



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 19 SEPTEMBER 2012  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint the Vice-Chairman of Audit Committee for the municipal year 2012/13. (The Chairman must not be a member of Cabinet or Overview and Scrutiny - Part 3, Section 8 of the Constitution.)

3. **Minutes**

Minutes of meeting held on 18 April 2012 (previously circulated).

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

5. **Declarations of Interest**

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

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

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

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

6. **Statement of Accounts 2011/12 (Pages 1 - 107)**

Report of Head of Resources

7. **Local Government Ombudsman - Annual Review 2011/12 (Pages 108 - 114)**

Report of Head of Governance

8. **Internal Audit Annual Report and Assurance Statement 2011/12** (Pages 115 - 123)  
Report of Internal Audit Manager
9. **Review of Governance and the Annual Governance Statement 2011/12** (Pages 124 - 159)  
Report of the Chief Executive
10. **Internal Audit Monitoring Report** (Pages 160 - 165)  
Report of Internal Audit Manager

## **ADMINISTRATIVE ARRANGEMENTS**

### **(i) Membership**

Councillors Malcolm Thomas (Chairman), Jon Barry, Geoff Knight, Richard Newman-Thompson, Ian Pattison, Vikki Price and Peter Williamson

### **(ii) Substitute Membership**

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

### **(iii) Queries regarding this Agenda**

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

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

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

MARK CULLINAN,  
CHIEF EXECUTIVE,  
TOWN HALL,  
DALTON SQUARE,  
LANCASTER, LA1 1PJ

Published on Tuesday, 11 September 2012

**AUDIT COMMITTEE****Statement of Accounts 2011/12  
19 September 2012****Report of Head of Resources****PURPOSE OF REPORT**

This report seeks Member approval for the 2011/12 audited accounts, to allow the completion of financial reporting for last year.

**This report is public.**

**RECOMMENDATIONS**

1. That the Committee notes the report for 2011/12 issued by the Council's External Auditors and the letter of representation to be signed by the s151 Officer.
2. That the audited Statement of Accounts for the financial year ended 31 March 2012 be approved and that the Chairman signs and dates the Accounts accordingly.

**REPORT**

- 1.1 At the last Committee meeting Members were informed of recent changes to the Accounts and Audit Regulations.
- 1.2 In accordance with the new requirements, the draft Accounts for 2011/12 were produced by 29 June and certified by the s151 Officer on that date. They were then made available for public inspection and they have also been externally audited.
- 1.3 The outcome of the external audit is set out in the Auditor's formal report at **Appendix B**. The External Audit Manager will be in attendance at the Committee meeting to present the report and answer any questions.
- 1.4 In summary, the results of the audit are as follows:
  - A number of minor presentational changes have been agreed as a result of the audit.
  - Subject to these changes being adjusted as appropriate within the Accounts, an unqualified audit opinion will be issued.
- 1.5 In terms of the Committee's responsibilities, by 30 September the Council must:
  - consider the Accounts;

- following that consideration, approve the Accounts; and
- following approval, ensure that the Accounts are signed and dated by the Chairman

- 1.6 Accordingly the adjusted, audited Accounts are attached at **Appendix A** for the Committee's consideration and approval. There are no other matters brought to Members' attention at this stage; the financial outturn has previously been reported to both Cabinet and Budget and Performance Panel.
- 1.7 In support of completing the audit, the Auditor requires a 'letter of representation', a draft form of which is included at the end of **Appendix B**. The letter will be signed by the Section 151 Officer but the Committee is also requested to note it. This is on the basis that those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts. If there are any changes to the wording, the Committee will be advised at the meeting.
- 1.8 Once the Accounts have been approved and the letter of representation forwarded, it is expected that the Auditor will issue his opinion on the accounts; conclusion of the audit will also follow in due course.
- 1.9 The Head of Resources will then ensure that the Accounts are published by 30 September. This simply involves a copy being made available at the Town Hall and through the Council's website.

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

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

## 3 Conclusion

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

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

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

**BACKGROUND PAPERS**

Accounts and Audit Regulations 2011.

**Contact Officer:** Nadine Muschamp

**Telephone:** 01524 582117

**E-mail:** nmuschamp@lancaster.gov.uk

**Ref:**

City | Coast | Countryside

**APPENDIX A**

# **Statement of Accounts**

# 2011/12

**For the year ended 31 March 2012**

# Lancaster City Council – Statement of Accounts

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## 1 Introduction

This document sets out the City Council's annual accounts for the financial year ended 31 March 2012. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The document includes a statement of the accounting policies adopted by the Authority, together with a brief explanation of the purpose of and links between the main accounting statements.

The purpose of this foreword is to provide an overall summary of the Council's financial position for 2011/12 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 2011/12. It shows the actual variances for each service area but excludes any notional charges that are required for the formal financial statements, as these can distort the position in terms of understanding where actual spending and income variances have occurred.

	2011/12		Actual	Variance from Revised Budget
	Original Budget	Revised Budget		
<b>Expenditure:</b>	£000	£000	£000	£000
Community Engagement	4,712	4,674	4,340	(334)
Environmental Services	5,099	4,497	4,472	(25)
Financial Services	2,701	2,052	2,338	286
Governance	1,637	1,479	1,466	(13)
Health & Housing	2,484	2,306	2,245	(61)
Office of the Chief Executive	329	306	373	67
Property Services	(270)	530	427	(103)
Regeneration & Policy	2,344	1,999	1,859	(140)
Corporate Accounts	2,671	4,378	4,043	(335)
<b>Net Cost of General Fund Services</b>	<b>21,707</b>	<b>22,221</b>	<b>21,563</b>	<b>(658)</b>
Interest Payable & Similar Charges	1,476	1,447	1,518	71
Parish Precepts	537	537	537	0
Contribution from General Fund Balance	(1,261)	(1,653)	(1,001)	652
<b>NET REVENUE EXPENDITURE</b>	<b>22,459</b>	<b>22,552</b>	<b>22,617</b>	<b>65</b>
<b>Funded by:</b>				
General Government Grants	(441)	(534)	(599)	(65)
Revenue Support Grant	(3,100)	(3,100)	(3,100)	0
National Non Domestic Rates	(10,028)	(10,028)	(10,028)	0
Council Tax	(8,890)	(8,890)	(8,890)	0
<b>TOTAL FUNDING</b>	<b>(22,459)</b>	<b>(22,552)</b>	<b>(22,617)</b>	<b>(65)</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 council housing (see section 2.3 below). The General Fund Revenue Budget for 2011/12 (including parish precepts) was originally approved by Council on 03 March 2011 at £22.018M, representing net revenue expenditure of £22.459M less general government grants of £441K. It assumed that balances would be just over £1.3M at 31 March 2012, though these were increased by a further £659K following the 2010/11 outturn.

At outturn for 2011/12 there has been a net underspending of £653K against the Revised Budget, some of the main areas where underspending has occurred are shown below:

Energy & Water savings	£121K
Transport savings	£194K
Delayed projects – HR/Payroll, Local Development Framework & Morecambe Area Action Plan	£152K
Net Additional income	£185K
Additional Homelessness Grant	£65K
Additional recovery of court costs	£64K
Additional investment interest	£27K
Software & Infrastructure savings	£26K

Additional spend has also been incurred on contributions to the Insurance Provision (£155K) and the Bad Debts Provision (£82K) to cover very old claims administered under the former Municipal Mutual in the case of insurance, and to provide cover for increases in the level of housing benefit write-offs during 2011/12.

During 2011/12 the Council received favourable judgements in respect of preferential creditor status on the Icelandic investments, and as a result further distributions have been made. By the end of 2011/12 the Council had received £4.125M of its claim (the original £6M invested plus around £300K interest) and anticipates receiving around £5.9M back in total.

As part of the process of re-evaluating the value of the loans, it was judged that there is no longer a need for the impairment reserve which was set up to cover a worst case scenario. This reserve has been reversed as a credit back to the general fund although £408K of the £1.364M was charged to the capital adjustment account reversing in full all the elements relating to Icelandic bank impairments, capitalised in previous years. It is now anticipated that apart from minor changes in the profiling of repayments from Landsbanki and KSF that there should be no more material adjustments to Icelandic bank investments, required in future years.

As a result of the outturn, General Fund unallocated Balances stand at £2.674M as at 31 March 2012, which is well in excess of the minimum £1M level. This is before consideration of any requests by services to carry forward underspends; if any are approved this will effectively reduce available amounts. Also it should be noted that contributions totalling £325K and £418K are already budgeted to be taken from Balances during 2012/13, to increase the Invest to Save reserve and support the revenue budget respectively. Effectively this means that almost £931K of available Balances are currently unallocated.

## 2.3 Housing Revenue Account (HRA)

The Local Government and Housing Act 1989 require 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 2012 the working balance on the Housing Revenue Account amounted to £1.205M. As a result of net underspendings during the year, balances increased by £502K when compared with the Revised Budget position, before considering any requests to carry forward budgets into 2012/13. The main variances relate to efficiency savings on planned repairs and maintenance contracts (£70K); lower demand for works on planned repairs and maintenance (£134K) an unforeseeable savings (£72K) from a reduced interest charge and a reduced contribution (£79K) to the bad debt provision due to a fall in arrears. Current Council Policy is to maintain unallocated housing balances at no less than £350K.

### 3 Capital Position

In 2011/12 the City Council spent £7.401M on capital schemes, summarised as follows:

#### Summary of Capital Expenditure and its Financing

<b>Capital Expenditure by Service</b>	<b>£000</b>	<b>Capital Financing</b>	<b>£000</b>
Council Housing	3,574	Grants & Contributions	1,499
Environmental Services	1,254	Reserves	2,834
Community Engagement	135	Revenue Financing	1,749
Health & Housing Services	821	Unsupported Borrowing	559
Information Services	48	Capital Receipts	760
Regeneration & Policy	1,254		
Property Services	1,678		
Financial Services	(1,363)		
<b>Total</b>	<b>7,401</b>	<b>Total</b>	<b>7,401</b>

The Council's revised Capital Programme for 2011/12 was £11.161M, but £777K of vehicles, originally assumed to be leased, were subsequently purchased outright and capitalised in accordance with approved delegated protocols. This effectively increased expected capital spending in last year. Separately, however, for a number of other schemes £1.988M of slippage is expected to be rolled forward into 2012/13, due to various changes and delays. The credit of £1.363M for Financial Services relates to the reversal of Icelandic investment impairments that were previously capitalised.

