</b>					
Net increase / decrease in short term deposits			3,500		(4,000)
<b>Financing</b>					
Cash outflows					
Repayments of amounts borrowed		(6,109)		(3,319)	
Cash inflows					
New Loans Raised			(6,109)	4,000	681
<b>NET CASH INFLOW/OUTFLOW(-)</b>			<b>(2,609)</b>		<b>(3,319)</b>
<b>NET (INCREASE)/DECREASE IN CASH</b>			979		1,073

## NOTES TO THE CASH FLOW STATEMENT

## 1 RECONCILIATION OF REVENUE CASH FLOW

The (surplus)/deficit on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue Account surplus with the actual net revenue cash flows.

NOTE I: These figures are shown gross of provisions whereas they are shown net on the Consolidated Balance Sheet. Provisions are shown separately in the above reconciliation.

NOTE II: Debtors and creditors also exclude capital debtors and creditors, which are shown under capital transactions on the above reconciliation.

	2003/04		2004/05	
	£000	£000	£000	£000
General Fund Surplus / (Deficit)		539		162
Housing Revenue Account Surplus / (Deficit)		279		201
Collection Fund Surplus / (Deficit)		236		412
<b>ADD</b>				
Provision for Debt Redemption	(680)		678	
Application of PCL for Debt Redemption	(2,038)		--	
Write Down of Deferred Assets	--		222	
Direct Revenue Financing of Capital Expenditure	3,053		2,690	
Contribution from / (to) Earmarked Provisions	26		282	
Contribution from / (to) Earmarked Reserves	203	564	1,108	4,980
Decrease / (Increase) in Debtors	3,442		(1,216)	
Decrease / (Increase) in Stocks	(32)		63	
Increase / (Decrease) in Creditors	(842)	2,568	2,293	1,140
<b>ADD</b>				
Financing items shown elsewhere -				
External Interest Paid	2,924		2,478	
Finance Lease Interest Paid				
Interest Received	(545)	2,379	(423)	2,055
Other Financing Adjustments				
<b>Revenue Activities Net Cash Flow</b>		<b>6,565</b>		<b>8,950</b>

## 2 GOVERNMENT GRANTS

The Government grants shown on the Cash Flow Statement represent the cash received by the City Council and may differ from the actual amounts included within gross income figures in the City Council's Revenue Account, which is prepared on an accruals basis.

Government grants in cash terms are outlined below.

	2003/04	2004/05
	£000	£000
Revenue Support Grant	8,633	8,613
DSS Grants - Housing Benefits and Council Tax	22,426	23,336
Council Tax Collection		
Council Tax Preparation Grant		
Benefit Fraud Grant		
Benefit Administration Grant		
Housing Subsidy	4,265	--
	<b>35,324</b>	<b>31,949</b>

**3 MOVEMENT IN LONG TERM BORROWING**

	<b>As at 31/03/04 £000</b>	<b>As at 31/03/05 £000</b>	<b>Movement in Cash £000</b>
Public Works Loans Board	40,795	41,474	(679)

**4 MOVEMENT IN OTHER CURRENT ASSETS AND LIABILITIES**

	<b>As at 31/03/04 £000</b>	<b>As at 31/03/05 £000</b>	<b>Movement in Cash £000</b>
Stocks and Work in Progress	472	409	(63)
Debtors	9,094	10,310	1,216
Creditors	(6,942)	(9,235)	(2,293)
<b>TOTAL</b>	<b>2,624</b>	<b>1,484</b>	<b>(1,140)</b>

**5 RECONCILIATION OF THE NET CASH FLOW**

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties. This movement in cash should be reflected in the increase or decrease in cash and cash equivalent between the 2003/04 and the 2004/05 Consolidated Balance Sheets.

The table below reconciles these movements in cash and cash equivalent:

	<b>As at 31/03/04 £000</b>	<b>As at 31/03/05 £000</b>	<b>Movement in Cash £000</b>
Short Term Borrowing	(318)	(320)	(2)
Long Term Borrowing	(40,795)	(41,474)	(679)
Temporary Investments	2,500	6,500	4,000
Cash in Hand and at Bank	(592)	481	1,073
<b>TOTAL</b>	<b>(39,205)</b>	<b>(34,813)</b>	<b>4,392</b>

## 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 2005 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/04 £	Income £	Expenditure £	Balance c/f 31/03/05 £
<b>Bequests and Endowments</b>				
(a) Council sole trustee				
Ashton Memorial	--	1,341	1,341	
Williamson Park	--	1,925	1,925	
Other	1,524	1,147	1,066	1,605
(b) Council not sole trustee	7,120	457		7,577
<b>School etc. Prize Funds</b>				
(a) Council sole trustee	18,101	1,044		19,145
(b) Council not sole trustee	1,453	86		1,539
<b>TOTAL</b>	<b>28,198</b>	<b>6,000</b>	<b>4,332</b>	<b>29,866</b>

	Fund Balances £	Cash and Fund Investments £
<b>Bequests and Endowments</b>		
(a) Council sole trustee		
Capital		
Ashton Memorial	15,602	
Williamson Park	18,343	
Other	14,046	1,962
Revenue	1,604	
Cash and Debtors		47,633
(b) Council not sole trustee		
Capital	2,045	
Revenue	7,577	2,045
Cash and Debtors		7,577
<b>School etc. Prize Funds</b>		
(a) Council sole trustee		
Capital	2,496	
Revenue	19,145	1,328
Cash		20,313
(b) Council not sole trustee		
Capital	358	
Revenue	1,539	
Cash and Debtors		1,897
<b>TOTAL</b>	<b>82,755</b>	<b>82,755</b>

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 can be found below.

2003/04 £	Income & Expenditure Account	2004/05	
		£	£
	<b>Income</b>		
5,451	Interest	6,000	
90	Capital	--	
5,541			6,000
	<b>Expenditure</b>		
1,275	Ashton Memorial	1,341	
265	William Smith Festival	287	
658	Whalley Playground	658	
77	Lune Bank Gardens	100	
1,908	Williamson Park	1,925	
13	War Memorial Fund	17	
2	Other	4	
4,198			4,332
<b>1,343</b>	<b>Excess Income</b>		<b>1,668</b>

2003/04 £	Balance Sheet	2004/05	
		£	£
	<b>Assets</b>		
3,836	Investments	3,836	
1,533	Debtors	1,622	
75,719	Bank	77,298	
<b>81,088</b>			<b>82,756</b>
	<b>Represented by:</b>		
79,745	Reserves as at 31.03.2005	81,088	
1,343	Income in 2004/05	1,668	
<b>81,088</b>			<b>82,756</b>

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

#### Ashton Memorial

The Ashton Memorial, a historic folly, was built in 1907 and given to the City of Lancaster by Lord Ashton. The building is open to the public on 362 days a year and has free access. The interest is passed on annually to the management company Williamson Park Ltd and is used for general maintenance of the building and annual upkeep ie decoration.

#### 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.

The Council also holds a further 37 trust funds which have individual values of less than £1,000, and these are predominantly held for educational purposes.

**Meeting of:** AUDIT COMMITTEE  
**Date:** 27 JULY 2005  
**Report of:** INTERNAL AUDIT MANAGER  
**Reference:** aud/audcomm/270705  
**Title:** INTERNAL AUDIT PLAN 2005/06

#### **PUBLIC/EXEMPT ITEM**

This item is for consideration in the public part of the meeting.

#### **PURPOSE OF THE REPORT**

To seek the Committee's approval for the proposed Internal Audit Annual Plan for 2005/06

#### **RECOMMENDATIONS**

**That the Internal Audit Annual Plan is approved.**

#### **REPORT**

##### **Introduction**

The terms of reference of the Audit Committee include: *To approve Internal Audit strategic plans and the Annual Internal Audit Plan* (the Constitution, part 3 section 7).

In line with the Council's approach to performance management and service planning, Internal Audit's strategic planning is now covered by the Financial Services Business Plan. The annual audit plan remains as the detailed work plan for the year.

The proposed Internal Audit Annual Plan for 2005/06 is attached as ***Appendix A***.

**Context, Trends and Current Issues**

The context for and current issues influencing the 2005/06 plan are set out in the Financial Services' Business Plan. The key objectives influencing Internal Audit's work plans are summarised in the following extracts from the Business Plan:

Objective	Target	Specific Supporting Tasks or Actions
Contribute to ongoing corporate development of the Council's performance management framework.	<ul style="list-style-type: none"> <li>• Developments reflected in 2006/7 Corporate Plan and Budget timetable, and in implementation of Escendency system and/or other tools.</li> </ul>	
To lead the development and implementation of the Council's Risk Management Strategy.	<ul style="list-style-type: none"> <li>• Risk registers in place.</li> <li>• Other targets to be considered in view of performance mgmt framework developments, insurance impact and forthcoming CPA.</li> </ul>	<ul style="list-style-type: none"> <li>• Lead on roll out of service risk registers.</li> <li>• Lead and support Steering Group.</li> <li>• Provide proactive and responsive support to services in managing risk.</li> <li>• Review and update action plan as appropriate developments.</li> </ul>
To demonstrate compliance with the Council's corporate governance arrangements in delivering services, and to provide assurance as to the effectiveness of those arrangements	<ul style="list-style-type: none"> <li>• Assurance statement provided by Internal Audit for 2004/05 year, and action plan agreed as appropriate.</li> <li>• Assurance gained that robust internal financial controls in place.</li> <li>• Delivery of Internal Audit Plan</li> <li>• Further targets may be considered in view of Audit Plans and forthcoming CPA.</li> </ul>	<ul style="list-style-type: none"> <li>• To promote and provide assurance / an opinion on the effectiveness of the Council's corporate governance arrangements, in support of the Council's requirement to produce a Statement on Internal Control (SIC).</li> <li>• To advise and support the Council more generally in meeting the requirements to produce a SIC</li> </ul>

## Proposals

Taking account of these objectives, and the trends experienced in recent years' audit plans, the following table sets out the proposed approach to the areas of work included in the plan.

Area of Work	Recent Trend	Proposals for 2004/05 Plan
Advice & Support Work	Stable levels of ad-hoc advice and unscheduled support work.	Retain existing levels
Planning and Monitoring	Stable	Retain existing levels
Computer Audit	Limited computer audit coverage provided. Where undertaken, work has mainly been in non-technical areas, e.g. project management, e-government and in association with the external auditor.	Proposals to develop a programme of computer audit works and explore alternative arrangements for providing computer audit coverage.
Contingencies	Increased levels of investigation work, especially in non-financial areas. Need to reduce this workload, whilst maintaining a reasonable contingency for financially based investigations.	Internal Audit will not be requested to undertake investigations of a non-financial nature during 2005/06. Reduced contingency to be maintained.
Financial Systems	Changes within the Audit Commission's Code of Practice places more emphasis on the Council's documentation and evaluation of financial systems.	Increased allocation of time to enable appropriate documentation and evaluation of financial systems
Management Arrangements	A key area in assessing the Council's corporate arrangements. This work is fundamentally linked to forthcoming CPA and evaluating the effectiveness of the Council's control and governance arrangements in support of its improvement planning and the requirement to publish a Statement on Internal Control (SIC)	Wider programme, concentrating on corporate priorities and contributing to the Council's improvement plan.
Non Audit Work	Now minimal impact – limited to the Internal Audit Manager's role as Deputy s151 Officer	Maintain existing levels
Operational Audits	A lower emphasis in 2005/06 than in previous years, reflecting the need to focus on financial systems and management arrangements as set out above. Emphasis will return to operational audits in future years as the control framework and risk management processes become more firmly established.	Reduced coverage for this year.

Overall, the plan reflects the range of developments in train regarding the development of the Council's Internal Control and Corporate Governance arrangements, and in particular the implementation of risk management and performance management processes. Emphasis is again given to assisting the Council with the development of its Internal Control arrangements in support of the Statement on Internal Control and Corporate Governance and with a view to helping achieve improved scores in the Audit Commission's assessment of the Use of Resources and in the next round of CPA judgements.

Having set up in 2004/05 a model, which identifies significant elements of the internal control framework, the emphasis in 2005/06 work will be on evaluating their practical effectiveness. Where relevant, this will involve a combination of techniques to assess value for money and comparative performance in relation to peers and to examples of best practice.

Establishing a sound set of documentation and testing programmes linked to significant risks, relating to fundamental financial systems will be a major feature of this year's work. The approach is being developed in close consultation with the external auditor to ensure that he is able to place full reliance on Internal Audit work.

## **Resources**

The Internal Audit establishment is five posts. Additional resources are available through the deployment of a budget of £20,000 for “bought-in services”.

It is estimated that 960 days of audit work can be delivered within these existing budgets.

## **Options and Options Analysis**

### **Option 1: Approve the proposed audit plan.**

The proposed audit plan seeks to make a significant contribution to the Council’s improvement agenda. Internal Audit’s focus will be on providing assurance as to the effectiveness of the Council’s systems of Internal Control and Corporate Governance. The plan does contain provision for Internal Audit to take a pro-active role in certain areas of development, and it must therefore be accepted that there will be some reduction in the level of independent assurance work.

The proposed plan aims to secure the highest possible rating for Internal Audit and improved ratings for the Council in future Audit Commission assessments of corporate arrangements.

### **Option 2: Adopt an Internal Audit Plan focussed on assurance work**

An Internal Audit Plan can be established which concentrates solely on providing assurance as to the effectiveness and efficiency of the systems and arrangements covered. This plan would be compiled with due regard to a risk assessment exercise and would provide sufficient evidence to support an Internal Audit opinion on the Council’s Internal Control System.

In the Council’s current position, however, such a plan would be unlikely to provide meaningful and active support to the implementation of its Improvement Plan and the development of its internal control framework.

### **Officer Preferred Option and Comments**

With a view to helping the Council make significant progress in the key governance and internal control areas included in the Council’s Improvement Plan, Option 1 is preferred.

## **FINANCIAL IMPLICATIONS**

As referred to in the Resources section of this report the proposed plan can be delivered from existing budgets.

## **LEGAL IMPLICATIONS**

None arising from this report

## **MONITORING OFFICER’S COMMENTS**

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

## **SECTION 151 OFFICER’S COMMENTS**

The proposed plan is in line with the need to develop the internal control framework and provide assurance as to its effectiveness. It is required in order to fulfil one of the s151 Officer responsibilities with regard to ensuring that there is an effective internal control function.

## **BACKGROUND PAPERS**

Previous years’ internal audit plans and reports.