The Capital Programme was financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. With regard to the latter, the Council can borrow money for capital purposes provided it can meet certain criteria, linked to affordability, sustainability and prudence, as determined by the Prudential Code Framework. As at 31 March 2012, the Council held around £7.7M in the capital support and major repairs reserves, specifically to help support future years' capital investment plans.

In 2011/12 the net cost of financing external borrowing (e.g. interest charges) was £2.715M, and the value of long term debt owed as at 31 March 2012 amounted to £74.9M, of which £5.49M relates to finance lease liabilities and £69.4M relates to PWLB long term borrowing, £1M of which is presented within short term borrowing and is due for repayment over the next 12 months. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £246M as at 31 March 2012.

### 4 Pension Liabilities

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

For Lancaster, the net position as at 31 March 2012 showed a net liability of £46.611M compared to £35.988M for the previous financial year. This represents an increase in net liabilities of £10.623M. This is largely due to actuarial losses on scheme assets and liabilities.

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

Notwithstanding these points, however, the future costs and funding of pensions continue to be national high profile issues, under consideration by Government.

**5 Changes in Accounting Policies**

In line with changes to the CIPFA Code, there have been changes to the accounting policies for Heritage assets and the land element of long leases.

Heritage assets are now recognised on the balance sheet where the information is available to provide a reliable measurement of valuation. This has resulted in £7.9M worth of assets being brought on to the balance sheet retrospectively. As such the balance sheet has been restated for 2010/11 to reflect this change in accounting policy.

The Code has also changed subtly in its treatment of the land element of long leased assets such that the balance has moved from an assumption that all non depletable land leases would be operating leases to a position where the longer the lease the more likely it would be that the land element of a lease would be classified as a finance lease. This has significance for the Lancaster Market lease which has been reviewed and retrospectively restated in the light of these changes.

**6 Conclusion**

Although 2011/12 has been an uncertain year financially, as at 31 March the Council has improved its financial standing overall by generating net efficiency savings and through other underspendings. Balances are higher than forecast. Looking forward, the Council has earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years. Given funding prospects the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings initiatives will be needed in future in order to ensure a balanced annual budget and financial stability.

## THE CORE FINANCIAL STATEMENTS

### **Movement in Reserves Statement**

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

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

This statement shows the accounting of providing services cost in the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### **Balance Sheet**

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

### **Cash Flow Statement**

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

## THE SUPPLEMENTARY FINANCIAL STATEMENTS

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

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

### **Collection Fund**

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

### **Group Accounts**

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

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

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

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



## **1 The Authority's Responsibilities**

The authority is required to:

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

## **2 The Head of Financial Services' Responsibilities**

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

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

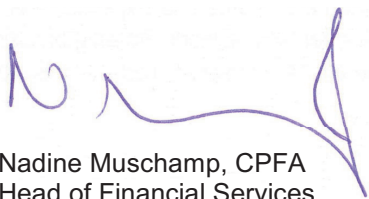
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Head of Financial Services has also:

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

## **3 Head of Financial Services' Certificate**

I certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at 31 March 2012 and the income and expenditure for the year then ended.



Nadine Muschamp, CPFA  
Head of Financial Services

Date : 29 June 2012

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

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

### Summary of restatement changes

	2009/10		2010/11	
	Balances	Reserves	Balances	Reserves
	£000	£000	£000	£000
Original	190,128	(190,128)	183,987	(183,987)
Heritage assets	7,926	(7,926)	7,926	(7,926)
Cap charges (fin lease asset)	0	0	0	0
<b>Closing Balances</b>	<b>198,054</b>	<b>(198,054)</b>	<b>191,913</b>	<b>(191,913)</b>

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Useable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves (Restated)	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31/3/2011</b>	<b>3,674</b>	<b>5,813</b>	<b>452</b>	<b>2,310</b>	<b>6,581</b>	<b>0</b>	<b>373</b>	<b>19,203</b>	<b>172,710</b>	<b>191,913</b>
<b>Movements in 2011/12</b>										
Surplus/(deficit) on the provision of services	(6,803)	0	(34,860)	0	0	0	0	(41,663)	0	(41,663)
Other Comprehensive Income and expenditure	0	0	1,322	0	0	0	0	1,322	(10,362)	(9,040)
Total comprehensive income and expenditure	(6,803)	0	(33,538)	0	0	0	0	(40,341)	(10,362)	(50,703)
Adjustments between accounting & funding basis under regulations	7,165	0	34,399	0	102	208	(178)	41,696	(47,712)	(6,016)
Net Increase/Decrease before transfers to earmarked reserves	362	0	861	0	102	208	(178)	1,355	(58,074)	(56,719)
Transfers (to)/from earmarked reserves	(1,362)	1,362	(108)	108	0	0	0	0	0	0
<b>Increase/(decrease) in 2011/12</b>	<b>(1,000)</b>	<b>1,362</b>	<b>753</b>	<b>108</b>	<b>102</b>	<b>208</b>	<b>(178)</b>	<b>1,355</b>	<b>(58,074)</b>	<b>(56,719)</b>
<b>Balance at 31/03/2012</b>	<b>2,674</b>	<b>7,175</b>	<b>1,205</b>	<b>2,418</b>	<b>6,683</b>	<b>208</b>	<b>195</b>	<b>20,558</b>	<b>114,636</b>	<b>135,194</b>



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## Comprehensive Income and Expenditure Statement

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

The CIES has two sections:

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

2010/11				2011/12		
Gross Exp	Gross Inc	NET		Gross Exp	Gross Inc	NET
<i>Restated</i>			NOTES			
£000	£000	£000		£000	£000	£000
			<i>Continuing Operations:</i>			
12,736	(11,620)	1,116	Central Services to the Public	12,980	(11,560)	1,420
11,151	(4,681)	6,470	Cultural and Related Services	11,250	(5,042)	6,208
10,572	(3,805)	6,767	Environmental and Regulatory Services	10,999	(4,323)	6,676
8,182	(4,866)	3,316	Planning Services	15,191	(4,367)	10,824
4,682	(3,846)	836	Highways and Transport Services	1,974	(2,825)	(851)
50,517	(18,981)	31,536	Local Authority Housing (HRA)	56,815	(22,553)	34,262
43,714	(41,356)	2,358	Other Housing Services	44,025	(42,104)	1,921
3,205	(990)	2,215	Corporate and Democratic Core	2,313	(562)	1,751
(6,425)	(75)	(6,500)	Non Distributed Costs	1,023	(48)	975
<b>138,334</b>	<b>(90,220)</b>	<b>48,114</b>	<b>Cost of Services</b>	<b>156,570</b>	<b>(93,384)</b>	<b>63,186</b>
1,641	(689)	952	Other Operating Expenditure	8 1,618	(1,180)	438
18,032	(20,087)	(2,055)	Financing and Investment Income and Expenditure	9 24,167	(17,122)	7,045
0	(27,172)	(27,172)	Taxation and Non Specific Grant Income	10 0	(22,990)	(22,990)
		<b>19,839</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>47,679</b>
		3,280	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets			(1,332)
		(16,946)	Actuarial (Gains)/Losses on Pension Assets/Liabilities	40		10,372
		(32)	Other Comprehensive Income and Expenditure			0
		<b>(13,698)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>9,040</b>
		<b>6,141</b>	<b>Comprehensive Income and Expenditure</b>			<b>56,719</b>



## Balance Sheet

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

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

The balance sheets as at 01 April 2010 and 31 March 2011 have been restated to reflect retrospective changes to capital elements of the accounts. These relate to recognising the value of heritage assets (£8M) on the balance sheet resulting in changes to long term assets and unusable reserves, specifically the revaluation reserve.

01 April 2010 <i>Restated</i> £000	31 March 2011 <i>Restated</i> £000		NOTES	31 March 2012 £000
263,806	224,721	Property, Plant & Equipment	11	209,257
7,926	7,926	Heritage Assets	12	7,926
19,827	26,913	Investment Property	13	27,638
306	233	Intangible Assets	14	142
0	452	Assets Held for Sale	19	57
2,857	1,925	Long Term Investments		917
19	14	Long Term Debtors		29
<b>294,741</b>	<b>262,184</b>	<b>Long Term Assets</b>		<b>245,966</b>
7,538	8,995	Short Term Investments		14,624
312	323	Inventories	16	374
9,391	6,583	Short Term Debtors	17	5,343
0	858	Cash & Cash Equivalents	18	0
<b>17,241</b>	<b>16,759</b>	<b>Current Assets</b>		<b>20,341</b>
(214)	0	Cash & Cash Equivalents		(277)
(498)	(504)	Short Term Borrowing		(1,457)
(9,667)	(7,180)	Short Term Creditors	20	(7,131)
<b>(10,379)</b>	<b>(7,684)</b>	<b>Current Liabilities</b>		<b>(8,865)</b>
(223)	(223)	Long Term Creditors		(223)
(430)	(487)	Provisions	21	(510)
(43,153)	(42,648)	Long Term Borrowing		(74,904)
(59,743)	(35,988)	Other Long Term Liabilities		(46,611)
<b>(103,549)</b>	<b>(79,346)</b>	<b>Long Term Liabilities</b>		<b>(122,248)</b>
<b>198,054</b>	<b>191,913</b>	<b>Net Assets</b>		<b>135,194</b>
17,553	19,203	Usable Reserves	22	20,558
180,501	172,710	Unusable Reserves	23	114,636
<b>198,054</b>	<b>191,913</b>	<b>Total Reserves</b>		<b>135,194</b>

## Cash Flow Statement

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

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

<b>2010/11</b>	<b>NOTES</b>	<b>2011/12</b>
£000		£000
(19,839) Net surplus or (deficit) on the provision of services	<b>27</b>	(47,679)
34,209 Adjustments to net surplus or deficit on the provision of services for non-cash movements		25,152
(4,377) Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(2,452)
<b>9,993 Net cash flows from Operating Activities</b>		<b>(24,979)</b>
(5,574) Investing Activities	<b>25</b>	(7,597)
(3,347) Financing Activities	<b>26</b>	31,441
<b>1,072 Net increase or decrease in cash and cash equivalents</b>		<b>(1,135)</b>
(214) Cash and cash equivalents at the beginning of the reporting period		858
<b>858 Cash and cash equivalents at the end of the reporting period</b>		<b>(277)</b>

## Notes to the Accounts

The notes to the accounts have three significant roles :

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

A list of the notes provided is as follows:

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

## 1 ACCOUNTING POLICIES

### 1.1 General

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at 31 March 2012. The accounts of the authority have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards.