## Internal Audit Operational Plan - Year 2005/06

<b>Major Financial Systems</b>		<b>Planned Days</b>
D528	Asset Management	15.00
D009	Council Tax	15.00
D505	Creditor Payments	15.00
M008	Fraud & Corruption	20.00
D003	Housing Benefits & Council Tax Benefits	30.00
A001	Housing Rents	15.00
D006	Income Management	20.00
D518	Job Management Systems	15.00
D527	Main Accounting	20.00
D010	NNDR	18.00
D509	Payroll	15.00
D001	Sundry Debtors	15.00
D514	Treasury Management	15.00
<b>Totals for Major Financial Systems</b>		<b>228.00</b>
<b>Secondary Financial Systems</b>		<b>Planned Days</b>
D517	Income Tax and National Insurance	10.00
<b>Totals for Secondary Financial Systems</b>		<b>10.00</b>
<b>Operational Audits</b>		<b>Planned Days</b>
C006	AONB	15.00
B051	Licensing	15.00
C261	Regeneration & Business Development (inc SRB and EDZ)	15.00
A052	Renewal (Strategic Housing)	20.00
<b>Totals for Operational Audits</b>		<b>65.00</b>
<b>Computer Audits</b>		<b>Planned Days</b>
D301	Information & Communications Technology Audit	40.00
<b>Totals for Computer Audits</b>		<b>40.00</b>

## Internal Audit Operational Plan - Year 2005/06

<b>Management Arrangements</b>		<b>Planned Days</b>
M001	Best Value	20.00
M020	Civil Resilience	10.00
M023	Communication	15.00
G301	Contract Management	10.00
M007	Corporate Governance	50.00
P004	Diversity	15.00
M002	Financial Management	15.00
M009	Health & Safety	15.00
M016	Legality Issues	15.00
M015	Partnership Arrangements	20.00
M013	Performance Management	30.00
M019	Procurement Strategies	40.00
M022	Project Management	20.00
M018	Risk Management	45.00
<b>Totals for Management Arrangements</b>		<b>320.00</b>
<b>Advice and Support</b>		<b>Planned Days</b>
F001	Advice	80.00
K001	Support Work	20.00
<b>Totals for Advice and Support</b>		<b>100.00</b>
<b>Non Audit Work</b>		<b>Planned Days</b>
H001	Non Audit Duties	5.00
<b>Totals for Non Audit Work</b>		<b>5.00</b>
<b>Audit Planning and Monitoring</b>		<b>Planned Days</b>
Y001	Audit Planning and Monitoring	30.00
Y002	Committee Work	12.00
<b>Totals for Audit Planning and Monitoring</b>		<b>42.00</b>
<b>Contingencies</b>		<b>Planned Days</b>
S004	General Contingency	45.00
S001	Investigations	35.00
S002	Provision for Follow Up Reviews	70.00
<b>Totals for Contingencies</b>		<b>150.00</b>
<b>Totals for 2005/06</b>		<b>960.00</b>



**Meeting of:** AUDIT COMMITTEE  
**Date:** 27 July 2005  
**Report of:** Internal Audit Manager  
**Reference:** aud/audcomm/270705  
**Title:** Results of Internal Audit Work

## **PUBLIC/EXEMPT ITEM**

This item is for consideration in the public part of the meeting.

## **PURPOSE OF THE REPORT**

To inform the Committee of the results of Internal Audit work for the period.

## **RECOMMENDATIONS**

- 1. That the report is noted**

## **REPORT**

### **Introduction**

Part of the Audit Committee's terms of reference is:

*"To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified."* (Constitution part 3, section 7, § 10)

### **Results of Internal Audit Work to 08 July 2005**

The summary report and action plan from each completed audit and the summary report for each follow-up review is submitted for Members' consideration. For each audit, a fuller combined report including the Summary, Action Plan and Detailed Report has been posted on the Council's Intranet under Services→Financial Services →Internal Audit→Audit Reports.

If there are any specific questions about a report, or more detailed information is required, it would help if Members could contact me on telephone number 582045 or email [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk) prior to the meeting.

The following audit reports are appended to this report:

## **New Audit Reports**

### **Audit Title**

### **Report Date**

Grants Management	17 January 2005
Members & Civic Expenses	01 February 2005
Planning	13 April 2005
Cash & Banking (Internet & Automated Telephone payments)	27 July 2005

### **Follow-Up Reviews**

<b><u>Audit Title</u></b>	<b><u>Report Date</u></b>
Information Management	16 March 2005
Public Relations & Communications	09 March 2005
Fraud & Corruption	26 May 2005
Leisure Management	01 June 2005
Salt Ayre Leisure Centre	01 June 2005
Housing Benefits & Council Tax Benefits	07 June 2005
Personnel Management	01 July 2005

### **Matters Arising from Audit Reviews**

There are no significant matters arising from the conduct of the above audit reviews, although it has to be said that for a variety of reasons progress on the implementation of agreed actions has generally been slower than expected. The following issues arising from the above audits are also worthy of note:

- The action set out in the Council's Improvement Plan for 2004-05 to develop a three-year People Plan has been amended following the 2004 Pay Settlement for Local Government which required all Councils to produce a Pay and Workforce Development Strategy. Human Resources and Organisation Development are now concentrating on fulfilling this requirement, whilst at the same time producing a Workforce Development Plan. The challenge will be to ensure that this document is developed alongside other related strategies and plans (e.g. Medium Term Financial Strategy and the Corporate Plan) to ensure that it is an integral part of the Council's overall performance management framework.
- Resulting from the Internal Audit review of the Council's Grants Management arrangements, procedures are to be reviewed to ensure that grants awarded are appropriately aligned to corporate priorities.
- Following introduction of customer payments using the Internet and telephone, and the subsequent closure of the Central Cashiers Offices, there is a need to issue corporate guidance on the new arrangements.

### **Results of Responsive Audit Work (Advice, Support and Investigations)**

In addition to scheduled audit work, the following main pieces of responsive work have been undertaken:

#### **▪ Investigations**

At the last meeting of the Audit Committee it was reported that Internal Audit had undertaken a significant amount of work as Investigating Officers in two complex and wide-ranging disciplinary investigations of a behavioural nature. Both investigations, conducted in full compliance with the Council's Disciplinary policies and procedures, had been very time consuming, involving a large number of witness testimonies and evidence gathering.

In light of the amount of resource required to conduct such investigations and the impact of this on the annual Audit Plan, the Corporate Director (Central Services), with support

from the Chief Executive, determined that in 2005/06 Internal Audit will only conduct investigations that are of a financial nature.

### ▪ **Procurement Development 2005/06 to date**

Internal Audit continues to play a significant role in the Procurement Strategy Group led by the Corporate Director (Central Services). Work has involved taking a leading role in major reviews of the Council's *Contract Procedure Rules* and *Procurement Strategy (2005-08)*, in light of significant developments in best value procurement arising from the Government's *National Procurement Strategy* requirements, and other national initiatives including *Implementing Electronic Government*, *Re-thinking Construction* and the *Efficiency Review*.

The revised *Contract Procedure Rules*, as recommended by Audit Committee in January 2005 and adopted by Council in February 2005, clearly set out officer responsibilities and accountabilities when procuring works, goods or services on behalf of the Council to ensure the highest standards of integrity, fairness and consistency in all its procurement activity. In addition, they promote procurement on the basis of best value for money (rather than simply lowest price) taking into account quality aspects of the procurement and provides more detailed guidance on procurements subject to the EU's Public Procurement Regulations. Approval of the *Contract Procedure Rules* resulted in the Council's Scheme of Delegation being amended to allow the Chief Executive to award contracts on behalf of the Council to the supplier submitting the '*most economically advantageous tender*'.

The Procurement Strategy has been revised with a view to promoting a corporate and systematic approach to procurement needs and practices, with its main aims being:

- To ensure an effective and corporate approach is taken to procurement, which maximises the contribution it makes to achieving community, corporate, financial and service specific objectives.
- To secure commitment to effective procurement from Members and officers at all levels throughout the organisation
- To supplement the Medium Term Financial Strategy (2005/06 – 2007/08) and the Council's strategy for achieving efficiency gains to 2007/08
- To provide a corporate focus on procurement that assists in co-ordinating procurement activity and helps to achieve optimum resource allocation and avoids duplication
- To plan the way forward for modernisation and continuous improvement in procurement and encourage long-term thinking and commitment to strategic procurement issues
- To 'join up' in a single document a corporate procurement strategy which identifies and promotes the benefits of strategic procurement

### ▪ **Corporate Governance & Statement on Internal Control (SIC)**

Internal Audit has been instrumental in developing mechanisms and databases for identifying, collating and evaluating sources of assurance and supporting evidence relating to the Council's corporate governance arrangements, including risk management, and the development and preparation of the Statement of Internal Control for 2004-05.

Internal Audit continues to work closely with other Council officers to achieve full compliance with the statutory requirement to carry out a robust annual review of the Council's systems of internal control and to produce an annual Statement of Internal Control and Corporate Governance in accordance with the Accounts and Audit Regulations 2003. This work will help to identify, coordinate and evaluate all relevant sources of assurance as to the effectiveness of the internal control environment and help focus on areas where improvement is needed to achieve the Council's principal responsibilities and objectives.

A detailed report concerning the process and the draft Statement will be submitted for the Audit Committee to consider at its next meeting, on 19 October 2005.

▪ **Contract Final Account Audits 2004/05**

Internal Audit has conducted three final account audits on engineering contracts. Of these, one relating to highways special maintenance work, which was audited in February 2005, exceeded the approved contract sum by more than the established thresholds due to significant additional works being added to the contract from the Lancashire County Council Capital Programme fund. Engineering Services have yet to formally report to Cabinet explaining the reason(s) for this overspend in accordance with the Council's Financial Regulations.

Included within the 2004/05 Final Account audits was a review of the partnering arrangements undertaken between the Council (mainly Engineering Services, Strategic Housing and Neighbourhood Management) and the Council's preferred constructors, Cumbrian Industrials Ltd in respect of the Poulton Homezone scheme. It is a credit to the Services involved that the project was a huge success particularly in view of the fact that the project was conducted in a very technically difficult area in which to operate and was one of the Council's first forays into partnering as a contracting activity under the Government's *Rethinking Construction Agenda*. Internal Audit were involved at an early stage of the process, being represented on the evaluation team responsible for awarding the project to the successful constructor and in a more general role providing guidance on the principles of *Rethinking Construction* and how this related to the Council's Contract Procedure Rules, in place at the time.

**FINANCIAL IMPLICATIONS**

None arising from this report

**LEGAL IMPLICATIONS**

None arising from this report

**MONITORING OFFICER'S COMMENTS**

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

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Internal Audit Files

**03/0514 - Grants Management****Contents**

Basic Information

Headline Messages

Overall Opinion

Action Plan

Detailed Analysis

**Basic Information:****Report Date:** 17 January 2005**Lead Auditor:** Lorraine Woollard - Assistant Auditor**Supervisor:** Robert Bailey - Principal Auditor**Scope:** To review the arrangements in place for the management of grants issued by the Authority.**Objectives:** To provide assurance that significant risks are identified and effectively managed, and that control measures in place are appropriate, robust and reliable.**Headline Messages:**

- Procedures are to be introduced to ensure that all grant funding is appropriately aligned with corporate priorities.
- The Local Compact is to be effectively communicated and regularly reviewed in conjunction with the voluntary/community sector, and a mechanism for measuring its impact developed.
- Consideration is to be given to how opportunities for voluntary/community organisations to gain equal access to grant funding administered by Administration Services can be improved.
- Service Level Agreements are comprehensive and subject to an annual review of performance, with the results reported to Members.
- As part of a review of Service Level Agreements the efficiency and effectiveness of performance monitoring arrangements is to be assessed.

**Overall Opinion:**

The Authority receives many grants from central government in the form of statutory funding or seed funding for new initiatives or projects. The Authority also awards grants to local organisations and these are the arrangements reviewed for the purposes of this audit.

This audit concentrated on grants issued to voluntary/community sector organisations currently administered by Administration Services, Strategic Housing (in relation to Homelessness) and Corporate Strategy (in relation to Community Safety). Initial meetings were held with appropriate officers within these Services in order to establish the risks associated with current grant management arrangements.

In 2003/4 grants administered by Administration Services amounted to £280,000, £254,000 of which are subject to service level agreements and the remaining £26,000 was allocated to fund miscellaneous, welfare and sports and recreation applications. The Authority is also accountable for over £200,000 in relation to Community Safety related funding.

Grants issued to homelessness agencies amounted to £81,000 and are all subject to service level agreements. Initially these grants were very often given in order to establish the service, however these services have since evolved and now attract funding from a range of different sources. Strategic Housing's objective is to focus these organisations to provide a co-ordinated approach to the district's homelessness issues and seek to develop a partnership approach to the district's problems.

Currently the Authority does not have a corporate grant strategy in place and it is considered that this would be difficult to develop and implement due to the varied nature of grants currently awarded by the Authority. Consequently, whilst some of the Authority's grant funding is aligned with corporate priorities through links with other related strategies, such as the Homelessness and Community Safety Strategies, there are a number which are mainly historical. Procedures are to be developed to ensure that all grant funding is appropriately aligned with corporate priorities.

A Local Compact with the Voluntary/Community sector has been developed to provide a framework for partnership working, promote effective working relationships and ensure consistency of approach between the Authority and the Voluntary/Community Sector. If these objectives are to be achieved it is essential that the Compact is effectively communicated and regularly reviewed in conjunction with the voluntary/community sector to establish its effectiveness and to consider how current arrangements assist its implementation. Whilst it is recognised that this can be difficult to measure in quantitative terms, a mechanism is required to demonstrate the effectiveness of the Local Compact in terms of successes or gains for both the Authority and the Voluntary/Community Sector.

A number of larger grants, usually those in excess of £1,000, are subject to Service Level Agreements and funding is usually for a period of three years. Service Level Agreements are comprehensive and subject to an annual review of performance, with the results reported to Members. Current monitoring arrangements are effective in demonstrating that requirements of the agreements have been met, although benefits in terms of outputs for some organisations is difficult to quantify and measurable outputs need to be defined. As current agreements are due to expire in March 2005 this would be an ideal time to carry out a full review of Service Level Agreements ensuring appropriate links to corporate priorities, effective monitoring arrangements and measurable outputs.

Opportunities for voluntary/community organisations to gain equal access to grant funding administered by Administration Services is to be improved through the promotion of grants available, and the publication of grants awarded by the Council in support of these organisations and their activities.

Current grant management arrangements are not corporately co-ordinated with individual Services working very much in isolation from others with the same responsibilities, and indeed from Partnerships with grant allocation responsibilities. As the majority of funding is very specific in nature at the moment, it is felt that there is probably little risk of duplication. However, as more and more new funding is identified, such as the Second Homes funding, co-ordination may become much more of an issue. It is however considered impractical in terms of staff resources required to co-ordinate grant management arrangements across a wide range of partnerships and partner organisations.