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

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

### 1.2 Impact of future Changes to Accounting Policies

The Code 2012/13 has introduced a change in accounting disclosures in relation to financial instruments where the authority has transferred a financial asset but not de-recognised it on the balance sheet or where the authority has an ongoing involvement in transferred assets. It is not anticipated that the authority will have any transferred financial assets to disclose.

### 1.3 Accruals of Income and Expenditure

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

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

### 1.4 Acquisitions and Discontinued Operations

#### Acquired operations

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

## **Discontinued operations**

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

## **1.5 Cash and Cash Equivalents**

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

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

## **1.6 Exceptional Items**

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

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

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

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

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

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

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

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

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

## **1.9 Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary

benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

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

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

### The Local Government Pension Scheme

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

- The liabilities of the Lancashire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5%.
- The assets of Lancashire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - **quoted securities** – current price bid
  - **unquoted securities** – professional estimate
  - **unitised securities** – current bid price
  - **property** – market value
- The change in the net pensions liability is analysed into seven components:
  - **current service cost** – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.



- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- **contributions paid to the Lancashire County pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### **Discretionary Benefits**

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

### **1.10 Events After the Balance Sheet Date**

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

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

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

### **1.11 Financial Instruments**

#### **Financial Liabilities**

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan

against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

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

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

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

### **Available-for-Sale Assets**

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

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

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

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

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



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

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

### 1.12 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.13 Government Grants and Contributions

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

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

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

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

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

#### **Area Based Grant**

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

### 1.14 Heritage Assets

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

### 1.15 Intangible Assets

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

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

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

### **1.17 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **1.18 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependant on the use of the specific assets.

## The Council as Lessee

### Finance Leases

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

Lease payments are apportioned between:

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

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

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

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

## The Authority as Lessor

### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid on the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## 1.19 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full costs of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- **Corporate and Democratic Core** – costs relating to the Council’s status as a multi-functional, democratic organisation
- **Non Distributed Costs** – the cost of discretionary benefits awarded to employers retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## 1.20 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for the administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to the asset’s potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

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

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

The costs of assets acquired other than by purchase are deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially by fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until the conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are

credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement basis:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historic cost basis is used as a proxy for fair value.

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of an asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by;

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carry amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the sympathetic allocation of their depreciable amounts over the time of their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following basis:



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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

#### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continual use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant or Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

### **1.21 Provisions, Contingent Liabilities and Contingent Assets.**

#### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are

measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **1.22 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus and Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## **1.23 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

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

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

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

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

The only relevant amendments are to *IFRS 7 Financial Instruments: Disclosures*, however there is no material impact on the Authority's financial statements as a result of the changes.

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1. the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is still a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The previous main item of material uncertainty relating to Icelandic banking deposits has now been resolved in the Council's favour. There are no further items to report.

## 5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Financial Services on 30 June 2012. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 30 June 2012 and they provided information about conditions existing at 31 March 2012, the figures in the financial statement and notes would be adjusted as appropriate in all material respects to reflect the impact of this information. There have been no such events after the balance sheet date leading to such adjustments, however.

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

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



			Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets	(4,190)	(34,141)					38,331
Revaluation losses on Property Plant and Equipment							
Movements in the market value of Investment Properties	4,719	205					(4,924)
Amortisation of intangible assets	(151)	(12)					163
Capital grants and contributions applied	3,314						(3,314)
Movement in the Donated Assets Account							
Revenue expenditure funded from capital under statute	(2,419)						2,419
Reversal of Icelandic bank impairment	222						(222)
HRA self financing payment							
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(858)	(98)					956
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	2,120						(2,120)
Capital expenditure charged against the General Fund and HRA balance	459	1,823					(2,282)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	373					(373)	
Application of grants to capital financing transferred to the Capital Adjustment Accounts							
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	481	208	(689)				
Use of the Capital Receipts Reserve to finance new capital expenditure			719				(719)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(158)		158				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(7)				7
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA		2,307		(2,307)			
Use of the Major Repairs Reserve to finance new capital expenditure		(2,825)		2,593	173		59
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		158					(158)
<b>Adjustments primarily involving the Pension Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	20,191	549					(20,740)
Employer's pension contributions and direct payments to pensioners payable in the year	2,561	397					(2,958)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	8						(8)
<b>Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure</b>	<b>(3,280)</b>						<b>3,280</b>
<b>Adjustments relating to other comprehensive income and expenditure</b>	<b>31</b>		<b>(31)</b>				
<b>Appropriations to/from earmarked reserves</b>	<b>(666)</b>	<b>123</b>			<b>543</b>		
<b>Adjustments to employee absences account</b>	<b>(13)</b>	<b>(8)</b>					<b>21</b>
<b>Total Adjustments</b>	<b>22,744</b>	<b>(31,314)</b>	<b>150</b>	<b>286</b>	<b>716</b>	<b>(373)</b>	<b>7,791</b>
<b>Total adjustment to Comprehensive Income and Expenditure</b>	<b>(8,570)</b>						

	Usable Reserves						Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Charges for depreciation and impairment of non-current assets (exc MRA)	(17,841)	(6,094)					23,935
Revaluation losses on Property Plant and Equipment							
Movements in the market value of Investment Properties	685	21					(706)
Amortisation of intangible assets	(137)	(21)					158
Capital grants and contributions applied	1,228	10					(1,238)
Movement in the Donated Assets Account							0
Revenue expenditure funded from capital under statute	(1,198)						1,198
Reversal of Icelandic bank impairment	1,364						(1,364)
HRA self financing payment		(31,241)					31,241
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(737)	(130)					867
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							0
Statutory provision for the financing of capital investment	1,906						(1,906)
Capital expenditure charged against the General Fund and HRA balance	1,132	1,144					(2,276)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	45					(45)	
Application of grants to capital financing transferred to the Capital Adjustment Accounts						223	(223)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	891	289	(1,180)				0
Use of the Capital Receipts Reserve to finance new capital expenditure			760				(760)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(214)		214				0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(2)				2
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							0
Reversal of Major Repairs Allowance credited to the HRA		2,427		(2,427)			
Use of the Major Repairs Reserve to finance new capital expenditure		(2,325)		2,325			
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		159					(159)
<b>Adjustments primarily involving the Pension Reserve:</b>							0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(8,014)	191					7,823
Employer's pension contributions and direct payments to pensioners payable in the year	(2,619)	(195)					2,814
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(30)						30
<b>Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure</b>	11	1,322					(1,333)
<b>Adjustments relating to other comprehensive income and expenditure</b>							0
<b>Appropriations to/from earmarked reserves</b>	1,362	861			(2,223)		0
<b>Adjustments to employee absences account</b>	13	16					(29)
<b>Total Adjustments</b>	<b>(22,153)</b>	<b>(33,566)</b>	<b>(208)</b>	<b>(102)</b>	<b>(2,223)</b>	<b>178</b>	<b>58,074</b>
<b>Total adjustment to Comprehensive Income and Expenditure</b>	<b>(55,719)</b>						

## 7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12.

	Balance at 1 April 2010	Transfers Out	Transfers in	Balance at 31 March 2011	Transfers Out	Transfers in	Balance at 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Revenue Support	800	(800)	0	0	0	0	0
Municipal Buildings	0	0	300	300	(86)	250	464
Open Spaces Commuted Sums	216	(61)	37	192	(59)	71	204
Other Commuted Sums	1,155	(237)	435	1,353	(280)	562	1,635
Restructuring	674	(705)	697	666	(505)	425	586
Renewals	179	(188)	119	110	(29)	509	590
Capital Support	507	(584)	615	538	(253)	720	1,005
Job Evaluation	611	(272)	0	339	(285)	0	54
Project Implementation	89	(89)	0	0	0	0	0
Planning Delivery Grant	90	(57)	14	47	(21)	0	26
Concessionary Travel	100	(30)	0	70	(70)	0	0
Performance Reward Grant	239	(15)	85	309	(119)	34	224
Market Reserve	0	0	140	140	(22)	530	648
Impairment Reserve	1,363	0	0	1,363	(1,363)	0	0
Invest to Save Reserve	0	0	0	0	(207)	1,436	1,229
Welfare Reforms Reserve	0	0	0	0	0	200	200
Other Reserves £100K and under	457	(176)	105	386	(184)	108	310
<b>Total</b>	<b>6,480</b>	<b>(3,214)</b>	<b>2,547</b>	<b>5,813</b>	<b>(3,483)</b>	<b>4,845</b>	<b>7,175</b>
<b>HRA:</b>							
Hsg Mgt System Replacement	314	(24)	57	347	(47)	57	357
Flats Planned Maintenance	818	(10)	136	944	(83)	136	997
Central Control Equipment	73	0	10	83	0	5	88
Fixed Lifeline Equipment	124	(95)	15	44	(13)	15	46
Sheltered Housing Reserves	696	(107)	137	726	(3)	34	757
Other Reserves £100K and under	262	(166)	70	166	(103)	110	173
<b>Total</b>	<b>2,287</b>	<b>(402)</b>	<b>425</b>	<b>2,310</b>	<b>(249)</b>	<b>357</b>	<b>2,418</b>

## 8 OTHER OPERATING EXPENDITURE

	2010/11	2011/12
	£000	£000
Parish council precepts	528	537
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	157	214
(Gains)/losses on the disposal of non-current assets	267	(313)
	<b>952</b>	<b>438</b>

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2010/11	2011/12
	£000	£000
Interest payable and similar charges	2,743	2,709
Pensions interest cost and expected return on pensions	1,326	843
Interest receivable and similar income	(489)	(1,659)
Income and expenditure in relation to investment properties and changes in their fair value	(4,886)	5,309
Other investment income and expenditure	(749)	(157)
	<b>(2,055)</b>	<b>7,045</b>