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**Report Agreed By:** Head of Administration Services/Head of Corporate Strategy/Head of Health and Strategic Housing

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Chief Executive  
Corporate Director (Central Services)  
Corporate Director (Community Services)  
Head of Administration Services  
Head of Corporate Strategy  
Community Safety Officer  
Head of Health and Strategic Housing  
Strategic Housing Manager  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)

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## Job: 03/0514 - Grants Management

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: A Strategic</b></p> <p>The absence of a corporate grant strategy may lead to the Authority granting funding for projects/initiatives which are not supported by the Corporate Plan and a lack of co-ordination between grant funded agencies and grant awarding Services.</p>	<p>1. To ensure that grant funding administered by Administration Service is aligned with corporate priorities, as part of a review of Service Level Agreements organisations receiving grant aid will be asked to verify which strategic objective they contribute to in the Corporate Plan, and as part of the budget process a decision will be made regarding future funding.</p>	Senior Democratic Support Officer	31 January 2005	<a href="#">006810</a>
<p>The Authority may fail to support community organisations in providing services and facilities through grant aid if it is not fully accessible to the whole community</p>	<p>2. In view of e-government requirements, and to make the application process as easy and accessible as possible, the provision of the facility to complete application forms on line will be investigated.</p>	Senior Democratic Support Officer/Community Safety Officer	30 April 2005	<a href="#">006074</a>
<p>Relationships between LCC and voluntary sector could break down if the local compact is not used as a working document to provide a framework in which to work.</p>	<p>3. In an attempt to ensure fair and equal access to funding organisations known to have previously been unsuccessful in receiving funding, due to a lack of adequate resources, have been included in the review currently being carried out of Service Level Agreements administered by Administration Services. Current Service Level Agreements expire in 2005 and prior to the next full review consideration will be given to how grant aid can be more accessible to the whole community without unfairly raising expectations.</p>	Senior Democratic Support Officer	31 December 2006	<a href="#">008126</a>
<p>Relationships between LCC and voluntary sector could break down if the local compact is not used as a working document to provide a framework in which to work.</p>	<p>4. As identified in Administration Services business plan for 2004/05 a review of the Local Compact will be carried out in conjunction with the Voluntary Sector to establish its effectiveness, and to consider how existing structures and working practices assist in its implementation.</p>	Senior Democratic Support Officer	31 January 2005	<a href="#">006063</a>



AP/2

**Job: 03/0514 - Grants Management**

<b>Risk</b>	<b>Agreed Action</b>	<b>Responsibility</b>	<b>Implementation Target Date</b>	<b>Ref</b>
<b>Risk Group: A Strategic</b>				
Relationships between LCC and voluntary sector could break down if the local compact is not used as a working document to provide a framework in which to work.	5. As part of the review of the Local Compact a mechanism to ensure that its impact can be effectively measured will be considered.	Senior Democratic Support Officer	30 April 2005	<a href="#">006064</a> 
	6. As part of the review of Service Level Agreements the grants process will be reviewed, in conjunction with the voluntary/community sector, to ensure that it remains efficient and effective in achieving the Authority's aim to support community organisations to provide services and facilities through targeted grant aid.	Senior Democratic Support Officer	30 April 2005	<a href="#">006068</a> 
	7. Copies of the Local Compact will be made available on the Council intranet and website and staff involved in the administration of grants awarded to the Voluntary and Community Sector will be made aware of it.	Senior Democratic Support Officer	31 January 2005	<a href="#">007767</a> 
The Authority may fail to fulfill its role as accountable body if funding agreements are not comprehensive and subject to regular review.	8. As part of the review of Service Level Agreements the efficiency and effectiveness of performance monitoring arrangements will be assessed.	Senior Democratic Support Officer	31 January 2005	<a href="#">006076</a> 
	9. The situation with regard to duplicity of Service Level Agreements with organisations who also receive County Council funding will be kept under review.	Head of Administration Services	31 January 2005	<a href="#">006078</a> 
	10. Outstanding issues in relation to the unsigned SLA's will be resolved by the end of the financial year. Funding will be withheld until the agreement is signed.	Senior Democratic Support Officer	31 March 2005	<a href="#">006083</a> 

**Job: 03/0514 - Grants Management**

<b>Risk</b>	<b>Agreed Action</b>	<b>Responsibility</b>	<b>Implementation Target Date</b>	<b>Ref</b>
<b>Risk Group: A Strategic</b>				
The Authority may fail to fulfill its role as accountable body if funding agreements are not comprehensive and subject to regular review.	11. Findings of the external review of Housing related Service Level Agreements, in relation to the need for more robust monitoring, will be addressed.	Strategic Housing Manager	31 March 2005	<a href="#">008360</a>
The Council may fail to comply with the principles of corporate governance if it is not transparent in its decision making relating to grant applications.	12. Guidance notes in support of grant management will be developed.	Head of Administration Services	31 January 2005	<a href="#">006031</a>
	13. Arrangements will be introduced to ensure that appropriate officers from other Services are present at Cabinet Committee when considering relevant grants.	Head of Administration Services	31 January 2005	<a href="#">006033</a>
	14. Meeting dates for consideration of relevant grants (administered by Administration Services) will be set prior to press releases regarding grants enabling decisions to be made within the notified timescales.	Head of Administration Services	31 January 2005	<a href="#">006039</a>
	15. The Authority now publishes how much funding is available for miscellaneous, welfare, community capital and community safety related grants each year.	Head of Administration Services/Community Safety Officer	12 October 2004	<a href="#">006041</a>
	16. A mechanism for publicising recipients of grants and the projects that have benefited from funding will be introduced and all opportunities for positive press releases will be taken advantage of.	Senior Democratic Support Officer	31 January 2005	<a href="#">006042</a>
	17. Guidance notes will be developed for management of Community Safety related grants.	Community Safety Officer	30 September 2005	<a href="#">008361</a>

AP/4

**Job: 03/0514 - Grants Management**

<i>Risk</i>	<i>Agreed Action</i>	<i>Responsibility</i>	<i>Implementation Target Date</i>	<i>Ref</i>
<p><b>Risk Group: A Strategic</b></p> <p>The Council may fail to comply with the principles of corporate governance if it is not transparent in its decision making relating to grant applications.</p>	18. Decisions regarding applicants success/failure to secure a grant will be made within set timescales and the applicant informed of the decision promptly.	Community Safety Officer	28 February 2005	<a href="#">008362</a>
<p><b>Risk Group: B Operational</b></p> <p>Service delivery may be affected if decisions made by Members with regard to grant approval/refusal are not communicated to the appropriate staff, and the appropriate action carried out.</p>	19. A formal mechanism for recording miscellaneous, welfare, sports and recreation grants applications received through to subsequent payment (or refusal of the grant) will be introduced.	Senior Democratic Support Officer	31 January 2005	<a href="#">006046</a>
	20. A mechanism will be introduced to ensure that independent checks are performed to reconcile grant payments to approved applications. Checks performed will be appropriately evidenced.	Senior Democratic Support Officer	31 January 2005	<a href="#">006046</a>
	21. Members have been consulted and have agreed to the introduction of new procedures involving the appropriate checks being carried against the specified criteria prior to applications for miscellaneous, welfare and sports and recreation funding being passed to them for approval/refusal.	Senior Democratic Support Officer	30 November 2004	<a href="#">006048</a>
	22. An independent check will be introduced to reconcile grant payments to approved applications. Checks performed will be appropriately evidenced.	Community Safety Officer	30 April 2005	<a href="#">008363</a>
<p><b>Action Plan Agreed By:</b> <i>Head of Administration Services/Head of Corporate Strategy/Head of Health and Strategic Housing</i>      <b>Report Issued On:</b> 17 January 2005</p>				

**04/0567 - Planning****Contents**

Basic Information

Headline Messages

Overall Opinion

Action Plan

Detailed Analysis

**Basic Information:****Report Date:** 13 April 2005**Lead Auditor:** Amanda Robinson - Assistant Auditor**Supervisor:** Robert Bailey - Principal Auditor**Scope:** To review the Council's arrangements in respect of Planning Applications and Building Control.**Objectives:** To provide assurance that significant risks are identified and effectively managed, and the control measures in place are appropriate, robust and reliable.**Headline Messages:**

- The Planning and Building Control Service is embracing and seeking to meet the requirements of the Government's planning modernisation agenda.
- Hard work and good management has paid off with a Planning Delivery Grant awarded of £524,000 and an additional minimum of £52,010 expected upon approval of the Local Development Scheme.
- At current resource levels the Service is unlikely to sustain the improved performance against BV109 relating to the speed of determining planning applications.
- The Service has resource issues in connection with meeting the demands of the new planning regime whilst fulfilling its commitment to major regeneration projects.
- There is a need to effectively invest the Planning Delivery Grant and additional income from increased planning fees to sustain improved performance and implement the Local Development Framework and e-planning agenda.
- The need for a detailed robust and deliverable improvement plan is recognised and is to be addressed.

**Overall Opinion:**

Planning is high on the Government's agenda which wants to see it playing a positive role in achieving sustainable development, a better quality of life for all and better public services. The Government is also seeking greater community participation, openness, efficiency and effectiveness through an e-planning agenda. The Planning and Compulsory Purchase Act 2004 aims to further reform the system through:

- simplifying the complex nature of plans;
- increasing the speed at which plans are produced and decisions on applications are made; and,
- better engaging the public.

Towards achieving these objectives local planning authorities must produce a new plan, a Local Development Framework (LDF), comprising a series of documents, clearly linked to the Community Strategy, which together provide the framework for delivering the area's spatial planning strategy.

A Planning Delivery Grant (PDG) was introduced in 2003/04 recognising the serious underinvestment in the planning process in the preceding decade and aiming to improve the performance and resourcing of planning authorities, the amount awarded dependent upon performance against the Government's agenda (performance on development control, local plan preparations etc.). There is an expectation that PDG should be used to invest in systems which will improve the efficiency and delivery of planning services.

This audit concentrated on the challenges facing the Planning and Building Control Service, and in particular risks associated with a failure to effectively implement the Government's agenda which would inevitably impact upon the PDG awarded. There is no doubt that the modernisation agenda is a priority for the Service, the challenges of which they are actively embracing through:

- the Service's business plan;
- reports to senior managers and Members;
- production of LDF documents available on the Council's website and being consulted upon in line with legislative requirements;
- successful introduction of the Local Land and Property Gazetteer now managed by Information Services;
- the Uniform 7 Spatial Mapping system due to be operational April 2005 and the public expected to be able to view and comment upon planning applications on-line by the summer;
- a commitment to sustainable development per the proposed sustainability appraisal process; and, most notably,
- the recent achievement of £524,000 PDG for 2005/06 with a further award (a minimum of £52,010) expected upon the Secretary of State's approval of the authority's Local Development Scheme.

To achieve this significant award the Service has invested previous PDG in purchasing expertise to develop the Service's information technology and to outsource some Development Control work to help address capacity problems. Since the 2004/05 PDG the Service has concentrated on handling planning applications to meet Government targets (BV109). This achievement has taken considerable effort by the Development Control Team which is currently operating with a planning application to caseworker ratio far exceeding the Government recognised optimum. Since meeting the targets staff have been lost, some to sickness, and there are concerns over the current levels of stress within the Team.

The Forward Planning Team also have resource issues in trying to meet the competing demands of the legislative requirements of the Planning and Compulsory Purchase Act 2004, rewarded through PDG, and managing the implementation of major regeneration projects (e.g. Luneside East). If major projects are not delivered per expectations the Authority's current good reputation could be undermined and its ability to do business and attract partners, external funding etc. seriously affected. A recognised need to effectively address resourcing in business cases at

**04/0567 - Planning**

project inception is being addressed through a separate audit review (04/0574 Project Management). Appropriate investment in meeting the LDF timetable should help secure future grant monies. For 2006/07 a greater proportion of PDG for 2006/07 is expected to be awarded for progress with LDFs.

The Service has also recognised a serious skills shortage associated with the need to develop the e-government interface which has been addressed to date through buying in consultancy work. There is a recognised need to consider the cost-effectiveness of current arrangements given future needs.

All resource issues have been brought to the attention of Management Team by the Service Head who is now to prepare an Improvement Plan to be approved by Cabinet. The Improvement Plan needs to be a detailed robust and deliverable three year strategy prioritising tasks, specific steps and milestones to be met in order to implement the targets set by the modernisation agenda with responsibilities assigned and resources required identified. It needs to set out how to effectively invest PDG and the additional income, through the Government increasing planning fees with effect from 1st April 2005, in Service improvement. It should demonstrate how income can be sustained so as not to impact upon the Authority's revenue budget and recognise that a significant proportion of the PDG awarded this year is based on standards already attained and subsequent awards are therefore likely to be considerably less. Further it needs to consider barriers to the achievement of targets such as the national shortage of town planners and potential loss of experienced staff in the current competitive environment for planning staff.

Given the need to effectively integrate the LDF and Community Strategy the Planning Service must continue to seek appropriate representation on the Local Strategic Partnership.

It is hoped that preliminary discussions already held between the Corporate Strategy and Planning Services, and the implementation of the Corporate Consultation Strategy later this year, will lead to a co-ordinated approach to engagement and public participation, the Service's statutory consultation requirements being met cost-effectively.

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**Report Agreed By:** Head of Planning and Building Control

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Regeneration)  
Head of Planning and Building Control  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)

## Job: 04/0567 - Planning

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: Strategic</b></p> <p>The Authority may fail to secure maximum Planning Delivery Grant through a failure to adhere to the Local Development Scheme (project plan for preparing the Local Development Framework).</p>	<p>1. The Service will continue to seek the additional resources required to successfully implement the Local Development Framework and upgrade service provision in accordance with the Government's agenda for modernising planning.</p>	<p>Head of Planning &amp; Building Control</p>	<p>30 June 2005</p>	<p><a href="#">008850</a></p>



**Action Plan Agreed By:** Head of Planning and Building Control

**Report Issued On:** 13 April 2005

**04/0531 - Members & Civic Expenses****Contents****Basic Information****Headline Messages****Overall Opinion****Action Plan****Detailed Analysis****Basic Information:****Report Date:** 01 February 2005**Lead Auditor:** Amanda Robinson - Assistant Auditor**Supervisor:** Robert Bailey - Principal Auditor**Scope:** A risk based review of the Council's arrangements for Members and Civic Expenses.**Objectives:** To provide assurance that significant risks are identified and effectively managed, and that control measures in place are appropriate, robust and reliable.**Headline Messages:**

- Budgets for civic receptions and mayoral functions are well managed and staff work hard to achieve the best possible results from the funds available.
- Security for civic regalia is good but records are to be reviewed and improved.
- Resources to support twinning are limited but a revised Service Level Agreement and improved monitoring should help ensure the best use of resources available.
- Accountability in respect of the Youth Games is to be improved and the corporate input better managed through enhanced internal communication.



**04/0531 - Members & Civic Expenses****Overall Opinion:**

Recent staffing changes in Administration Services prompted a review of working practices and initiated proposals for improvements prior to this review commencing. It was agreed that the following four areas of operation should be covered in this review:

- civic receptions and mayoral functions;
- civic regalia;
- Twinning; and
- the Youth Games.

Each were examined in terms of resource allocation and their contribution towards achieving corporate aims and objectives.

The aim of civic receptions and mayoral functions is to maintain tradition and promote the City. Positive action has been taken by Administration Services in the last year to help justify the expenditure and demonstrate accountability. Implementation of the agreed actions resulting from this review should help formalise some of the improvements made. It is evident that the Service works hard to achieve the best possible results from the limited funds available and budgets are well managed. The current six-monthly review meeting with the Mayor and Mayoress, to be enhanced through an induction meeting, will help clarify responsibilities, objectives and expectations and prioritise the schedule of events. Improved record keeping and notes of feedback should further help the events planning process.

Service security arrangements were under review prior to the audit commencing and revised arrangements for keys have been introduced which satisfy the Council's insurers. In terms of corporate risk civic regalia is low and security arrangements are generally considered very good. However the heritage value of the regalia is high warranting particular care. This is recognised by the recently appointed Ceremonial and Members Officer who is to review the inventory and insurance position in detail and ensure responsibilities and arrangements for regalia in use meets the terms of the insurance policy. Records of gifts are also to be improved.

Twinning aims to promote good relations with other European towns through cultural, sporting, social-economic and educational exchanges. Resources available limit the Council's support to the Lancaster and District Twinning Society to an annual grant; £3,800 in 2004/05. Weaknesses in current arrangements, including the need to clarify roles and responsibilities, have been recognised by Administration Services and are to be addressed through the revised Service Level Agreement (SLA), effective April 2005, and recently introduced monitoring form. The new form to be completed by the Twinning Society and to be evaluated prior to the granting of further funds requests information on how the work of the Society contributes to the Council's strategic objectives.

The contribution of the Youth Games to corporate strategic objectives is clear in the current SLA and is to be updated in the revised SLA, effective from April 2005, and reiterated through the new monitoring form similar to that for the Twinning Society. The Council supports the Games again through an annual grant (£12,300 in 2004/05) which is expected to be around £50,000 in 2005/06 when Lancaster is the host. Deficiencies in monitoring to date are to be strengthened in future years with funding to be dependent on the Sports Council fulfilling their responsibilities under the SLA, and in particular submitting annual accounts. The need to clarify corporate responsibilities and input is evident and to be addressed through consultation with the Head of Arts and Events and Chief Leisure Officer in drafting the revised SLA.

I would like to thank the Head of Administration Services and Ceremonial and Members Officer for their positive response to the findings of this review and wish them success in implementing the agreed actions.

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**Report Agreed By:** Head of Administration Services and Ceremonial and Members Officer

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.







Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Central Services)  
Head of Administration Services  
Ceremonial and Members Officer  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)




## Job: 04/0531 - Members & Civic Expenses

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: Civic Receptions and Mayoral Functions</b></p> <p>Tradition may be lost if civic receptions and mayoral functions cannot be held through a lack of funding caused by an inability to justify expenditure.</p>	<p>1. The aims and objectives of civic receptions and mayoral functions are to be documented during the preparation process for each event thus enabling the success of the event to be measured and informing priority setting in future years.</p>	<p>Ceremonial and Members Officer</p>	<p>31 May 2006</p>	<p><a href="#">008127</a></p>
<p>2. Administration Services are to introduce a better induction process for the new mayor to include discussion of roles, responsibilities, expectations, objectives etc. A six monthly review meeting, as carried out this year, will be used to evaluate the first six months and determine the schedule of events, priorities etc. for the remaining term of office.</p>	<p>Head of Administration Services / Ceremonial and Members Officer</p>	<p>31 May 2006</p>	<p><a href="#">008130</a></p>	
<p>3. A file is to be maintained for each event held to include the documented aims and objectives (c.f. Ref. 008127). Feedback cards are being developed to enable a formal evaluation of the success of each event. The file will also include all details regarding good and services procured (e.g. quotes).</p>	<p>Ceremonial and Members Officer</p>	<p>31 May 2006</p>	<p><a href="#">008132</a></p>	

**Job: 04/0531 - Members & Civic Expenses**

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<b>Risk Group: Civic Regalia</b>	The City's civic regalia could be lost through inadequate security arrangements.	4. The inventory of civic regalia is being reviewed and brought up to date and items are being photographed, copies to be sent to the Risk and Insurance Manager. Following completion of the inventory (December 2005) the valuation and insurance position of each item will be reviewed as appropriate (expected completion date May 2006). From the start of the new year (May 2005) a list of gifts will be maintained, recording details of who the gift was from, who received it and who has custody of it, and items will be added to the civic regalia inventory as appropriate.	Ceremonial and Members Officer 31 December 2005	 <a href="#">008141</a>
The Authority may be unable to replace civic regalia in the event of losses arising through inadequate insurance.	5. The civic regalia inventory will be reviewed annually to verify the location of items listed, review condition etc.  6. Security arrangements for civic regalia are currently under review to ensure compliance with the insurers requirements (items to be in locked premises when not in use and no cover for loss from unattended vehicles). Procedures will be documented and responsibilities defined and made clear to those accountable.  7. Completion of the inventory (c.f. Ref. 008141) will include checking arrangements with the museums regarding items on loan etc. and ensuring that the Risk and Insurance Manager is appropriately informed.	Ceremonial and Members Officer 31 May 2006	 <a href="#">008142</a>	
		Ceremonial and Members Officer 31 March 2005	 <a href="#">008143</a>	
		Ceremonial and Members Officer 31 December 2005	 <a href="#">008151</a>	

**Job: 04/0531 - Members & Civic Expenses**

<i>Risk</i>	<i>Agreed Action</i>	<i>Responsibility</i>	<i>Implementation Target Date</i>	<i>Ref</i>
<p><b>Risk Group: Twinning</b></p> <p>The value of twinning could be lost through a lack of activity caused by insufficient funding.</p>	<p>8. The SLA with the Twinning Society has been reviewed in consultation with them. Arrangements will be presented to Members through a Cabinet report in February 2005.</p>	<p>Head of Administration Services</p>	<p>31 March 2005</p>	<p> <a href="#">008163</a></p>
<p><b>Risk Group: Youth Games</b></p> <p>The Authority's ability to support the youth games financially may be diminished through a lack of funds available and/ or failure to justify expenditure.</p>	<p>9. The aims and objectives of the Youth Games are linked to corporate priorities within the current SLA expiring March 2005. The new SLA with the Sports Council is currently being drafted and monitoring, to be clearly defined within the agreement, will be carried out by Administration Services.</p>	<p>Head of Administration Services</p>	<p>31 March 2005</p>	<p> <a href="#">008174</a></p>
	<p>10. The Sports Council will be required to submit audited accounts and clear budget proposals with the new monitoring form annually prior to funding being granted. Administration Services will evaluate the information provided ensuring that:</p> <ul style="list-style-type: none"> <li>- funding has been expended per Authority expectations;</li> <li>- expenditure is reasonable and best value has been achieved; and</li> <li>- there is a commitment to seeking funding from other sources.</li> </ul> <p>Evidence of the monitoring and evaluation will be retained on file.</p>	<p>Head of Administration Services</p>	<p>30 November 2005</p>	<p> <a href="#">008178</a></p>

**Job: 04/0531 - Members & Civic Expenses**

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: Youth Games</b> Funding for the games may be limited by a failure to maximise sponsorship opportunities.</p>	<p>11. The Head of Administration Services will ensure that the Chief Leisure Officer and Head of Arts and Events are appropriately consulted during the drawing up of the new SLA with the Sports Council for the Youth Games. Administration Services will be responsible for monitoring performance against the agreement.</p>	<p>Head of Administration Services</p>	<p>31 March 2005</p>	<p><a href="#">008181</a></p>



**Action Plan Agreed By:** *Head of Administration Services and Ceremonial and Members Officer*      **Report Issued On:** *01 February 2005*

**04/0568 - Cash and Banking (Internet and Automated Telephone Payments)****Contents****Basic Information****Headline Messages****Overall Opinion****Action Plan****Detailed Analysis****Basic Information:****Report Date:** 27 June 2005**Lead Auditor:** Lorraine Woollard - Assistant Auditor**Supervisor:** Derek Whiteway - Internal Audit Manager**Scope:** To consider the risks associated with payments received via the internet and automated telephone service.**Objectives:** To provide assurance that significant risks are identified and effectively managed, and control measures in place are appropriate, robust and reliable.**Headline Messages:**

- Arrangements are in place to minimise the risk of financial loss to the Authority through virus attack or system failure.
- Arrangements are in place to ensure that customers' credit/debit card details remain secure.
- Procedures ensure that income is properly accounted for with regular reconciliation of payments.
- Contract agreements with software suppliers are in place.
- Improvements to software are to be made to comply with e-government requirements in relation to providing customers with the ability to check account balances online or via touch tone telephone dialling.

**04/0568 - Cash and Banking (Internet and Automated Telephone Payments)****Overall Opinion:**

Since April 2004 customers have been able to pay certain debts using either the internet or a touch tone telephone, 365 days per year, 24 hours per day. These methods of payment have proved very successful and as at the end of March 2005 over 8700 transactions totalling in excess of £1.1 million have been made via the automated telephone service, and over 2500 transactions amounting to in excess of £327,000 have been made via the Internet.

Earlier this year the Chief Revenues Officer requested that a review be carried out to evaluate the effectiveness of the control measures in place in relation to these payment methods. Implementation of the facility to accept payments via the Council's Intranet is ongoing and as such has not been evaluated.

Contract agreements are in place with the payment clearing service and the software suppliers for the provision of this facility both of which have been signed by the Chief Revenues Officer and representative of the service provider.

Arrangements are in place to minimise the risk of financial loss to the Authority through virus attack or system failure. The facility to accept electronic payments is a managed service and as such the majority of risks of this nature are transferred to the service provider. Anti virus software is in place for all local networks and responsibility for reinstating systems are defined in contract agreements.

Procedures ensure that income is properly accounted for and reconciliation of payments made is performed on a daily basis. Arrangements are in place to ensure that customers' credit/debit card details remain secure. The Authority does however have insurance protection for loss arising from fraudulent use of credit/debit cards.

Some improvements to software are required in order to comply with e-government requirements in relation to providing customers with the ability to check account balances online or via touch tone telephone dialling. Currently, although account numbers are validated, customers are not requested to verify that the account number stated is correct. Customers are not advised of the amount outstanding or the payment due, and no comparison takes place of the amount to be paid with the amount due. Quotes for purchasing software which will provide customers with more information online, prior to payments being made, are to be sought and an informed decision regarding installation of the software made. Implementation of this facility forms part of the Authority's IEG plan and is due to be in place by December 2005.

Audit trail details in relation to electronic payments are currently incomplete as payments cannot be traced to where they originated. The risks associated with this are considered minimal as accounts currently payable by electronic means i.e. Council, NNDR, parking fines and Council Housing rent are all traceable to an address. Should payment for miscellaneous goods and services be made available electronically issues in relation to the completeness of the audit trail will be reviewed.



**Report Agreed By:** Accountancy Services Manager/Senior User Support Manager

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Head of Financial Services  
Chief Revenues Officer  
Head of Information Services  
Local Taxation and Income Officer  
Senior User Support Officer  
Accountancy Services Manager  
Members of Audit Committee  
Audit Manager (District Audit)

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## Job: 04/0568 - Cash and Banking (Internet and Automated Telephone Payments)

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: Financial</b></p> <p>The Authority's cashflow could be affected if the Authority fails to receive payments due.</p>	<p>1. A quote for purchasing the software to provide customers with information about outstanding amounts prior to payments being made will be sought from the supplier and the agreed action implemented. It should be noted that there is a lot of work going on nationally regarding authentication levels required for access to this and other information. Whatever action taken will be in line with this.</p>	Senior User Support Officer	31 December 2005	<a href="#">008352</a>
	<p>2. A quote will be obtained from the supplier for introduction of the facility to inform customers that an overpayment is likely to occur and a decision whether to implement this will be made.</p>	Senior User Support Officer	31 December 2005	<a href="#">008353</a>
	<p>3. The minimum payment amount will be reviewed taking into consideration processing costs per transaction.</p>	Accountancy Services Manager	30 September 2005	<a href="#">008343</a>
<p><b>Risk Group: Regulatory</b></p> <p>The Authority may be subject to legal action if it does not comply with appropriate legislation and/or contract requirements.</p>	<p>4. A procedure to ensure that the Authority is notified when the payment facility is unavailable will be agreed with Civica until such time that internet/ATP payments are brought in-house.</p>	Senior User Support Officer	30 September 2005	<a href="#">008349</a>

**Job: 04/0568 - Cash and Banking (Internet and Automated Telephone Payments)**

Risk	Agreed Action	Responsibility	Implementation Target Date	Ref
<p><b>Risk Group: Reputation</b></p> <p>The Authority's reputation may suffer if payments via the Internet and ATP are not secure</p>	<p>5. If any projects where payment for miscellaneous goods and services can be made via the Internet or ATP is to be implemented, this risk will be considered at that time.</p>	<p>Senior User Support Officer</p>	<p>31 March 2006</p>	<p><a href="#">008334</a></p>



**Action Plan Agreed By:** Accountancy Services Manager/Senior User Support Manager

**Report Issued On:** 27 June 2005

## **Internal Audit - Follow Up Summary Report**

**Job: 02/007 Information Management**

**Date of Final Report:** 24 November 2003

**Agreed By:** Corporate Director (Central Services), Head of Information Services, Head of Legal Services and Head of Administration Services.

**Date of Follow-Up:** 16 March 2005

### **Overall Opinion on Follow Up:**

The need for a corporate, co-ordinated approach to information management recognised during the original review is being addressed through the Information Management Officer (IMO) and Information Management Group (IMG). The IMO is the Council's Data Protection Officer and Freedom of Information Officer and the IMG comprises the Corporate Director (Central Services) (Freedom of Information Champion), the IMO and the Heads of Information, Legal and Administration Services.

Of the fourteen actions agreed in November 2003 six have been fully implemented, six are in the process of being implemented and two, relating to a review of the E-mail and Internet Policy, are outstanding though the Information Management Group is to start the process at their meeting this month.

Effective information management supporting the provision of council services, ensuring legislative compliance and demonstrating open and accountable decision making is the principle behind the new Information Management Strategy which incorporates a number of policies offering guidelines and procedures. Some of these policies (Data Protection, Freedom of Information, Information Security and E-mail and Internet) are already in place and a further two, Records Management and Business Continuity, are to follow, the former, which includes disposal and retention guidelines, being due to be finalised by the IMG this month prior to consultation with service heads.

Corporate awareness of the principles of effective information management is being raised through implementation of the Strategy and associated Policies, all of which are available on the Intranet.