	2010/11	2011/12
	£000	£000
Council tax income	(8,899)	(8,861)
Non domestic rates	(14,300)	(10,028)
Non-ringfenced government grants	(2,192)	(3,699)
Capital grants and contributions	(1,781)	(402)
	<b>(27,172)</b>	<b>(22,990)</b>

## 11 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Heritage assets	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost/Valuation</b>									
<b>at 1 April 2011</b>	<b>135,054</b>	<b>60,264</b>	<b>11,368</b>	<b>41,377</b>	<b>8,559</b>	<b>7,926</b>	<b>300</b>	<b>18,527</b>	<b>283,375</b>
additions	3,526	4,428	999	79	0	0	0	883	9,915
donations	0	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	1,320	13	0	0	0	0	0	0	1,333
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
derecognition - disposals	(167)	0	(254)	0	0	0	0	0	(421)
assets reclassified (to)/from Held for Sale	0	(277)	0	0	0	0	0	0	(277)
other transfers	0	8,546	0	73	0	0	0	(8,619)	0
<b>At 31 March 2012</b>	<b>139,733</b>	<b>72,974</b>	<b>12,113</b>	<b>41,529</b>	<b>8,559</b>	<b>7,926</b>	<b>300</b>	<b>10,791</b>	<b>293,925</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>at 1 April 2011</b>	<b>(27,136)</b>	<b>(8,633)</b>	<b>(4,971)</b>	<b>(9,950)</b>	<b>0</b>	<b>0</b>	<b>(38)</b>	<b>0</b>	<b>(50,728)</b>
depreciation charge	(2,326)	(979)	(1,751)	(1,523)	(2)	0	(17)	0	(6,598)
impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(6,092)	(13,550)	0	0	0	0	0	0	(19,642)
derecognition - disposals	37	0	189	0	0	0	0	0	226
<b>At 31 March 2012</b>	<b>(35,517)</b>	<b>(23,162)</b>	<b>(6,533)</b>	<b>(11,473)</b>	<b>(2)</b>	<b>0</b>	<b>(55)</b>	<b>0</b>	<b>(76,742)</b>
<b>Net Book Value</b>									
<b>at 31 March 2011</b>	<b>107,918</b>	<b>51,631</b>	<b>6,397</b>	<b>31,427</b>	<b>8,559</b>	<b>7,926</b>	<b>262</b>	<b>18,527</b>	<b>232,647</b>
<b>at 31 March 2012</b>	<b>104,216</b>	<b>49,812</b>	<b>5,580</b>	<b>30,056</b>	<b>8,557</b>	<b>7,926</b>	<b>245</b>	<b>10,791</b>	<b>217,183</b>

### Depreciation

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

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

### Capital Commitments

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 budgeted to cost £502K. Similar commitments at 31 March 2011 were £1.983M. The major commitments are:

	£000
■ Luneside East Lands Tribunal	57
■ Disabled facilities grants	283
■ Sea and Flood defence	51
■ Salt Ayre sports centre	56
■ Public realm works in Lancaster	55

These are somewhat lower than in previous years as the major refurbishment projects on Lancaster and Morecambe Town Halls, which were only partially complete at the end of 2010/11 were completed during 2011/12.

### Revaluations

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

The significant assumptions applied in estimating the fair values are:

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

	Council Dwellings £000	Other Land and Buildings £000	Heritage assets £000	Total £000
Adjustments to fair value by year:				
31 March 2012	(4,772)	(7,520)	0	<b>(12,292)</b>
31 March 2011	(36,000)	(1,598)	0	<b>(37,598)</b>
31 March 2010	(19,006)	2,636	7,926	<b>(8,444)</b>
31 March 2009	6,454	(1,432)	0	<b>5,022</b>
31 March 2008	4,145	4,249	0	<b>8,394</b>
<b>Net valuation over 5 year cycle</b>	<b>(49,179)</b>	<b>(3,665)</b>	<b>7,926</b>	<b>(44,918)</b>

## 12 HERITAGE ASSETS

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

	2010/11 Restated £000	2011/12 £000
<b>Opening Balance</b>		
Civic Regalia and other donated items	610	610
Museum Collections	7,131	7,131
Public Art Works	168	168
Art Collection	17	17
	<b>7,927</b>	<b>7,927</b>
<b>Cost of Acquisitions</b>	<b>0</b>	<b>0</b>
<b>Value of Assets Acquired by Donation</b>	<b>0</b>	<b>0</b>
<b>Disposal of Collectable Assets</b>	<b>0</b>	<b>0</b>
<b>Impairment of Assets Recognised in Period</b>	<b>0</b>	<b>0</b>
<b>Closing Balance</b>		
Civic Regalia and other donated items	610	610
Museum Collections	7,131	7,131
Public Art Works	168	168
Art Collection	17	17
	<b>7,927</b>	<b>7,927</b>

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

#### **Further information on Heritage Assets.**

##### **Civic Regalia and other donated assets**

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

##### **Museums Collection**

The Council owns over 3,500 items which are either on display or stored at the Maritime, Cottage and City museums in Lancaster. The museums themselves are managed through a partnership arrangement with Lancashire County Council. Some of the more valuable items include paintings of Sir Richard Owen dating back to the early 1800's, in addition to a Roman cavalry tombstone circa 80 AD which was discovered in an archaeological dig at Aldcliffe Road in 2005. The museum collections account for 90% of the value represented on the balance sheet.

##### **Public Artwork**

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

##### **Works of Art**

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

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

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

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

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

#### **Heritage Assets: Change in Accounting Policy required by the Code**

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets.

The effects of the restatement are as follows:

- At 01 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £7.926M. The revaluation reserve has increased by £7.926M.
- The fully restated 01 April 2010 Balance Sheet is provided on page 13. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	Opening Balance as at 01 April 2010 £000	Restatement £000	Restatement required to opening balance as at 01 April 2010 £000
Property, Plant and Equipment	263,806	0	263,806
Heritage Assets	0	7,926	7,926
<b>Long-term Assets</b>	<b>286,815</b>	<b>7,926</b>	<b>294,741</b>
<b>Total Net Assets</b>	<b>190,128</b>	<b>7,926</b>	<b>198,054</b>
Unusable Reserves	172,575	7,926	180,501
<b>Net Worth/Total Reserves</b>	<b>190,128</b>	<b>7,926</b>	<b>198,054</b>

#### Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the following table.

	As Previously Stated 31 March 2011 £000	As Restated 31 March 2011 £000	Restatement 2011 £000
Balance as at the end of the previous reporting period – 31 March 2010	190,128	7,926	198,054
<b>Surplus or Deficit on the Provision of Services</b>	<b>(19,839)</b>	<b>0</b>	<b>(19,839)</b>
Other Comprehensive Income and Expenditure	13,698	0	13,698
Adjustments between the accounting basis and the funding basis under regulations	0	0	0
<b>Increase/(decrease) in the year</b>	<b>(6,141)</b>	<b>0</b>	<b>(6,141)</b>
<b>Balance at the end of the current reporting period 31 March 2011</b>	<b>183,987</b>	<b>7,926</b>	<b>191,913</b>

#### Effect on Balance Sheet 31 March 2011

The resulting restated Balance Sheet for 31 March 2011 is provided on page 13. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	Opening Balance as at 31 March 2011 £000	Restatement £000	Restatement required to opening balance as at 31 March 2011 £000
Property, Plant and Equipment	224,721	0	224,721
Heritage Assets	0	7,926	7,926
<b>Long-term Assets</b>	<b>254,258</b>	<b>7,926</b>	<b>262,184</b>
<b>Total Net Assets</b>	<b>183,987</b>	<b>7,926</b>	<b>191,913</b>
Unusable Reserves	164,784	7,926	172,710
<b>Net Worth/Total Reserves</b>	<b>183,987</b>	<b>7,926</b>	<b>191,913</b>



**13 INVESTMENT PROPERTIES**

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Rental income from investment property	(732)	(529)
Direct operating expenses arising from investment property	326	380
<b>Net (gain)/loss</b>	<b>(406)</b>	<b>(149)</b>

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

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
<b>Balance at start of the year</b>	<b>19,827</b>	<b>26,913</b>
Additions:		
Purchases	0	0
Construction	0	0
Subsequent expenditure	12	20
Disposals:	(61)	0
Net gains/losses from fair value adjustments	5,045	705
Transfers:		
to/from Inventories	0	0
to/from Property, Plant & Equipment	2,090	0
Other changes	0	0
<b>Balance at end of the year</b>	<b>26,913</b>	<b>27,638</b>

**14 INTANGIBLE ASSETS**

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software suites used by the Authority is 5 years.

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



	2010/11	2011/12
	£000	£000
<b>Balance at start of year:</b>		
□ □ □ Gross carrying amounts	730	723
□ □ □ Accumulated amortisation	(424)	(490)
Net carrying amount at start of year	<b>306</b>	<b>233</b>
<b>Additions:</b>		
□ □ □ Purchases	90	67
Assets reclassified as held for sale	0	0
Revaluations increases or decreases	0	0
Impairment losses recognised or reversed directly in the Revaluation Reserve	0	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0	0
Amortisation for the period	(163)	(158)
<b>Net carrying amount at the end of year</b>	<b>233</b>	<b>142</b>
<b>Comprising:</b>		
□ □ □ Gross carrying amounts	723	790
□ □ □ Accumulated amortisation	(490)	(648)
	<b>233</b>	<b>142</b>

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

## 15 FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
<b>Investments</b>				
Loans and receivables	1,925	917	8,995	14,624
<b>Total investments</b>	<b>1,925</b>	<b>917</b>	<b>8,995</b>	<b>14,624</b>
<b>Debtors</b>				
Loans and receivables	14	29	6,583	5,343
<b>Total Debtors</b>	<b>14</b>	<b>29</b>	<b>6,583</b>	<b>5,343</b>
<b>Bank account</b>	0	0	858	0
<b>Total assets</b>	<b>1,939</b>	<b>946</b>	<b>16,436</b>	<b>19,967</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	39,215	69,415	0	1,041
Finance lease liabilities	3,433	5,489	504	416
<b>Total borrowings</b>	<b>42,648</b>	<b>74,904</b>	<b>504</b>	<b>1,457</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	223	223	7,180	7,131
<b>Total Creditors</b>	<b>223</b>	<b>223</b>	<b>7,180</b>	<b>7,131</b>
<b>Bank overdraft</b>	0	0	0	277
<b>Total liabilities</b>	<b>42,871</b>	<b>75,127</b>	<b>7,684</b>	<b>8,865</b>