A corporate data audit in respect of Data Protection was recently completed and a more detailed audit in respect of Freedom of Information is currently underway.

The role of Information Custodians is developing through:

- the data audits and annual review of the Data Protection notification;
- implementation of the Information Security Policy, recently requiring the completion of Systems Access Authorisation forms; and,
- dealing with data requests which have increased since the Freedom of Information Act came in to force in January 2005.

An information management training plan has been devised by the IMG and is in the process of being delivered. Corporate briefings on Freedom of Information held in December 2004 were followed by training, including data protection issues, at which all services were represented.

A user friendly guide on information management setting individual responsibilities under Council policies and legislation has been approved by the IMG and it is anticipated that all users will be required to sign up to the Guide following the review of the E-mail and Internet Policy.

Whilst significant progress has been made in the last fifteen months it is recognised that there

**Job: 02/007 Information Management**

is much still to do to implement and embed the Information Management Strategy prior to compliance monitoring by the IMO. Once new policies are fully embedded there is also an intention to hold group meetings with Information Custodians to monitor progress.

**Implementation of Agreed Actions - Detail****Ref****Agreed action has been fully implemented:**

The Information Management Officer will, with the help of an external consultant, develop a Data Protection Policy.

[003600](#)

The Information Management Officer, in consultation with Information Custodians, will ensure that all personal data processed by the Authority is identified.

[003599](#)

Staff will be informed that the Information Management Officer is the Data Protection Officer.

[003591](#)

Further consideration is to be given to the role of Information Custodians ensuring that they act as Service representatives on issues such as Data Protection. The Information Management Officer will arrange regular group meetings with Information Custodians, and Information Services as appropriate, to ensure a Corporate co-ordinated approach to information management and compliance with relevant legislation.

[004350](#)

Consideration will be given to any training requirements arising from the Information Management Strategy in consultation with the Personnel Services Training Officer as appropriate.

[003590](#)

The Head of Administration Services will ensure that the work programme of the new Information Management Officer provides for responsibilities in relation to implementing further legislation in respect of information management should the need arise.

[003604](#)**Agreed action is in the process of being implemented:**

The Information Management Officer will lead on preparatory work for compliance with FoI, engaging services through the development of the Information Management Strategy, to include the identification and classification of all data held.

[003606](#)

The annual Data Protection notification will be disseminated to Services, through the Information Custodians, prior to submission with a view to ensuring that all manual and computerised files are covered.

[003598](#)

**Job: 02/007 Information Management**

A User Guide is to be introduced promoting best practice, referring to policies where relevant, and providing contact details for further advice if required. (c.f. Ref. 003584)

[003586](#)

A User Guide, to be introduced through the implementation of the Information Security Policy, with reference to the use of PC software will be approved by Members prior to issue.

[003584](#)

Legislative requirements including Data Protection and the Freedom of Information Act will be considered during the drafting of the Information Management Strategy. The Information Management Officer will research Corporate requirements of the Strategy consulting with Service Heads and Members as appropriate. Once drafted the Strategy will be reported to the Internal Affairs Review Board prior to Cabinet, for adoption.

[003583](#)

E-mail and internet access permissions will be reviewed, ensuring all employees with access are signed up to the policy, through the implementation of the User Guide (c.f. Ref. 003584).

[003684](#)**Agreed action is still to be implemented:**

The E-mail and Internet Policy will be reviewed to see if an effective monitoring system can be established.

[003589](#)

The E-mail and Internet Policy will be relaunched following its review (c.f. Ref. 003589).

[003686](#)

*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Central Services)  
 Head of Information Services  
 Head of Legal Services  
 Head of Administration Services  
 Information Management Officer  
 Head of Financial Services  
 Members of Audit Committee  
 Audit Manager (District Audit)

## **Internal Audit - Follow Up Summary Report**

**Job: 03/0523 - Public Relations and Communications**

**Date of Final Report:** 16 July 2004

**Agreed By:** Communications Manager and Head of Corporate Strategy

**Date of Follow-Up:** 09 March 2005

### **Overall Opinion on Follow Up:**

The original review noted significant improvements in the way the Authority communicates, both internally and externally, since the Connecting with Communities Project in 2002 and formation of the Authority's Communications Team. Of the twelve agreed actions resulting from the review four have been fully implemented and progress has been made on all but one remaining.

The original review found high proportions of employees aware of corporate policies, guidelines etc. relating to communications but lower levels of understanding and compliance which is being addressed through ongoing promotion by the Communications Team. Similarly Learning Pool Modules, developed by Internal Audit and to be made available on the Intranet in the near future, aim to raise awareness and understanding of sections of the Constitution. New information management guidelines and an associated retention and disposal schedule, due to go out to Services for consultation in the Spring, should address problems highlighted in the original review regarding the retention of e-mails. The lack of a corporate list of key contacts within government agencies, partnerships etc. is being addressed through the Communications Working Group; those contacts considered to be of benefit to others in the Authority to be added to the Telephone Directory on the Intranet.

Cost savings have been made as a result of a review of corporate advertising needs which has since led to a further review of design, printing and distribution.

Improved business planning and a Communications Strategy being developed will provide clear targets and success measures for delivering communications objectives. The draft Communications Business Plan 2005/06 includes specific objectives relating to the agreed actions, namely:

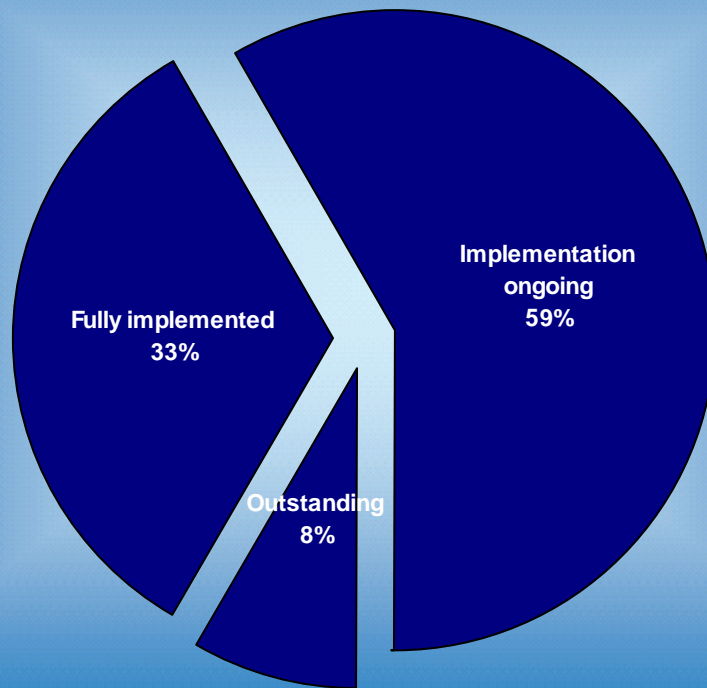
- compliance with communications guidance set out in the Council's Framework for Partnership Working;
- implementation of the corporate Consultation Strategy in conjunction with Corporate Strategy and the Authority's E-Government Officer; and,
- improving the accessibility of information for all.

The one outstanding action relates to plans for the Access to Services Review to commission research with focus groups in 2005/06 on customer services as they relate to minority ethnic groups, the disabled and elderly which will include the provision of translation and interpretation services. A 'disability audit' has been carried out and an accommodation review, taking into account disabled access, now forms a separate project within the Access to Services Review.

It is evident that communication mechanisms are continually developing and actions resulting from the Access to Services Review are expected to have a major positive impact on the way the Authority communicates externally. Revised Customer Service Guidelines are to be fed into the Review to enable ongoing update as more services join the Customer Service Centres and develop their own standards for service delivery.

Summary Results of Follow Up:

Progress with Implementation of Agreed Actions



Implementation Status	No of Actions
Agreed action has been fully implemented	4
Agreed action is in the process of being implemented	7
Agreed action is still to be implemented	1



**Job: 03/0523 - Public Relations and Communications****Implementation of Agreed Actions - Detail****Ref****Agreed action has been fully implemented:**

A 'disability audit' of main Council buildings is to be undertaken as part of the Access to Services Review and findings will be fed into the resulting action plan.

[008089](#)

The Speak Easy system is to be promoted with associated guidance on how to access the system.

[006210](#)

The Authority will carry out a full assessment of corporate advertising needs with a view to improving cost-effectiveness.

[006191](#)

Services will be reminded of the need to pass drafts or working diagrams of publications, stationery etc. to the Communications Office for verification prior to printing to ensure consistency and compliance with the Corporate Identity and Style Guide.

[006192](#)

**Job: 03/0523 - Public Relations and Communications****Agreed action is in the process of being implemented:**

Corporate Strategy and the Communications Team will work together during the implementation of the Consultation Strategy to ensure that the Communications Strategy is appropriately informed of matters arising and associated guidance can be updated as required.

[006228](#)

Customer Service guidelines will be reviewed through the Access to Services BV Review to inform the Council's future approach to customer services. Revised guidelines will be promoted widely throughout the Authority.

[006204](#)

The Communications Strategy will be revised to include links to other communications documents and the associated action plan will be developed to include more specific target implementation dates.

[006202](#)

The Communications Working Group will give consideration to the development of a corporate list of key contacts within government agencies, the L.S.P., Poulton Neighbourhood Management Partnership and parish councils. Considerations will include determining the benefits of a corporate list, information already held within Services, Service expectations of such a list and, if considered feasible, the best way of compiling the list for accessibility and for ease and cost-effectiveness of updates.

[006220](#)

The Communications Strategy will be revised to include provision for the 'Framework for Partnership Working' and accompanying checklist once it is approved.

[006199](#)

A Disposal and Retention Policy is to be written, as part of the work on the Information Management Strategy, which will include general guidance on the retention of e-mails.

[006197](#)

The Internal Audit Section will continue to develop learning pool modules for sections of the Constitution to help raise awareness amongst Council employees.

[006185](#)**Agreed action is still to be implemented:**

The Access to Services BV Review is to commission research with focus groups on customer services as they relate to minority ethnic groups, the disabled and elderly. The research will include the provision of translation and interpretation services and the Authority is to act upon the findings.

[006232](#)

*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Chief Executive  
Corporate Director (Central Services)  
Communications Manager  
Head of Corporate Strategy  
Information Management Officer  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)

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**Internal Audit - Follow Up Summary Report****Job: 03/0526 - Fraud and Corruption 2003/04****Date of Final Report:** 18 June 2004**Agreed By:** Head of Financial Services**Date of Follow-Up:** 26 May 2005**Overall Opinion on Follow Up:**

A follow-up review has been carried out to determine progress made in implementing actions agreed following the audit completed in June 2004. Four actions were agreed at the time of the audit of which two have been fully implemented. One of the outstanding agreed actions has been reconsidered in light of the cash office closure and is planned for implementation by the end of May, and the second is considered no longer relevant.

The Fraud Response Plan and Anti-Fraud Policy for the Housing Benefit and Council Tax Benefit Section is now available to all employees via the Council's intranet site.

An annual comparison of physical stocks of cheques to stock records is now included as part of the closure of accounts process. This has now been carried out by an officer independent of the cheque process, and a stock certificate produced. Stock checks are to be performed on a six monthly basis in the future.

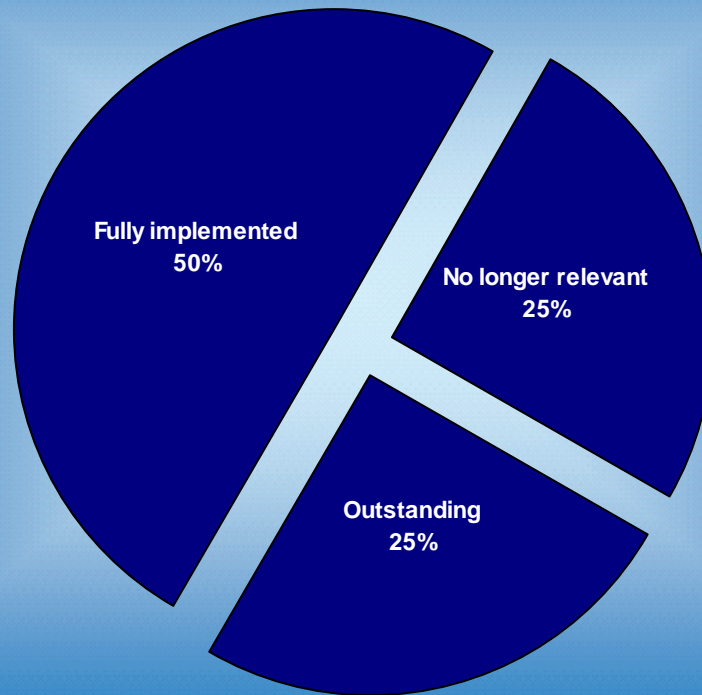
As a result of the review in June 2004 it was agreed that an instruction to Service Heads highlighting issues relating to collection and banking of cash income and postal remittance arrangements was required. These instructions are to form part of more detailed guidance to be issued to Services following the introduction of new banking arrangements as a result of the cash office closure. The guidance is to be issued before the end of June and will also cover the new petty cash arrangements.

Current staffing levels make it impractical for the safe room to be accessed by two officers however it is considered that the level of risk is mitigated by other controls in place.

Job: 03/0526 - Fraud and Corruption 2003/04

Summary Results of Follow Up:

### Progress with Implementation of Agreed Actions



Implementation Status	No of Actions
Agreed action has been fully implemented	2
Agreed action is no longer relevant	1
Agreed action is still to be implemented	1

**Job: 03/0526 - Fraud and Corruption 2003/04**

**Implementation of Agreed Actions - Detail**

**Ref**

**Agreed action has been fully implemented:**



Evidence that physical checks of creditor cheque stocks against stock records will be maintained for all future checks performed. Six monthly comparisons of physical stock to stock records will be introduced for benefit cheques, which will also be evidenced.

[005785](#)



The Fraud Response Plan and the Anti-Fraud Policy for the Housing Benefit and Council Tax Benefit Section will be made available to all employees via the Councils intranet site.

[005533](#)

**Agreed action is no longer relevant:**



Consideration will be given to the need for two officers to access the safe room, taking into account available staff resources and the level of risk involved. The risk being partially mitigated with the implementation of agreed action Ref: 005785.

[005789](#)

**Agreed action is still to be implemented:**



An instruction will be issued to all Service Heads highlighting issues relating to:  
 - separation of responsibility for the identification, collection, receipt and banking of cash income; and  
 - procedures for postal remittances.  
 The instruction will request that Service Heads consider procedures followed within their Service to ensure that they comply with Financial Regulations and Procedures. Where appropriate, Service Heads will be notified separately of any issues which relate specifically to their service.

[005693](#)

*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Central Services)  
 Head of Financial Services  
 Accountancy Services Manager  
 Members of Audit Committee  
 Audit Manager (District Audit)

## ***Internal Audit - Follow Up Summary Report***

**Job: 03/0552 - Leisure Management**

**Date of Final Report:** 16 July 2004

**Agreed By:** Chief Leisure Officer

**Date of Follow-Up:** 01 June 2005

### ***Overall Opinion on Follow Up:***

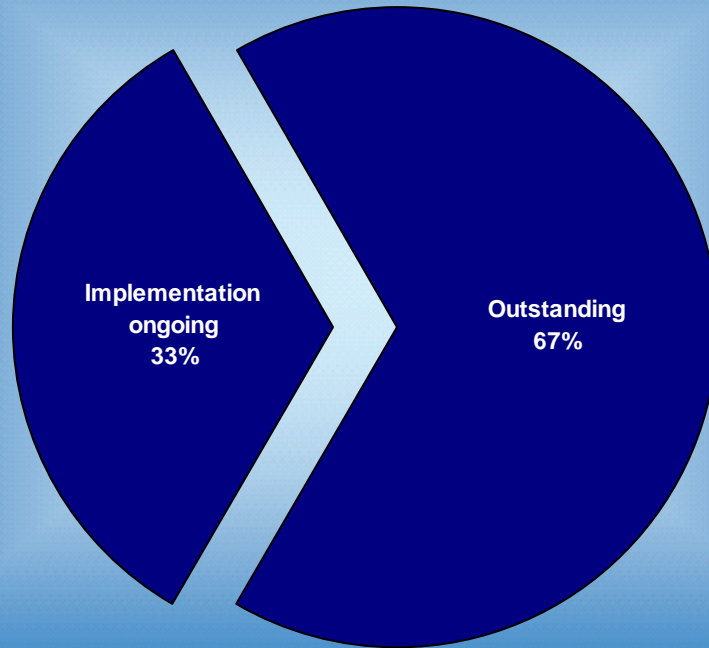
The original review finalised in July 2004 established that the Service had a high regard for public and customer safety and had been instrumental in the introduction of the Corporate Child Protection Policy.

The Service continues to recognise the importance of ensuring that all employees are appropriately screened during the recruitment process in order to comply with the Child Protection Policy and processes have been implemented to ensure that valid disclosures will be in place for all front line staff by July 2005 and all remaining staff by March 2006 per the Leisure Services business plan.

Further actions are required in order to ensure that personnel records are appropriately maintained ensuring references and qualifications are available in support of all recruitment decisions made. Personnel information is currently held in a number of different locations and there remains some uncertainty over relative responsibilities for the maintenance of personnel information either centrally by the Human Resources and Organisational Development Service or by individual Services. The agreed actions should be fully addressed through the proposed decentralisation of personnel files when responsibilities for the maintenance of personnel information is to be clarified.

Summary Results of Follow Up:

Progress with Implementation of Agreed Actions



Implementation Status	No of Actions
Agreed action is in the process of being implemented	1
Agreed action is still to be implemented	2



**Job: 03/0552 - Leisure Management****Implementation of Agreed Actions - Detail****Ref****Agreed action is in the process of being implemented:**

The Chief Leisure Officer and Support Services Manager in consultation with Section Heads will ensure that a list of all posts which require CRB disclosures is maintained stating the level of check required. Postholders checked will be noted together with the date a further disclosure is required (three years hence per the Child Protection Policy) ensuring a 'valid' disclosure is in place for all employees working with children. The validity of checks carried out by previous employers will be verified per the Child Protection Policy. Procedures for obtaining disclosures will be documented and include the evidence to be maintained to support a disclosure having been received ensuring disclosure information is appropriately handled and not retained for longer than necessary to support decisions made (CRB guidelines 6 months).

[006537](#)**Agreed action is still to be implemented:**

The Service will ensure that references are taken up for all successful applicants prior to appointment, including casual staff used on an occasional basis.

[006779](#)

The Service will ensure that all employees have an up to date personnel file which includes the completed job application form, copies of references obtained and evidence that qualifications stated have been checked.

[006536](#)

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Regeneration)  
 Chief Leisure Officer  
 Support Services Manager  
 Sports & Recreation Development Manager  
 Community Leisure Manager  
 Principal Leisure Manager  
 Head of Financial Services  
 Members of Audit Committee  
 Audit Manager (District Audit)

## **Internal Audit - Follow Up Summary Report**

**Job: 03/0508 - Salt Ayre Leisure Centre**

**Date of Final Report:** 16 June 2004

**Agreed By:** Chief Leisure Officer and Leisure Services General Manager

**Date of Follow-Up:** 01 June 2005

### **Overall Opinion on Follow Up:**

The Service has made good progress in implementing the twelve actions agreed during the review completed in June 2004. Six actions have been fully implemented, one partially implemented, three are in the process of being implemented, one is still to be implemented and one relating to price negotiations, is considered no longer relevant, 'special rates' agreed prior to the appointment of the current Operations Manager being phased out.

The original review found the service customer focussed with clear objectives for improvement and they have continued to strengthen this through the introduction of a Customer Care Charter and a more effective customer complaints process. The Service is also seeking to implement a customer forum at the Centre by June 2005 as per their 2005/06 business plan to provide customers with an opportunity to comment on the running of the centre and the activities held there.

The Centre has recognised, through its 2005/06 Business Plan, that there is a need to introduce additional performance indicators aimed at driving performance improvement and demonstrating the Centre's role in delivering Corporate Plan priorities.

The Centre is actively continuing to improve the fabric of the building by seeking additional resources through more frequent requests for capital programme monies and seeking external funding and partnering opportunities, where appropriate.

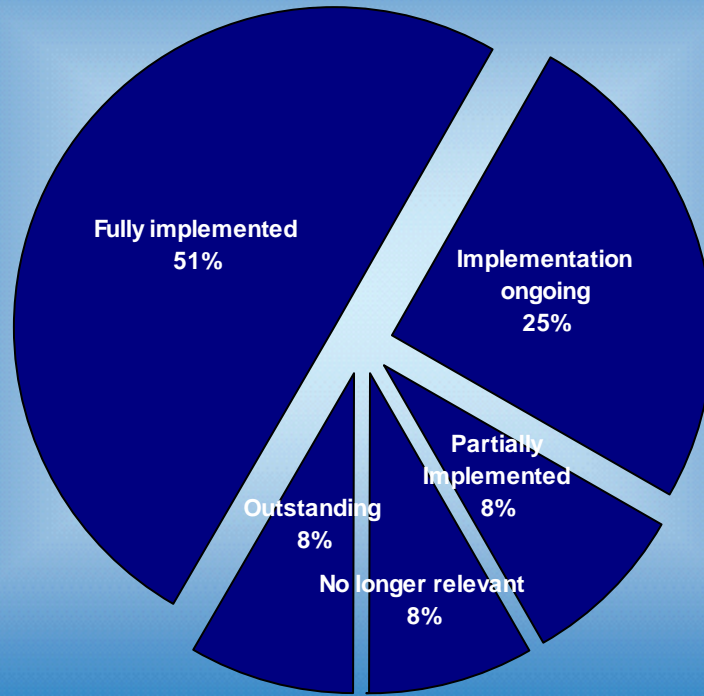
Consideration is still being given as part of an ongoing review of Salt Ayre Sports Center with regards aggregating like posts and will include liaison with the Human Resources and Organisation Development Service as appropriate.

A full review of employees roles and responsibilities is currently being conducted and aims to address all pay concerns identified through one-to-one discussions with employees. Results of these discussions will be fed into the forthcoming EDPA process. The Service has identified sickness absence as being a major area of underperformance at the Centre and is currently taking steps to address the situation.

In seeking to continually improve, the Operations Manager is currently in the process of reviewing and updating emergency procedures to determine whether any further enhancements can be made to what is already an effective and robust process. Once completed all current staff will be made aware of the revised procedures and all new starters will receive copies along with fire safety training as part of the induction process.

Summary Results of Follow Up:

Progress with Implementation of Agreed Actions



Implementation Status	No of Actions
Agreed action has been fully implemented	6
Agreed action is in the process of being implemented	3
Agreed action has been partially implemented	1
Agreed action is no longer relevant	1
Agreed action is still to be implemented	1

**Job: 03/0508 - Salt Ayre Leisure Centre****Implementation of Agreed Actions - Detail****Ref****Agreed action has been fully implemented:**

The complaints log will be kept up to date ensuring complaints are dealt with, within five days as far as possible, and those not dealt with are followed up as appropriate.

[006466](#)

The Leisure Services General Manager will implement a Customer Care Charter for the Centre.

[006462](#)

Full emergency action procedures will be periodically tested, the results of exercises informing the emergency action plans.

[006472](#)

The Chief Leisure Officer will review the work required with a view to reporting into the capital programme and seeking options for external funding as appropriate.

[006435](#)

The Leisure Services General Manager will seek an electronic version of the Building Conditions Survey with a view to it becoming a working document. The electronic version will be amended/noted appropriately to record works carried out and any new works required.

[006431](#)

Performance indicators to drive performance improvement and demonstrating the Centre's role in delivering Corporate Plan priorities will be developed through the business planning process, responsibilities for delivery being clearly defined.

[006428](#)**Agreed action is in the process of being implemented:**

The Chief Leisure Officer will continue to address pay concerns, seeking performance incentives where appropriate based on clear objectives.

[006483](#)

The Operations Manager, together with the Duty Managers, will consider the effectiveness of the Centre's interpretation of policies to manage underperformance ensuring that all are clear on their responsibilities and support available.

[006482](#)

Once the revised emergency action plans are complete all staff will be made aware of them, evidenced by the signing of a declaration that they have read and understood them, and training will be offered as appropriate.

[006469](#)**Agreed action has been partially implemented:**

All visitors (excluding customers) will be required to sign in and out of the building.

[006473](#)

**Job: 03/0508 - Salt Ayre Leisure Centre**

**Agreed action is no longer relevant:**



Basic guidelines will be drawn up regarding price negotiations with a view to ensuring negotiated prices are appropriate and kept to a minimum. All negotiated prices will be authorised by the Operations Manager through completion of the Centre's 'Price Reduction Request Form'.

[006480](#)

**Agreed action is still to be implemented:**



Leisure Services will consult Personnel Services regarding the maintaining of recruitment waiting lists with a view to agreeing procedures, including the obtaining of Criminal Records Bureau checks. Those listed must have been successful at interview for a previous like post and retention periods will be limited to between three and six months maximum.

The Service will also consult with Personnel Services on the possibility of aggregating like posts within the establishment book, agreeing the standard of records to be maintained and responsibilities for authorising decisions.

[006425](#)

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*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution:

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## ***Internal Audit - Follow Up Summary Report***

**Job: 04/0565 - Housing Benefits and Council Tax Benefits 2004/05**

**Date of Final Report:** 05 November 2004

**Agreed By:** Chief Revenues Officer

**Date of Follow-Up:** 07 June 2005

### ***Overall Opinion on Follow Up:***

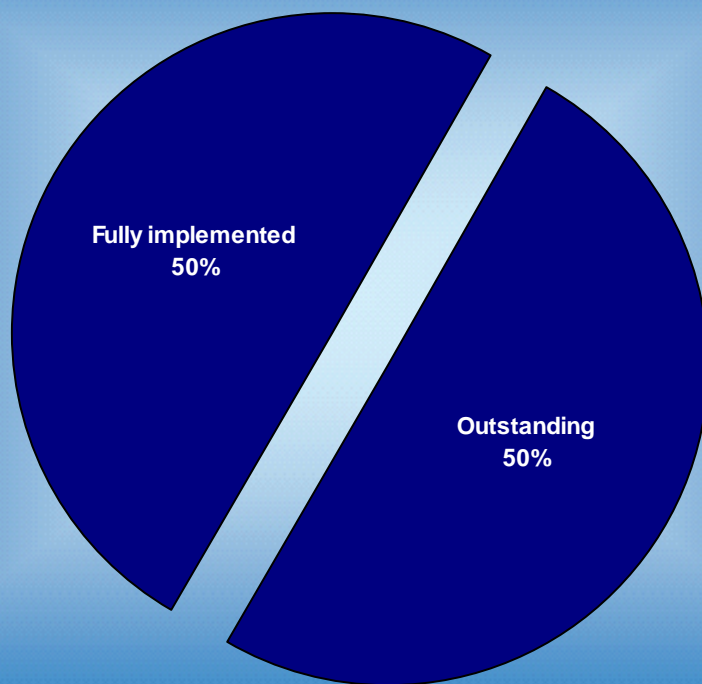
A follow-up review has been carried out to determine progress made in implementing the two agreed actions following the original audit completed in November 2004.

As agreed Benefits staff have been issued with the Corporate Anti-Fraud and Corruption Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan together with the Benefits Anti-Fraud Policy. Staff were also asked to sign to acknowledge that they were aware of, and understand, the documents.

The Chief Revenues Officer has not yet revised the Revenues specific declarations form. This should be carried out by the end of September when it will be issued to all Revenues staff to complete ensuring declarations are up to date.

Summary Results of Follow Up:

Progress with Implementation of Agreed Actions



Implementation Status	No of Actions
Agreed action has been fully implemented	1
Agreed action is still to be implemented	1

**Implementation of Agreed Actions - Detail**

**Ref**

**Agreed action has been fully implemented:**



The Corporate Anti-Fraud and Corruption Policy, Anti-Fraud and Corruption Strategy and Fraud Response Plan together with the Benefits Anti-Fraud Policy is to be issued to all benefits staff via e-mail. Revenues Administration are to visit all staff to obtain a signed declaration that they have read and understood the documents.

[008203](#)

**Agreed action is still to be implemented:**



The Chief Revenues Officer is to revise the declarations form. The revised form is to be issued to all Revenues staff ensuring declarations are up to date. Records of future reviews will be retained on file.

[008190](#)

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*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Central Services)  
Chief Revenues Officer  
Benefits and Customer Services Manager  
Principal Officer (Claims Security)  
Management and Administration Officer  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)

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## **Internal Audit - Follow Up Summary Report**

**Job: 03/0505 - Personnel Management**

**Date of Final Report:** 16 July 2004

**Agreed By:** Head of Personnel Services

**Date of Follow-Up:** 01 July 2005

### **Overall Opinion on Follow Up:**

The original review completed in July 2004 resulted in seventeen agreed actions, eight of which are in the process of being implemented, seven are still to be implemented and alternative actions have been agreed for the remaining two.

The original review supported the findings of the last comprehensive performance assessment which said 'the Council does not have a strategic approach to staff resources' but found the Authority striving for a more strategic approach, in part through the development of the first HR Strategy. Many agreed actions related to the content of the Strategy and proposals at that time to develop an associated implementation plan. The 2004 Pay Settlement for Local Government requires all local authorities to produce a Pay and Workforce Strategy and, since the original audit, national guidance has become clearer, the Local Government Pay and Workforce Strategy aiming to have 'the right numbers of people in the right places with the right skills to deliver improved services, greater efficiency and better customer focus in front line services'.