	2010/11					2011/12				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest payable	2,656	0	0	0	2,656	2,715	0	0	0	2,715
Losses on derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in fair value	0	0	0	0	0	0	6	0	0	6
Impairment losses	0	(222)	0	0	(222)	0	(1,364)	0	0	(1,364)
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>2,656</b>	<b>(222)</b>	<b>0</b>	<b>0</b>	<b>2,434</b>	<b>2,715</b>	<b>(1,358)</b>	<b>0</b>	<b>0</b>	<b>1,357</b>
Interest income	0	(99)	0	0	(99)	0	(120)	(7)	0	(127)
Interest income accrued on impaired financial assets	0	(172)	0	0	(172)	0	(174)	0	0	(174)
Increases in fair value	0	0	0	0	0	0	0	0	0	0
Gains and derecognition	0	0	0	0	0	0	0	0	0	0
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(271)</b>	<b>0</b>	<b>0</b>	<b>(271)</b>	<b>0</b>	<b>(294)</b>	<b>(7)</b>	<b>0</b>	<b>(301)</b>
Gains on revaluation	0	0	0	0	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0	0	0	0	0
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (gain)/loss for the year</b>	<b>2,656</b>	<b>(493)</b>	<b>0</b>	<b>0</b>	<b>2,163</b>	<b>2,715</b>	<b>(1,652)</b>	<b>(7)</b>	<b>0</b>	<b>1,056</b>

### Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Carrying values are assumed to be equal to the fair value of short term assets and liabilities held. The value of long term creditors is reviewed at each balance sheet date based on the current values outstanding and best estimates of amounts required to settle liabilities of uncertain timing or amount. PWLB loans are the only financial instrument where the fair value is judged to be different from the carrying amount. The fair value is calculated based on premature repayment rates between 2.74% and 3.28%.

	31 March 2011		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	50,332	62,955	83,769	106,948
Long-term creditors & provisions	710	710	732	732
<b>Total</b>	<b>51,042</b>	<b>63,665</b>	<b>84,501</b>	<b>107,680</b>

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

	31 March 2011		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	18,361	18,361	20,883	20,883
Long-term debtors	14	14	29	29
<b>Total</b>	<b>18,375</b>	<b>18,375</b>	<b>20,912</b>	<b>20,912</b>

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

## 16 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Client Services Work in Progress		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Balance outstanding at start of year</b>	39	36	191	182	81	100	1	5	312	323
Written off balances	0	0	0	0	0	0	0	0	0	0
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0	0	0
Movement in Year	(3)	0	(9)	61	19	(5)	4	(5)	11	51
<b>Balance outstanding at year-end</b>	<b>36</b>	<b>36</b>	<b>182</b>	<b>243</b>	<b>100</b>	<b>95</b>	<b>5</b>	<b>0</b>	<b>323</b>	<b>374</b>

## 17 DEBTORS

	31 March 2011 £000	31 March 2012 £000
Council Taxpayers	376	352
Central Government Bodies	2,807	1,618
Housing Rents	198	263
Other Local Authorities	587	565
Commercial Ratepayers	72	83
Other entities and individuals	2,543	2,462
	<b>6,583</b>	<b>5,343</b>

## 18 CASH AND CASH EQUIVALENTS

	31 March 2011 £000	31 March 2012 £000
Bank current account	858	(277)
	<b>858</b>	<b>(277)</b>

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

## 19 ASSETS HELD FOR SALE

	Current		Non Current	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Balance at start of the year.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>452</b>
Assets newly classified as held for sale:				
- Property, plant and equipment	0	0	452	277
Revaluation losses	0	0	0	0
Revaluation gains	0	0	0	0
Impairment losses	0	0	0	0
Disposals	0	0	0	(672)
<b>Balance at end of the year.</b>	<b>0</b>	<b>0</b>	<b>452</b>	<b>57</b>

## 20 CREDITORS

	31 March 2011	31 March 2012
	£000	£000
Council Taxpayers	(117)	(78)
Central Government Bodies	(1,422)	(2,035)
Housing Rents	(119)	(114)
Other Local Authorities	(1,286)	(915)
Commercial Ratepayers	0	(704)
Other entities and individuals	(4,236)	(3,285)
	<b>(7,180)</b>	<b>(7,131)</b>

## 21 PROVISIONS

	REVENUE		CAPITAL	Total £000
	Insurance £000	Williamson Park £000	General Fund Clawback £000	
<b>Balance at 1 April 2011</b>	<b>330</b>	<b>100</b>	<b>57</b>	<b>487</b>
Additional provisions made	264	0	0	<b>264</b>
Amounts used	(141)	(100)	0	<b>(241)</b>
<b>Balance at 31 March 2012</b>	<b>453</b>	<b>0</b>	<b>57</b>	<b>510</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. Towards the end of the financial year the Council was notified that it would be liable to meet the cost of claims dating back to 1992 which were administered under the former Municipal Mutual Insurance company. As such an additional contribution of £155K was made into the provision.

During 2010/11 Williamson Park Limited ceased trading and the management of the park transferred to the Council. As part of this process the company was formally wound up during 2011/12 and was dissolved by Companies House on 31 January 2012, at which point the Council covered any outstanding liabilities for which it had already made provision. The provision has now been closed as part of the 2011/12 closedown process (see also Note 28).

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

**22 USABLE RESERVES**

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

	<b>Restated</b>	
	<b>31 March</b>	<b>31 March</b>
	<b>2011</b>	<b>2012</b>
	£000	£000
General Fund Balance	3,674	2,674
HRA Balance	452	1,205
Major Repairs Reserve	6,581	6,683
Housing Mgt System replacement Reserve	347	358
Flats Planned Maintenance	944	997
Sheltered Equipment	258	289
Sheltered Planned Maintenance	304	354
Job Evaluation	422	53
Sheltered Support Grant Maintenance	164	185
Renewals Reserve	110	594
Impairment Reserve	1,363	0
Performance Reward Grant Reserve	308	223
Market Reserve	140	647
Concessionary Travel Reserve	70	0
Capital Support	538	1,005
Open Spaces Commuted Sums	192	205
Other Commuted Sums	1,353	1,636
Municipal Buildings Reserve	300	464
Restructuring Reserve	666	586
Welfare Reforms Reserve	0	200
Invest to Save Reserve	0	1,229
Capital Grants Unapplied	373	195
Capital Receipts Unapplied	0	208
Other Reserves under £100K	644	568
<b>Total usable reserves</b>	<b>19,203</b>	<b>20,558</b>

**23 UNUSABLE RESERVES**

	<b>31 March</b>	<b>31 March</b>
	<b>2011</b>	<b>2012</b>
	£000	£000
Revaluation Reserve (2010/11 Restated)	16,678	17,468
Financial Instruments Adjustment Account	(509)	(351)
Capital Adjustment Account	192,748	144,364
Pensions Reserve	(36,045)	(46,681)
Deferred Credits	14	11
Accumulated Absences Account	(214)	(184)
Collection Fund Adjustment Account	38	9
<b>Total unusable reserves</b>	<b>172,710</b>	<b>114,636</b>

**Revaluation Reserve**

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

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

The Reserve contains only revaluation gains accumulated since 01 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11	2011/12
	£000	£000
	Restated	
<b>Balance at 1 April</b>	<b>20,170</b>	<b>16,678</b>
Upwards revaluation of assets	789	6,954
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services.	(4,069)	(5,623)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services.	(3,280)	1,331
Difference between fair value depreciation and historical cost depreciation.	(212)	(369)
Accumulated gains on assets sold or scrapped.	0	(172)
Amount written off to the Capital Adjustment Account.	(213)	(541)
<b>Balance at 31 March</b>	<b>16,678</b>	<b>17,468</b>

#### Capital Adjustment Account

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

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 01 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>220,885</b>	<b>192,748</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
■ Charges for depreciation and impairment of non current assets	(40,724)	(26,240)
■ Amortisation of Intangible Assets	(164)	(158)
■ Revenue Expenditure funded from Capital under statute.	(2,418)	(1,237)
■ Reversal of Icelandic bank impairment	222	1,364
■ HRA self financing payment.	0	(31,241)
■ Amounts of non current assets written of on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(956)	(866)
<b>Sub total</b>	<b>176,845</b>	<b>134,370</b>
Adjusting amounts written out of the Revaluation Reserve	213	541
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>177,058</b>	<b>134,911</b>
Capital financing applied in the year:		
■ Use of Capital Receipts Reserve	718	759
■ Use of the Major Repairs Reserve	2,767	2,325
■ Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	3,314	1,272
■ Application of grants to capital financing from the Capital Grants Unapplied Account.	0	190
■ Statutory provision for the financing of capital investment charged against General Fund and HRA balances	2,121	1,906
■ Capital expenditure charged against the General Fund and HRA balances	1,823	2,295
<b>Sub total</b>	<b>187,801</b>	<b>143,658</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	4,947	706
Movement in the Donated Asset Account credited to the Comprehensive Income and Expenditure Statement	0	0
<b>Balance at 31 March</b>	<b>192,748</b>	<b>144,364</b>

### Financial Instruments Adjustment Account (FIAA)

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in line with statutory provisions. The Authority uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund and HRA balance to the FIAA in the Movement in Reserves Statement. Over time, the expense and income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be reversed into the General Fund over the next 41 years. The element relating the HRA will be effectively written off in 2016/17.

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>(667)</b>	<b>(509)</b>
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	158	158
<b>Balance at 31 March</b>	<b>(509)</b>	<b>(351)</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, and changing assumptions and investment returns on any resources set aside to meet such costs. However, statutory arrangements require pensions to be



financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>(59,743)</b>	<b>(36,045)</b>
Actuarial gains or losses on pensions assets and liabilities	16,946	(10,372)
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	2,867	(3,511)
Employer's pension contribution and direct payments to pensioners payable in the year	3,885	3,247
<b>Balance at 31 March</b>	<b>(36,045)</b>	<b>(46,681)</b>

#### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	30	38
Amount by which council tax income credited to Comprehensive Income and Expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	8	(29)
<b>Balance at 31 March</b>	<b>38</b>	<b>9</b>

#### Accumulated Absences Account

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

	2010/11	2011/12
	£000	£000
<b>Balance at 1 April</b>	<b>(193)</b>	<b>(214)</b>
Settlement or cancellation of accrual made at the end of the preceding year	193	214
Amounts accrued at the end of the current year	(214)	(184)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(21)	30
<b>Balance at 31 March</b>	<b>(214)</b>	<b>(184)</b>

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

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Interest received	(98)	(115)
Interest paid	2,656	1,608

**25 CASH FLOW STATEMENT – INVESTING ACTIVITIES**

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(8,529)	(7,291)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	689	1,174
Acquisition of short and long term borrowing	(500)	(3,262)
Other receipts from investing activities	2,766	1,782
<b>Net cash flows from investing activities</b>	<b>(5,574)</b>	<b>(7,597)</b>

**26 CASH FLOW STATEMENT – FINANCING ACTIVITIES**

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(498)	(504)
Cash receipts of long and short term borrowing		31,241
Payments and receipts relating to NNDR	(2,849)	704
<b>Net cash flows from financing activities</b>	<b>(3,347)</b>	<b>31,441</b>

**27 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**

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

- no notional charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services.

<b>Income and Expenditure 2011/12</b>	<i>Community Engagement</i>	<i>Corporate Accounts</i>	<i>Environmental Services</i>	<i>Financial Services</i>	<i>Governance</i>	<i>Health and Housing</i>	<i>Information Services</i>	<i>Office of Chief Executive</i>	<i>Property Services</i>	<i>Regeneration &amp; Policy</i>	<b>TOTAL</b>
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer Fees & Charges	(2,138)	(22,017)	(2,694)	(6,448)	(578)	(14,783)	0	0	(4,328)	(618)	<b>(53,604)</b>
Government Grants	(8)	(599)	0	(52,295)	(105)	0	0	0	0	0	<b>(53,007)</b>
Interest	(3)	(17)	0	(8,903)	0	(553)	0	0	0	0	<b>(9,476)</b>
Other Grants & Contributions	(849)	(6)	(1,404)	(534)	(12)	(2,550)	0	0	(88)	(940)	<b>(6,383)</b>
<b>Total income</b>	<b>(2,998)</b>	<b>(22,639)</b>	<b>(4,098)</b>	<b>(68,180)</b>	<b>(695)</b>	<b>(17,886)</b>	<b>0</b>	<b>0</b>	<b>(4,416)</b>	<b>(1,558)</b>	<b>(122,470)</b>
Employee expenses	3,279	0	7,221	2,634	1,283	3,020	0	353	941	2,018	<b>20,749</b>
Premises	1,036	0	4,490	459	17	4,475	0	0	2,600	483	<b>13,560</b>
Transport	106	0	1,841	30	39	191	0	4	11	60	<b>2,282</b>
Supplies & Services	2,895	780	3,099	8,088	872	37,669	0	3	824	1,242	<b>55,472</b>
<b>Total expenditure</b>	<b>7,316</b>	<b>780</b>	<b>16,651</b>	<b>11,211</b>	<b>2,211</b>	<b>45,355</b>	<b>0</b>	<b>360</b>	<b>4,376</b>	<b>3,803</b>	<b>92,063</b>
<b>Net expenditure</b>	<b>4,318</b>	<b>(21,859)</b>	<b>12,553</b>	<b>(56,969)</b>	<b>1,516</b>	<b>27,469</b>	<b>0</b>	<b>360</b>	<b>(40)</b>	<b>2,245</b>	<b>(30,407)</b>

<b>Income and Expenditure 2010/11 Comparative Figures</b>	<i>Community Engagement</i>	<i>Corporate Accounts</i>	<i>Environmental Services</i>	<i>Financial Services</i>	<i>Governance</i>	<i>Health and Housing</i>	<i>Information Services</i>	<i>Office of Chief Executive</i>	<i>Property Services</i>	<i>Regeneration &amp; Policy</i>	<b>TOTAL</b>
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer Fees & Charges	(1,696)	(25,391)	(2,605)	(6,589)	(555)	(14,431)	(1)	0	(4,518)	(752)	<b>(56,538)</b>
Government Grants	(44)	0	0	(49,894)	(235)	(56)	0	0	(1,203)	(106)	<b>(51,538)</b>
Interest	(3)	(17)	0	(11,101)	0	(1,098)	0	0	0	0	<b>(12,219)</b>
Other Grants & Contributions	(973)	(213)	(1,263)	(573)	(12)	(2,470)	0	(6)	(29)	(1,033)	<b>(6,572)</b>
<b>Total income</b>	<b>(2,716)</b>	<b>(25,621)</b>	<b>(3,868)</b>	<b>(68,157)</b>	<b>(802)</b>	<b>(18,055)</b>	<b>(1)</b>	<b>(6)</b>	<b>(5,750)</b>	<b>(1,891)</b>	<b>(126,867)</b>
Employee expenses	6,059	0	9,809	4,171	2,147	5,064	654	601	6,695	4,075	<b>39,275</b>
Premises	867	0	1,815	458	20	4,069	0	0	2,628	382	<b>10,239</b>
Transport	130	0	1,664	89	36	483	16	5	18	93	<b>2,534</b>
Supplies & Services	2,637	854	2,014	6,256	854	6,458	477	11	3,653	3,250	<b>26,464</b>
<b>Total expenditure</b>	<b>9,693</b>	<b>854</b>	<b>15,302</b>	<b>10,974</b>	<b>3,057</b>	<b>16,074</b>	<b>1,147</b>	<b>617</b>	<b>12,994</b>	<b>7,800</b>	<b>78,512</b>
<b>Net expenditure</b>	<b>6,977</b>	<b>(24,767)</b>	<b>11,434</b>	<b>(57,183)</b>	<b>2,255</b>	<b>(1,981)</b>	<b>1,146</b>	<b>611</b>	<b>7,244</b>	<b>5,909</b>	<b>(48,355)</b>

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

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
<b>Net expenditure in Service analysis</b>	<b>(48,355)</b>	<b>(30,402)</b>
Net expenditure of services and support services not included in the analysis	4,814	1,575
Amounts in the Comprehensive Income and Expenditure statement not reported to management in the analysis	87,547	70,414
Amounts included in the analysis not included in the Comprehensive Income and Expenditure statement	4,108	21,599
<b>Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>48,114</b>	<b>63,186</b>

### Reconciliation of Subjective Analysis

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

2011/12	Services included in		Net Cost of Services	Corporate amounts	Total
	Service Analysis	Analysis but not NCS			
	£000	£000	£000	£000	£000
Customer Fees and Charges	(53,603)	30,576	(23,027)	0	(23,027)
Government Grants	(53,006)	1,702	(51,304)	0	(51,304)
Interest	(9,477)	9,419	(58)	0	(58)
Other Grants and Contributions	(6,382)	101	(6,281)	0	(6,281)
Recharges	0	(11,362)	(11,362)	0	(11,362)
Capital Financing Income	0	(1,352)	(1,352)	0	(1,352)
Taxation & Non Specific Grant Inc	0	0	0	(22,990)	(22,990)
<b>Total Income</b>	<b>(122,468)</b>	<b>29,084</b>	<b>(93,384)</b>	<b>(22,990)</b>	<b>(116,374)</b>
Employee expenses	20,749	(7,951)	12,798	0	12,798
Premises	13,561	(1,722)	11,839	0	11,839
Transport	2,283	(608)	1,675	0	1,675
Supplies & Services	55,473	(9,467)	46,006	0	46,006
Other Operating Expenditure	0	0	0	438	438
Financing & Investment Inc & Exp	0	0	0	1,029	1,029
Transfer Payments	0	51,954	51,954	0	51,954
Support Services	0	12,486	12,486	0	12,486
Capital Charges	0	19,812	19,812	6,016	25,828
<b>Total expenditure</b>	<b>92,066</b>	<b>64,504</b>	<b>156,570</b>	<b>7,483</b>	<b>164,053</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(30,402)</b>	<b>93,588</b>	<b>63,186</b>	<b>(15,507)</b>	<b>47,679</b>
2010/11 Comparative Figures	Services included in		Net Cost of Services	Corporate amounts	Total
	Service Analysis	Analysis but not NCS			
	£000	£000	£000	£000	£000
Customer Fees and Charges	(56,538)	34,569	(21,969)	0	(21,969)
Government Grants	(51,538)	1,153	(50,385)	0	(50,385)
Interest	(12,219)	11,980	(239)	0	(239)
Other Grants and Contributions	(6,572)	45	(6,527)	0	(6,527)
Recharges	0	(8,422)	(8,422)	0	(8,422)
Capital Financing Income	0	(2,394)	(2,394)	0	(2,394)
Taxation & Non Specific Grant Inc	0	0	0	(27,172)	(27,172)
<b>Total Income</b>	<b>(126,867)</b>	<b>36,931</b>	<b>(89,936)</b>	<b>(27,172)</b>	<b>(117,108)</b>
Employee expenses	39,274	(33,514)	5,760	0	5,760
Premises	10,239	(1,758)	8,481	0	8,481
Transport	2,535	(767)	1,768	0	1,768
Supplies & Services	26,464	(8,064)	18,400	0	18,400
Other Operating Expenditure	0	0	0	952	952
Financing & Investment Inc & Exp	0	0	0	(2,215)	(2,215)
Transfer Payments	0	49,395	49,395	0	49,395
Support Services	0	13,700	13,700	0	13,700
Capital Charges	0	40,546	40,546	160	40,706
<b>Total expenditure</b>	<b>78,512</b>	<b>59,538</b>	<b>138,050</b>	<b>(1,103)</b>	<b>136,947</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(48,355)</b>	<b>96,469</b>	<b>48,114</b>	<b>(28,275)</b>	<b>19,839</b>

## 28 ACQUIRED AND DISCONTINUED OPERATIONS

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

The Company was formally wound up during 2011/12 and was formally dissolved by Companies House on 31 January 2012, at which point the Council became responsible for any outstanding net liabilities arising, for which the Council had already made provision for (see also Note 21).