Human Resources and Organisation Development (HR&OD) (formerly Personnel Services) are actively embracing the requirements and have moved away from further developing the HR Strategy in favour of preparing the Pay and Workforce Strategy and Workforce Development Plan. The Service Head is taking a lead role in a regional working group aiming to develop a prototype for district councils to use in Lancashire and Cheshire (the Regional Employers Organisation are seeking to develop a common standard to be used across all authorities to enable effective benchmarking).

The Service is currently collecting data through a workforce survey (skills, age, qualifications, post entry training, ethnicity, gender etc.) to compile a profile of the Authority's resources to enable strategic workforce planning. The data is to be examined alongside medium term business objectives with a view to identifying future potential resource/capacity issues so that an action plan to address the issues identified can be developed. The need to challenge service delivery methods and consider alternatives including joint-working, partnership working etc. is recognised by HR&OD. All Service Heads are to be involved in developing the medium term workforce plan which is to set out the organisation's objectives and related people management issues thus providing an opportunity for integration with the Performance Management Framework.

Developing management and leadership capacity is a key priority on the Government's agenda which the Authority is working towards, in part through an in-house management development programme 'Success Through People'. The programme, intended to reach more than one hundred and thirty managers, is provided in two levels - a strategic overview designed for more senior managers and more detailed training modules for middle managers or 'influencers' (i.e. those responsible for carrying out EDPAs and for all aspects of people management).

Agreed actions in relation to equality and diversity are being addressed through the Corporate Equalities Planning Group. Current work includes finalising a review of the Race Equality Scheme, and the development of a Corporate Equalities Programme in pursuit of Level 2 of the Equality Standard for Local Government - a stated objective of the Council.

**Job: 03/0505 - Personnel Management**

The original review found scope to improve consultation arrangements. There are now scheduled meetings of the Joint Consultative Committee and regular dialogue with Trade Unions, including opportunities for employee representatives to meet informally with the Chairman of the Personnel Committee. HR&OD is confident that Services are seen to be complying with the Consultation and Negotiation Protocol. The introduction of e-mail facilities for Trade Union representatives at City Contract Services has also improved the flow of information to that Service. Plans to seek regular feedback, particularly from managers, have not progressed significantly since the audit due to resource issues within HR&OD. This is to be addressed by the Principal HR Officer whose recently agreed key work objectives include customer relationship management.

Resource issues within the Service have also impacted upon the implementation of agreed actions relating to data management. A checklist, intended to accompany the decentralisation of personnel files, has been drafted but guidance with regards security and ensuring compliance with legislation (e.g. Data Protection Act, Freedom of Information Act and Medical Records Act) has yet to be produced. Corporate policy on password protection has yet to be implemented within the Service.

The original review, and a subsequent recent review of Best Value (04/0571), raised concerns over systems for compiling data for Best Value Performance Indicators (BVPIs), inaccuracies having been found through incorrect application of the BVPI definitions and heavy reliance on manual systems. Whilst revised procedures have been introduced to address the concerns raised it is recognised that a new computerised HR system could help in providing more accurate information, potentially more efficiently. This was to be addressed through a working group (involving HR&OD, Financial Services and Internal Audit) seeking to implement a replacement for the Delphi Millennium System by March 2006. The project has since been postponed but parties involved in the original working group will seek to ensure Payroll, Service and HR needs, including computerised personnel data with effective reporting, are accommodated in any future replacement.

Given the ongoing implementation of many of the agreed actions a further review of progress will be carried out in six months.

**Implementation of Agreed Actions - Detail****Ref****Agreed action is in the process of being implemented:**

Personnel Services will regularly seek and respond to feedback from managers, employee representatives and prospective employees. The results of feedback will inform changes and improvements as appropriate. Personnel Services will continue to develop and extend interviews with customers and the Customer Survey Interviews building in qualitative issues where appropriate.

[004854](#)

The revised HR Strategy will stress the need to ensure that Personnel Services is involved and consulted in the formative stages of any response to strategic decisions which have people implications.

[004821](#)

Employee representatives will be involved in reviewing the HR Strategy and setting out the detailed people objectives.

[004827](#)

**Job: 03/0505 - Personnel Management**

The first revision of the Strategy will make reference to the Council's Occupational Health Service, the arrangements for which were recently formally reviewed.

[004828](#)

In consultation with senior managers and Trade Unions, Personnel Services will develop clear and realistic medium-term objectives for people management issues which will be documented within the implementation plan in support of the HR Strategy. Officers involved in developing the implementation plan will set target dates and respective responsibilities for achieving the objectives.

[004817](#)

Employee relations will be improved through making available opportunities for regular dialogue with employee representatives and a joint review of the Consultation and Negotiation Protocol.

[004853](#)

The implementation plan in support of the HR Strategy will seek to ensure that all Services contribute to the Corporate Equalities Plan in respect of employment related issues through specific targets.

[004857](#)

Personnel Services will continue to increase awareness of equality and diversity through proposed changes to training.

[004859](#)

In recognition that a higher score in testing could have been achieved through better access to information by those not connected to the intranet, Personnel Services will advise the Head of City Contract Services on provisions to make personnel policies and job vacancies equally available to employees without intranet access.

[004870](#)**Agreed action has been reviewed and revised:**

Original action:

The electronic establishment book will be updated to include actual annual salaries in monetary terms thus enabling Personnel Services to produce the reports required for BVPIs within the Service.

[004863](#)

Revised to:

For efficiency and improved accuracy, the top five percent of earners will be manually identified from the establishment book and then the appropriate individuals required for the BVPI outturns will be counted. Effective system reporting, enabling the efficient compilation of BVPI data, is to be pursued by HR&OD during preparations for procuring a replacement for the Delphi Millennium system.

**Job: 03/0505 - Personnel Management**

Original action:

[004818](#)

Work will continue on the development of a set of management competencies and will be led by the Training and Development Officer. People management performance will be monitored through the effective use of the EDPA process.

Revised to:

The Authority is to seek to improve management and leadership capacity in accordance with the requirements of a Pay and Workforce Strategy through an in-house management development programme, 'Success through People'. People management performance will be monitored through the effective use of the EDPA process.

**Agreed action is still to be implemented:**

Personnel Services will continue to review their electronic folder structure to eliminate the need for password sharing and ensure compliance with Corporate policy. Once reviewed all staff within the Service will be asked to change their passwords. The Service will also introduce password protected screensavers on all machines to avoid inadvertently passing on sensitive data.

[004873](#)



The Planning and Performance Management Group is reviewing corporate planning and business planning processes. The review will seek to ensure that the content of the HR Strategy's implementation plan is incorporated into Service business plans and the performance management framework as appropriate.

[004836](#)



Personnel Services will ensure that the replacement for the Delphi Millennium system allows adequate separation of duties between Financial Services and Personnel Services\* and meets their needs in terms of efficient and effective system reporting through their involvement in the working group investigating a replacement.

[004881](#)

(\* i.e. Personnel to be responsible for the input of standing data (e.g. personal details and spinal column point))



The Service will review the arrangements for holding information, seeking advice from the Information Management Officer on regulatory compliance issues as appropriate.

[004871](#)



Personnel Services will co-ordinate an annual review of the HR Strategy, the first review to include recognition of increasingly varied employment and training arrangements and to encourage consideration of the value of relationships including partnership working, engaging contractors etc.

[004819](#)

**Job: 03/0505 - Personnel Management**



Improving the Authority's strategic approach to staff resources and ensuring the adequacy of staff resources to deliver the future improvement agenda, with the capacity to meet both current and future skills needs, is to be considered by the Planning and Performance Management Group. The HR Strategy is to be developed into a three-year People Plan, to be linked to corporate priorities through effective integration with Business Planning and the Performance Management Framework.

[004845](#)

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*Derek Whiteway*

Derek Whiteway CPFA, Internal Audit Manager

Distribution: Chief Executive  
Head of Human Resources and Organisation Development  
Head of Financial Services  
Members of Audit Committee  
Audit Manager (District Audit)

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**Meeting of:** AUDIT COMMITTEE

**Date:** 27 JULY 2005

**Report of:** HEAD OF FINANCIAL SERVICES

**Reference:** LA

**Title:** RISK MANAGEMENT PROGRESS AND PROPOSED WORK PLAN

#### **PUBLIC/EXEMPT ITEM**

This item is for consideration in the public part of the meeting.

#### **PURPOSE OF THE REPORT**

To inform Audit Committee of the progress made to date with the risk management programme and to seek endorsement to proceed with the proposed work plan for the current year.

Also, to provide Audit Committee with the revised risk management policy and strategy in order that it can be formally approved.

#### **RECOMMENDATIONS**

- 1 That the progress made to date with the risk management programme be noted.**
- 2 That the revised risk management policy and strategy (appendices A and B) be approved, and the supporting work plan for 2005/06 be endorsed.**
- 3 That the Chair of the Audit Committee and the Corporate Director (Central Services) be designated Risk Management Champions for the Authority, as set out in the proposed Strategy.**

#### **REPORT**

##### **1 INTRODUCTION**

- 1.1 Through the adoption of a Code of Corporate Governance, the Council has committed to ensuring that risk management plays an integral part in the sound governance of the Council.
- 1.2 The intention of a risk management policy is to promote the achievement of the Council's aims through the implementation of its risk management strategy. Audit Committee approved the existing risk management policy and strategy on 16 December 2003.
- 1.3 This report informs the Committee of the progress made to date with implementation of the existing strategy and outlines a proposed work plan for rolling out the risk management programme over the next 12 months.
- 1.4 In addition, the existing policy and strategy have been updated as part of an annual review and also to reflect the fact that, from June 2005, the Audit

Commission is changing the way it reviews the performance of Councils' financial management arrangements. The key changes are a strong focus on value for money, along with more stringent tests of other areas of financial management. This new approach will apply to all single tier, county and district councils in England and is designed to help Councils respond to the increased importance placed on making the best use of public money.

- 1.5 The Audit Commission's assessment of the financial management arrangements will be based on an annual Key Lines Of Enquiry (KLOE) review of the 'Use of Resources', with particular emphasis being placed on risk management within the line of enquiry relating to Internal Control. This review will identify high performance and areas for improvement aimed at helping Councils to develop ways of making better use of available resources to improve service delivery.
- 1.6 Under the Account & Audit Regulations 2003, the Council is required to produce and publish an annual statement (signed by the leading Member and most senior officer) regarding the effectiveness of its system of Internal Control. The Audit Committee has a specific duty to receive and review this statement and a report on its production in respect of the 2004/05 financial year will be presented to the Audit Committee's next meeting on 19 October 2005. Sound risk management arrangements are fundamental to the production of a compliant statement, and it is fair to say at this point that the review has highlighted the need for continued focus on strengthening risk management practices within the Council.
- 1.7 The updated risk management policy and strategy (Appendices A and B) should ensure that the Council continues to deliver best value and maintains its high standards of governance.

## **2** **PROGRESS AND CURRENT POSITION**

- 2.1 At its meeting on the 14 May 2003, the Risk Management Steering Group appointed Business Risk Management Ltd to facilitate risk management workshops on behalf of the Council.
- 2.2 This approach to identifying, scoring and managing corporate risk received the support of Corporate Directors and was ultimately combined with the need to prioritise the Council's objectives for the 2004/05 Corporate Plan. Two workshops, attended by Management Team, Service Heads and the majority of Council Members, took place in early September 2003, with the prioritised objectives and associated risks being presented to Cabinet Members on 16 September 2003.
- 2.3 In October 2003 the Internal Audit Manager began to develop an in-house risk register database. Plans have been made to implement a risk management module within the performance management system currently being developed in association with the Council's consultants Escendency. At the moment, however, priority needs to be given to developing the performance management element of the system and plans for the risk management module are presently on hold.
- 2.4 Since October 2003, the in-house risk register database has been further enhanced to provide individual computerised risk registers covering:
  - **Strategic risks** relating to Corporate Plan objectives and priorities



- **Operational risks** – a database for every Service designed to be populated with Service specific business risks and relevant ‘cross-cutting’ risks
- **Corporate risks** – covering corporate risk areas e.g. Fraud and Corruption
- **Project risks** – risks specifically associated with Council projects.

Work has commenced to populate the risk registers with previously identified risks and it is intended for these to be reviewed during planned meetings in the near future with each Head of Service.

- 2.5 In December 2003, Audit Committee formally approved the Council’s risk management policy and strategy providing a corporate framework for embedding risk management and since then the Risk & Insurance Manager has provided detailed guidance, support and advice on all aspects of risk management and business continuity throughout the Council.

### 3 **WORK PLAN 2005-06**

- 3.1 Having taken into account the progress made to date with the risk management programme, and having also considered the Key Lines of Enquiry set out by the Audit Commission for the Use of Resources, the following work plan has been devised:-

TASK	TARGET DATE
Produce quarterly reports to Audit Committee.	From 26 July 05
Review and update risk management policy and strategy.	26 July 05
Produce strategic risk register linked to 2005/2006 Corporate Plan (to feed into 2006/07 budget & planning).	1 November 05
Improve risk considerations on Committee reports. (In conjunction with Administration Service’s report writing training)	1 November 05
Ensure that project initiation documents include an adequate risk assessment.	1 November 05
Ensure that partnership risks are specifically identified and that assurances are obtained regarding the management of those risks.	1 November 05
Develop a robust assessment of the Council’s risk management processes in support of the annual Statement of Internal Control and Corporate Governance as required by the Account and Audit Regulations 2003	31 March 06
Complete operational risk registers for each service.	31 March 06
Risk awareness training for all Service Heads and managers.	31 March 06
Further risk awareness training for Members (to be undertaken as part of the 2006/07 budget & planning process.)	31 March 06

- 3.2 Clearly there will be increased officer time required to roll out the programme over the next nine months. However, the Risk and Insurance Manager’s post

was developed specifically to deliver this programme and the Internal Audit Manager has included time within the annual audit plan to provide support.

- 3.3 Should the recommendations be approved and the work plan be delivered, the Council will make significant headway with its risk management arrangements and good progress in terms of its internal control environment. This should help demonstrate their effectiveness in future years' Statements on Internal Control.
- 3.4 Finally, the recommended Strategy incorporates some clarification to the Terms of Reference to the Audit Committee, and this will be fed into the next update of the Constitution.

#### **FINANCIAL IMPLICATIONS**

There will be no financial implications other than officer time and potential use of the existing earmarked reserve.

#### **LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments to add.

#### **DEPUTY MONITORING OFFICER'S COMMENTS**

The Deputy Monitoring Officer has been consulted and has no comments to add.

#### **DEPUTY SECTION 151 OFFICER'S COMMENTS**

The Deputy Section 151 Officer has been consulted and has no further comments to add.