## 29 TRADING OPERATIONS

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

	2008/09	2009/10	2010/11	2011/12
<b>Highways</b>	£000	£000	£000	£000
Turnover	(1,207)	(1,253)	(1,223)	(1,149)
Expenditure	1,025	1,201	956	1,087
Surplus	(182)	(52)	(267)	(62)
<b>Trade Waste</b>				
Turnover	(848)	(910)	(1,039)	(1,032)
Expenditure	715	764	857	997
Surplus	(133)	(146)	(182)	(35)
<b>Markets</b>				
Turnover	(794)	(814)	(1,095)	(1,081)
Expenditure	1,455	1,189	1,388	1,214
Deficit	661	375	293	133
<b>Commercial Properties / Industrial Units</b>				
Turnover	(1,132)	(1,026)	(887)	(736)
Expenditure	2,994	593	539	541
Surplus	1,862	(433)	(348)	(195)
<b>Consolidated</b>				
<b>Turnover</b>	(3,981)	(4,003)	(4,244)	(3,998)
<b>Expenditure</b>	6,189	3,747	3,740	3,839
<b>Surplus</b>	<b>2,208</b>	<b>(256)</b>	<b>(504)</b>	<b>(159)</b>

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

	2010/11	2011/12
	£000	£000
Net deficit/(surplus) on trading operations	(504)	(159)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	0	0
<b>Net surplus posted to other operating expenditure</b>	<b>(504)</b>	<b>(159)</b>

**30 AGENCY SERVICES**

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Expenditure on agency arrangement	133	181
Income on agency arrangement	(104)	(166)
<b>Net deficit arising on agency arrangements (local top-up)</b>	<b>29</b>	<b>15</b>

**31 MEMBERS ALLOWANCES**

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Basic Allowances	197	197
Special Responsibility Allowances	83	75
Expenses	4	5
<b>Total</b>	<b>284</b>	<b>277</b>

**32 OFFICERS REMUNERATION**

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

	<i>Salary, Fees and allowances</i>	<i>Expenses &amp; Benefits in Kind</i>	<i>Redundancy Payments</i>	<i>Total Remuneration (excluding pension contributions)</i>	<i>Employer Pension contribution</i>	<i>Total Remuneration (including pension contributions)</i>
<b>2011/12</b>	£000	£000	£000	£000	£000	£000
Chief Executive	107	2	0	<b>109</b>	22	<b>131</b>
Deputy Chief Executive ★	77	1	72	<b>150</b>	16	<b>166</b>
Head of Community Engagement	62	0	0	<b>62</b>	13	<b>75</b>
Head of Environmental Services	62	1	0	<b>63</b>	13	<b>76</b>
Head of Financial Services	62	1	0	<b>63</b>	13	<b>76</b>
Head of Governance	62	1	0	<b>63</b>	13	<b>76</b>
Head of Health & Housing	62	1	0	<b>63</b>	13	<b>76</b>
Head of Property Services ★	55	1	65	<b>121</b>	11	<b>132</b>
Head of Regeneration & Policy	62	1	0	<b>63</b>	13	<b>76</b>

★ The Deputy Chief Executive took voluntary redundancy on 15 April 2012 and the Head of Property Services took early retirement and voluntary redundancy on 15 June 2012. As the decisions to grant these terminations were made prior to 31 March 2012 the respective redundancy payments are included in the above figures for 2011/12.

	Salary, Fees and allowances	Expenses & Benefits in Kind	Redundancy Payments	Total Remuneration (excluding pension contributions)	Employer Pension contribution	Total Remuneration (including pension contributions)
2010/11	£000	£000	£000	£000	£000	£000
Chief Executive	107	2	0	109	20	129
Deputy Chief Executive	77	2	0	79	15	94
Head of Community Engagement	62	0	0	62	12	74
Head of Environmental Services	59	1	0	60	11	71
Head of Financial Services	62	2	0	64	11	75
Head of Governance	62	0	0	62	12	74
Head of Health & Housing	60	2	0	62	11	73
Head of Property Services	55	2	0	57	10	67
Head of Regeneration & Policy	62	2	0	64	12	76
Head of Democratic Services	63	1	66	130	5	135
Head of Council Housing	55	1	66	122	3	125
Head of Information Services	12	1	0	13	2	15
Corp. Director (Fin & Perfmnce)	39	1	89	129	7	136
Corp. Director (Comm Services)	39	1	94	134	7	141

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

Remuneration band	2010/11 Number of Employees	2011/12 Number of Employees
£50,000 - £54,999	1	1
£55,000 - £59,999	3	-
£60,000 - £64,999	-	-
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£	£
£0 - £20,000	0	0	13	8	13	8	113,970	80,559
£20,001 - £40,000	0	0	10	2	10	2	256,857	57,048
£40,001 - £60,000	0	0	0	1	0	1	0	52,833
£60,001 - £80,000	0	0	2	1	2	1	138,489	71,771
£80,001 - £100,000	0	0	2	2	2	2	183,138	171,963
£100,001 - £150,000	0	0	3	1	3	1	394,238	115,924
<b>Total</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>15</b>	<b>30</b>	<b>15</b>	<b>1,086,692</b>	<b>550,098</b>

### 33 EXTERNAL AUDIT COSTS

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



	2010/11	2011/12
	£000	£000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	169	139
Rebate of fee in respect of IFRS work	(10)	(10)
Fees payable in respect of other statutory inspections	0	0
Fees payable for the certification of grant claims and returns for the year	43	37
<b>Total</b>	<b>202</b>	<b>166</b>

### 34 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12.

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2010/11	2011/12
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	2,077	3,100
Area Based Grant	98	0
Council tax freeze grant	0	209
Lancashire County Council - Performance Reward Grant	324	(33)
New homes bonus	0	231
DfT Cycling England	290	0
Lancashire County Council Cycling England	77	0
Environment Agency Artle Beck Flood Defences	174	146
Other EA grants	22	23
HCA funding	633	83
Recycled housing grants	0	45
Local services support grant	0	159
Private contributions	0	66
Other Grants under £50K	278	72
<b>Total</b>	<b>3,973</b>	<b>4,101</b>

	2010/11	2011/12
<b>Credited to services</b>	£000	£000
DCLG YMCA Places of Change Grant	720	11
DCLG Disabled Facilities Grant	625	615
Regional Housing Pot Disabled Facilities Grant	100	0
Grant: Sefton BC Strategic Monitoring	79	57
Regional Housing Grant Bold Street Renovation Scheme	182	4
Regional Housing Grant Marlborough Road Redevelopment	110	0
Sustrans links to schools	0	136
Major repairs allowances	2,307	2,325
Capital Grant Exemplar Scheme	76	0
Strand 2 - Exercise Referral Project: Other Grants	71	77
Parliamentary Elections/A.V. Referendum: Government Grants	200	105
Amside & Silverdale AONB Grants	172	163
Performance reward grant	372	33
Planning Delivery: Government Grants	106	0
Concessionary Travel: Government Grants	1,203	0
Council Tax Benefit Grant: Government Grants	10,527	10,596
Standard Rent Allowances: Government Grants	29,032	30,827
War Widows Benefit Grant: Government Grants	27	49
Rent Rebates - Council Housing: Government Grants	8,903	9,453
NNDR Administration: Government Grants	234	237
Other Grants Under £50K	421	257
<b>Total</b>	<b>55,467</b>	<b>54,945</b>

	2010/11	2011/12
<b>Capital grants receipts in advance</b>	£000	£000
DFG grant	0	141
Townscape Heritage Initiative	250	250
Poulton Pedestrian Route, Section 106	127	127
Environment agency sea and flood defences	237	101
Ffrances Passage, Section 106: External funder	73	0
YMCA places of change, DCLG	63	52
Bold St Renovation, Regional Housing Grant	100	55
EP Exemplar Project Funding	99	48
Other Grants Under £50K	158	61
<b>Total</b>	<b>1,107</b>	<b>835</b>

### 35 RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

#### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are contained within debtors Note 17.

#### Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 31. There are no other material transactions to disclose in respect of elected members.

**Officers**

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

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

Payment of revenue grant support totalling £148.5K was made to the Dukes Playhouse Ltd in 2011/12 for its core activities, i.e. to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. This included the provision of grant in lieu of rent free Council accommodation to the value of £12.5K. The Youth Arts Centre occupies a former church, which is also owned by the Council. The company maintains the building and pays an annual rent of £8K to the Council in respect of this. Although the Council has nominated four of its City Councillors as trustees of the company there is no ultimate controlling party.

The Council nominates one of its Councillors onto the Board of Heysham Mossgate (Community Facilities) Company Ltd. There is no ultimate controlling party however, and the Council made no financial support to the company during 2011/12. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

The Council nominates one of its Councillors onto the Board of Storey Ltd. There is no ultimate controlling party, however. The Council provided a loan totalling £90K to the company during 2011/12 fully repayable including interest over a maximum of three years from the date of the first repayment, being 16 April 2012. The principal activity of the company is the operation of the Storey Creative Industry Centre on a non-profit making basis.

**36 CAPITAL EXPENDITURE AND CAPITAL FINANCING**

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

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>50,810</b>	<b>50,819</b>
<i>Capital investment</i>		
Property, Plant and Equipment	8,397	7,479
Re-assessment of finance lease liability		2,474
Investment Properties	12	20
Intangible Assets	90	67
Reversal of Icelandic bank impairment	(222)	(1,363)
HRA self financing payment	0	31,241
Revenue Expenditure Funded from Capital Under Statute	2,419	1,199
<i>Sources of financing</i>		
Capital receipts	(718)	(760)
Government Grants and other contributions	(3,259)	(1,462)
Direct revenue contributions	(1,823)	(2,295)
Minimum Revenue Provision	(2,120)	(1,906)
Major Repairs Reserve	(2,767)	(2,325)
<b>Closing Capital Financing Requirement</b>	<b>50,819</b>	<b>83,188</b>
<i>Explanation of movements in year</i>		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by government financial assistance)	9	32,369
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>9</b>	<b>32,369</b>

## 37 LEASES

**Finance Leases**

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

Part of the changes below relate to re-assessment of the Lancaster Market finance lease, both bringing in the land element following changes to the Code and a correction to the discount rate applied during the restatement process. This has increased the value of the liability and the asset by £2.5M, in addition, the full value of the market has been written out (see note 37) of the balance sheet.