#### **BACKGROUND PAPERS**

Risk Management Policy and Strategy

Audit Committee Terms of Reference (The Constitution)



## CORPORATE RISK MANAGEMENT POLICY STATEMENT

Lancaster City Council recognises its responsibilities to the community and the importance of maintaining high standards of corporate governance in order to fulfil them. Through the adoption of a Code of Corporate Governance, the Council has committed to ensuring that risk management plays an integral part in the sound governance of the Council.

Effective risk management is an active process that requires participation by all those involved in planning and delivering services, including elected Members, all managers and employees, and partners.

The Council intends that employees shall be able to identify the risks associated with their activities and, through training and communication, be able to analyse, control and monitor those risks. In doing this, it will seek to ensure that objectives are met at all levels of the Authority.

### Definitions

- *Risk management* is the process of identifying, evaluating and taking appropriate actions to minimise the hazards, reduce the risks, and maximise the opportunities presented by the Council's activities.
- A *hazard* is defined as "a source of potential harm or a situation with a potential to cause loss". This could be any event or situation that threatens the Council's ability to achieve its objectives and to fulfil its statutory responsibilities
- *Risk* is defined as "the chance of something happening that will have an impact upon objectives". It covers the likelihood that a hazard will occur and have an adverse effect on the resources, operational capabilities and services of the Council. It also covers the potential for opportunity to be taken that may have a beneficial effect. Risks are measured in terms of their likelihood and consequence/impact. The more likely it is that a risk will arise, and the greater its potential consequence, the more important it is to treat the risk effectively.

### Objectives

This risk management policy is intended to promote the achievement of the Council's aims through the implementation of its risk management strategy. Specific objectives are to:

- embed risk management into the culture and operations of the Council;
- adopt a systematic approach to risk management as an integral element of strategic and service planning, financial planning, policy making and review, and performance management;
- minimise the costs, disruption to services and harm to the reputation of the Council;
- anticipate and respond to changing social, environmental and legislative requirements;
- encourage innovation and improvement through decision-making that is based on a sound awareness of business and other risks;
- establish a corporate approach to proactive risk management in accordance with shared best practice and to support this by a structured training programme;
- ensure that Services have clear accountability for both the ownership and cost of risk and the tools to manage them effectively.

It is recognised that it is neither possible nor desirable to eliminate entirely the hazards and neutralise completely the risks facing the Council. Nevertheless, sound risk management procedures, backed by a culture of risk awareness amongst employees, has the potential to reduce significantly the level of actual damage sustained and maximise the benefit of emerging opportunities.

These objectives will be achieved by embedding risk management principles within the organisation to produce a culture of risk awareness and a risk-conscious approach to management. This will be achieved by:

- establishing clear roles, responsibilities and reporting lines for risk management within the Council;
- incorporating risk management into Best Value Reviews;
- incorporating risk management in the Council's policy making and review, strategic/ service planning, financial planning and performance management processes;
- monitoring risk management and internal control arrangements on a regular basis;
- reinforcing the importance of effective risk management through the provision of training and support;
- providing suitable insurance or other arrangements to manage the impact of unavoidable risks.

*This Policy needs approval by the Audit Committee on 27 July 2005*



## RISK MANAGEMENT STRATEGY

### Introduction

Risk management is a key task for managers in every organisation. Identifying and evaluating the consequences of policies or actions is not always referred to as risk management. However, failure to pay proper attention to the likelihood and consequences of risks can cause serious problems. Financial cost, service disruption, bad publicity, threats to public health or claims for compensation are among the most obvious. The effective management of risk is therefore a critical part of the Council's approach to delivering Best Value and maintaining high standards of governance.

A systematic assessment of risk needs to be undertaken as part of the Council's strategic, business and financial planning, its performance management, and during policy making/review.

This strategy is drawn up in order to ensure that areas of high risk are identified, appropriate remedial action is considered and where appropriate, financial provision is made to implement risk reduction measures. The Risk Management Steering Group will play a crucial role in achieving this, by consulting, liaising with, and guiding service managers in their risk management duties.

### Definition

*Risk management* is the process of identifying, evaluating and taking appropriate actions to minimise the hazards, reduce the risks, and maximise the opportunities presented by the Council's activities in providing Community Leadership and public services.

It is not an end in itself. Rather, risk management is a key everyday management task aimed at minimising the costs and disruption caused by undesirable events and maximising the benefit from opportunities. The objective is to reduce the frequency of risk events occurring (wherever this is possible) and minimise the severity of their consequences if they do occur. Even when the likelihood of an event occurring (such as a severe storm) cannot be controlled, steps can be taken to minimise the consequences (for example, by having an effective and robust Emergency Plan and Business Continuity Plan in place).

**Objectives**

The key objectives of the risk management strategy, in relation to the Council's aims and objectives, are:

- a) To minimise the costs, disruption to services and harm to the reputation of the Council;
- b) To embed risk management into the culture and operations of the Council;
- c) To support sustainable improvements in service and the achievement of Best Value;
- d) To encourage innovation and improvement through decision-making that is based on a sound awareness of business and other risks;
- e) To anticipate and respond to changing social, environmental and legislative requirements.

These objectives will be achieved by:

- a) Establishing a corporate approach to proactive risk management in accordance with shared best practice;
- b) Ensuring that officers and elected Members have clear accountability for the ownership, control and cost of risk and the tools to manage them effectively.
- c) Adopting a systematic approach to risk management as an integral element of business planning and performance management.
- d) Adopting a systematic approach to the identification and management of operational risks;
- e) Applying risk management techniques in the conduct of Best Value reviews and in project management generally;
- f) Developing programmes that provide effective training and guidance in risk management practices to enable staff to take responsibility for risk within their own working environment.
- g) Adopting a systematic approach to risk management as an integral element of financial planning.
- h) Adopting a systematic approach to risk management as an integral element of the corporate planning process i.e. by identifying corporate business risks, linking them with strategic objectives, and assigning ownership for each risk.
- i) Ensuring that reports to support strategic policy decisions and project initiation documents include a risk assessment that evaluates both threats and opportunities.
- j) Ensuring that the risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks.

## Risk Management Processes

The Council's Risk Management approach will involve the following 4 processes:

### 1. Identification of risk

A systematic approach needs to be applied if all strategic and operational risks are to be identified and managed. By identifying areas of risk before an event or loss occurs, steps can be taken to prevent the event occurring and/or minimising the cost to the authority. Reacting to events only after they have occurred can be a costly method of risk identification. Identified risks and their assigned owners must be recorded on a risk register.

### 2. Analysis of risk

Having identified areas of potential risk, they need to be systematically and accurately assessed. The process requires managers to make:

- An assessment of the probability of a risk event occurring
- An assessment of the potential severity of the consequences should such an event occur
- An estimate of the likely impact of incidents occurring.

### 3. Treatment of risk

It is acknowledged that risk cannot be eliminated completely. Risk treatment is the process of taking economic action to minimise the likelihood of the risk event occurring and/or reduce the severity of the consequences should it occur. The agreed controls designed to mitigate the identified risk will be recorded in the risk register, together with the name of the officer responsible for implementing each control and the deadline date for completion.

There are four options for treating risk:

#### a) Retain (or Tolerate)

There comes a point in the treatment of most risks when further risk reduction or risk transfer measures are no longer economically justifiable. In these circumstances, a reasoned decision may be taken to accept (i.e. retain or tolerate) a certain level of risk.

#### b) Avoidance (or Termination)

Risk avoidance involves the authority opting to terminate a current or proposed activity because it believes it is too risky.

#### c) Reduction

Risk reduction is dependent on implementing economically justifiable projects or procedures that will minimise the likelihood of an event occurring or limit the severity of the consequences should it occur.

#### d) Transfer

Risk transfer involves transferring liability for the consequences of an event to another body. This can occur in two forms. Firstly, legal liability may be transferred to an alternative provider under contractual arrangements for service delivery. Secondly, transferring some or all of the financial risk to external insurance companies may reduce the costs associated with a damaging event.

*4. Monitoring and review of risk*

The risk management process does not finish when the risk control actions have been identified. There must be monitoring and review of:

- The implementation of the agreed treatment actions
- The effectiveness of the actions in controlling risks
- How risks have changed over time

**Funding**

The risk management reserve provides service managers with the encouragement to raise the level of risk awareness within their areas of responsibility by formally identifying risks and proposals for action. The reserve provides the opportunity to apply for financial support and creates an incentive for loss control, without adversely affecting service area budgets.

The embedding of risk management in the corporate planning and budgeting process will help ensure that scarce resources are directed to areas of highest priority in a systematic and transparent manner.

This investment in risk management measures should lead to a reduction in insured and uninsured losses and eventually to lower costs, including premiums, giving service managers a vested interest.

**Corporate Risk Management Steering Group**

The establishment of an effective corporate risk management steering group is seen as essential to the effectiveness of the risk management process.

Membership of the group is sufficiently senior within the organisation to ensure that risk management receives appropriate attention and that group members have influence and authority with service areas. To give authority to the group and facilitate real and effective work, the group is chaired by the Head of Financial Services and will report to Management Team as appropriate.



**Responsibilities**

The following have responsibilities for risk management:

***Elected Members:***

*Cabinet*

- To identify, analyse and profile high level strategic risks relating to their individual areas of responsibility
- To promote a risk management culture through Cabinet's activities and decision making.
- To develop / propose priorities based on robust risk analysis in accordance with the Budget and Policy Framework

*Audit Committee (As Member committee for risk management, by delegation from Council)*

- To agree the strategy, policy and processes for risk management and to review their effectiveness as a contribution towards providing assurance on the Council's standards of Corporate Governance.
- To monitor and review the effective management of risk by officers.
- To receive reports on the implementation of the strategy at least quarterly and to take appropriate action to ensure that corporate business risks are being actively managed.
- To report to full Council annually.
- To appoint the Chairman of the Audit Committee as the Council's Member Champion for Risk Management

*Overview and Scrutiny and other Review Boards*

- To consider risk management issues in the development of policy and analysis of possible options
- To consider risk management issues in reviewing and scrutinising decisions and performance

***Officers:***

*The Chief Executive:*

- To ensure that risk is managed effectively through the development and implementation of an all encompassing corporate strategy.
- To ensure that elected Members are appropriately advised on risk management matters.

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*The Monitoring Officer (Corporate Director, Central Services):*

- To act as the Council's Officer Risk Management Champion with responsibility for liaising between the Corporate Management Team and the Risk Management Steering Group.
- To ensure the Risk Management Policy and Strategy are effective in supporting high standards of corporate governance.

*Corporate Management Team*

- To ensure that managers implement and have regard to the Risk Management policy and strategy.
- To promote and co-ordinate risk management activity within their Service areas.
- To receive reports from the Risk Management Steering Group.

*The Head of Financial Services:*

- To Chair the Risk Management Steering Group.
- To advise on the development and implementation of the risk management strategy, both through the Risk Management Steering Group and in the wider corporate context.
- To ensure that an effective system of internal audit is carried out for the authority.
- To oversee the monitoring and control of the risk management reserve.
- To report on the implementation of the risk management, at least quarterly, to Audit Committee.

*Risk Management Steering Group*

- To effectively develop, implement and review the risk management strategy on a corporate basis.
- To co-ordinate loss control activities and in the process identify trends and priorities.
- To advise on the use of the risk management reserve to support funding necessary for projects, activities and initiatives that will reduce vandalism, arson, theft, damage to council property and personal injury to employees, visitors and persons under the care of the authority.
- To evaluate new approaches on risk management and the extent to which they would be helpful to the authority and its services.
- To advise on the development of loss prevention practices as a normal part of management.
- To support the provision of staff training in, and raise the level of, risk management
- To provide for information sharing and mutual support links with other groups at regional and national level.
- To promote good risk management practice throughout the authority by co-operation and liaison with managers and employees and relevant external agencies.
- To report to the Corporate Management Team as appropriate.

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*Risk and Insurance Manager*

- To consult regularly with service managers concerning risk issues, providing advice as appropriate.
- To assist in the promotion of good risk management practice throughout the authority through co-operation and liaison with managers, other employees and relevant external agencies.
- To undertake, where necessary, post-accident investigations.
- To support the provision of staff training in, and raise the level of, risk management throughout the authority.
- To act as lead support officer for the corporate risk management group.
- To ensure that appropriate insurance cover is in place and that a register of claims is maintained.
- To present insurance claims summary reports to service managers and to the corporate risk management group.
- To prepare reports to the Corporate Management Team and the Audit Committee on behalf of the Risk Management Steering Group / Head of Financial Services.

*Heads of Service*

- To identify risks of loss, damage or injury facing their service areas and minimise them through positive risk management action.
- To ensure that risk management issues are appropriately considered and recorded when developing Service Business Plans and to ensure that risk registers are kept up-to-date.
- To ensure that risk is managed effectively in each service area within the agreed corporate strategy.
- To ensure that the control environment relating to systems operated within service areas are secure and that the agreed recommendations of Internal Audit are implemented.
- To invest in risk management measures to reduce damage or loss to Council assets, or personal injury to employees, visitors and persons under the care of the authority.
- To carry out risk management surveys and recommend risk management measures to eliminate, transfer or reduce the impact of risk, and to seek funding for these measures.
- To ensure effective communication within their service area of the risk management strategy.

*Employees*

- To manage risk effectively in their job and report opportunities / risks to their service managers.
- To undertake their job within risk management guidelines.

*Internal Audit*

- To review the Council's risk management processes and provide an annual opinion as to the effectiveness of the Council's internal control system and corporate governance arrangements.
- To promote and support the development of the Council's risk management processes.

*This Strategy is to be approved by the Audit Committee on 27 July 2005*

**RISK MANAGEMENT STEERING GROUP**

**TERMS OF REFERENCE**

The terms of reference of the group are as follows:

- To identify those areas of strategic and operational practices that present the greatest risk to the authority and to make proposals for reducing the potential probability or scale of such loss.
- Carry out risk management surveys, co-ordinate data, analyse trends and recommend risk management measures to eliminate, transfer or reduce the impact of risk.
- Improve co-ordination of risk management activity throughout the authority
- To review both the Emergency Plan and the Business Continuity Plan on a regular basis to ensure its accuracy and overall effectiveness
- To advise on the use of the risk management reserve to support funding necessary for projects, activities and initiatives that will reduce vandalism, arson, theft, damage to council property and personal injury to employees, visitors and persons under the care of the authority.
- To report to the Corporate Management Team as appropriate.
- To evaluate new approaches on risk management and the extent to which they would be helpful to the Council and its services.
- To advise on the development of loss prevention practices as a normal part of management.
- Promote good risk management practice throughout the authority by co-operation and liaison with managers and employees, partnerships and external agencies.
- To support the provision of staff training in, and raise the level of, risk awareness.
- To provide for information sharing and mutual support links with other groups at regional and national level.