	<b>31/03/11</b>	<b>31/03/12</b>
	£000	£000
Operational Land and buildings	6,919	6,908
Finance lease liability re-assessment	0	2,475
Lancaster Indoor market impairment	0	(6,016)
Vehicles, Plant, Furniture & Equipment	1,605	1,100
<b>Total</b>	<b>8,524</b>	<b>4,467</b>

	<b>31/03/11</b>	<b>31/03/12</b>
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
■ Current	505	416
■ Non-current	3,432	5,489
Finance costs payable in future years	24,666	28,752
<b>Minimum lease payments</b>	<b>28,603</b>	<b>34,657</b>

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

	<b>Minimum lease payments</b>		<b>Finance cost</b>	
	<b>31/03/11</b>	<b>31/03/12</b>	<b>31/03/11</b>	<b>31/03/12</b>
	£000	£000	£000	£000
Not later than 1 year	505	416	401	461
Later than 1 year and not later than 5 years	909	595	1,397	1,692
Later than 5 years	2,523	4,894	22,868	26,599
<b>Minimum lease payments</b>	<b>3,937</b>	<b>5,905</b>	<b>24,666</b>	<b>28,752</b>

The minimum lease payments include rents that are contingent following rent reviews. In 2011/12 £113K contingent rents were payable by the Authority (2010/11 £113K). These are considered part of the minimum lease payments as although not part of the discounting calculation at the inception of the lease, it is assumed that there will be no downwards rent review.

**Operating Leases**

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

	Minimum lease payments	
	31/03/2011	31/03/2012
	£000	£000
Not later than 1 year	766	721
Later than 1 year and not later than 5 years	1,948	1,501
Later than 5 years	3,979	3,780
<b>Minimum lease payments</b>	<b>6,693</b>	<b>6,002</b>

### 38 IMPAIRMENT LOSSES

During 2011/12 the Authority has recognised impairment losses of £19.5M. These related to revaluation and non enhancing capital expenditure on the Council Housing stock (£6.092M) as well as a revaluation downwards of the Luneside East site (£7.417M) and Lancaster Indoor Market (£6,015K).

The Luneside assets had previously been carried at cost within assets under construction whilst the scheme was re-evaluated following the financial crisis of 2008/09. During 2011/12 a revised proposal was put together wherein the site was to be disposed of to a developer. A professional valuation was performed as part of this which valued the site at £57K vs the acquisition cost of £7.474M. This difference represents the cost of having to purchase industrial units under a CPO vs the value of the unclesed site to a developer in today's market.

Recent work to assess the future options for Lancaster Indoor Market have established that the fair value of the building in it's current use is negligible, due to the ongoing loss making nature of the operation. Based on this, the asset was impaired in year from its carrying value of £6,015K to 0.

### 39 TERMINATION BENEFITS

The Authority approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2011/12, incurring liabilities of £348K (£814K in 2010/11) in respect of redundancy costs. Of this total, £140K was paid to two members of Management Team, in the form of compensation for loss of office (redundancy) as disclosed in Note 32. The remaining £208K was paid to 12 officers from 6 different services whose applications for ER/VR were approved as part of the council's overall review of services.

### 40 DEFINED BENEFIT PENSION SCHEMES

#### Participating in Pension Schemes

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

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

#### Transactions Relating to Post-employment Benefits

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

	<b>Local Government Pension Scheme</b>	
	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Comprehensive Income and Expenditure Statement		
<i>Cost of services:</i>		
Current service cost	3,020	2,466
Employer contributions	(3,885)	(3,247)
Past Service cost	(8,727)	0
Settlements and curtailments	342	189
<i>Financing &amp; Investment Income &amp; Expenditure</i>		
Interest costs	8,920	7,867
Expected return on scheme assets	(6,422)	(7,024)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>(6,752)</b>	<b>251</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Actuarial gains and losses	(16,946)	10,372
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(23,641)</b>	<b>10,693</b>
 <b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	6,695	(321)
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	16,946	(10,372)
<b>Net charge in relation to pension adjustments</b>	<b>0</b>	<b>0</b>
Actual amount charged against Funds for pensions in the year - employers contributions	3,545	2,814

**Assets and Liabilities in Relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities:

	<b>Funded Liabilities</b>		<b>Unfunded Liabilities</b>	
	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>
	£000	£000	£000	£000
<b>Opening balance</b>	<b>(154,929)</b>	<b>(140,834)</b>	<b>(5,281)</b>	<b>(3,659)</b>
Current service cost	(3,020)	(2,466)	0	0
Interest costs	(8,632)	(7,673)	(288)	(194)
Contributions by scheme participants	(1,003)	(887)	0	0
Actuarial gains and losses	12,887	(5,032)	1,446	(82)
Benefits paid	5,623	5,985	262	268
Past service costs	8,525		202	0
Curtailments	(285)	(189)	0	0
<b>Closing balance</b>	<b>(140,834)</b>	<b>(151,096)</b>	<b>(3,659)</b>	<b>(3,667)</b>

Reconciliation of fair value of the scheme assets:

	<b>Local Government Pension Scheme</b>	
	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
<b>Opening balance</b>	<b>100,467</b>	<b>108,505</b>
Expected rate of return	6,422	7,024
Actuarial gains and losses	2,613	(5,258)
Employer contributions	3,885	3,247
Contributions by scheme participants	1,003	887
Benefits paid	(5,885)	(6,253)
Settlements	0	0
Curtailments	0	0
<b>Closing balance</b>	<b>108,505</b>	<b>108,152</b>

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

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

The actual return on scheme assets in the year was £7.024M (2010/11 £6.422M).

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(131,840)	(138,363)	(117,345)	(160,210)	(144,493)	(154,763)
Present value of assets	104,037	96,846	76,435	100,467	108,505	108,152
<b>Surplus/deficit in the scheme</b>	<b>(27,803)</b>	<b>(41,517)</b>	<b>(40,910)</b>	<b>(59,743)</b>	<b>(35,988)</b>	<b>(46,611)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £154.763M has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £46.611M. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £2.996M. There are no expected Discretionary Benefit contributions.

#### **Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Mercer Human Resource Consulting Ltd, and independent firm of actuaries, estimates for the County Council Fund being based on the latest formal actuarial valuation of the scheme as at 31 March 2010.



	2010/11	2011/12
	%	%
Return on assets (%):		
Equity investments	7.5	7.0
Bonds	4.7	3.9
Other	4.8	5.1
Longevity at 65 for current pensioners (yrs):		
Men	21.6	21.7
Women	24.2	24.3
Longevity at 65 for future pensioners:		
Men	23.0	23.1
Women	25.8	25.9
Rate of inflation (%)	3.4	2.5
Rate of increase in salaries (%)	4.9	4.5
Rate of increase in pensions (%)	2.9	2.5
Rate of discounting for scheme liabilities (%)	5.5	4.9
Take up of option to convert annual pension into retirement lump sum (yrs)	50.0	50.0

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

	Local Government Pension Scheme	
	2010/11	2011/12
	%	%
Equity investments	64.0	58.0
Debt instruments	21.0	20.0
Other assets	15.0	22.0
	<b>100.0</b>	<b>100.0</b>

#### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%	%
Differences between the expected and actual return on assets	0.70	13.40	34.30	20.10	2.40	4.90
Experience gains and losses on liabilities	0.00	5.70	0.00	0.00	9.80	0.00

#### 41 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2012:

**Luneside East Regeneration Scheme** – In assembling land for this project, the council used compulsory purchase powers (CPO) and one significant compensation claim is still outstanding. The Lands Tribunal case relating to CPO compensation is still ongoing with a final decision expected by August 2012. The council has some financial provision available in connection with this claim, but at this stage any potential liability arising cannot be measured with any certainty.

The Council has also accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes. Given that the council transferred Phase 1 land to its development partner (CTP Securities Limited) on 2<sup>nd</sup> April 2012 in order to progress this scheme, a positive outcome is far more likely, thereby avoiding any material liabilities falling on the Council as at 31 March 2012.

## 42 CONTINGENT ASSETS

The following material contingent asset existed as at 31 March 2012:

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

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

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

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

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

### Credit Risk

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

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

As per the 2011/12 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the authority are as detailed below:

	Minimum across all three ratings			Money Limit <sup>7</sup>	Time Limit <sup>8</sup>
	Fitch	Moody's	Standard & Poors		
Upper Limit <sup>1</sup>	F1+/AA-	P-1/AA3	A-1+/AA-	£6M	Instant access only
				£3M	3 months
				£2M	1 Year
Middle Limit <sup>2</sup>	F1/A	P-1/A2	A-1/A	£3M	Instant access only
Other Institutions <sup>3</sup>	N/A	N/A	N/A	£6M	1 Year
Money Market Funds <sup>4</sup>	AAA	AAA	AAA	£6M	Instant Access Only
DMADF deposit <sup>5</sup>	N/A	N/A	N/A	£20M	1 Year
Sovereign rating to apply to all non UK counterparties <sup>6</sup>	AAA	AAA	AAA	N/A	N/A

#### Notes:

- 1 & 2: The Upper and Middle Limits apply to appropriately rated banks and building societies.
- 3: The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB).
- 4: Sterling, constant net asset value funds only.
- 5: The DMADF facility is direct with the UK government, it is extremely low risk and hence the higher limit.
- 6: UK investments are defined as those listed under UK banks or building societies in the Sector counterparty listing.
- 7: Money limits apply to principal invested and do not include accrued interest.
- 8: Time Limits start on the trade date for the investment.

The Authority's maximum exposure to credit risk in relation to its investments of £13.85M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Authority's deposits, but for the £13.85M, there was no evidence at 31 March 2012 that this was likely to materialise.

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

	Balance 31/03/12	Historical experience of default	Exposure at 31/03/12	Exposure at 31/03/11
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	7,850	0.00%	0	0
AA rated counterparties	0	0.03%	0	1
A rated counterparties	6,000	0.08%	5	1
Trade debtors	2,467	Bad debt provision	436	427
<b>Total</b>	<b>16,317</b>		<b>441</b>	<b>429</b>

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

The Authority does not generally allow credit for customers, such that £1.548M of the £2.467M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/11	31/03/12
	£000	£000
Current, < 28 Days	827	919
28-59 Days	256	294
60-91 Days	80	78
92-183 Days	197	168
184-364 Days	191	281
365+ Days	726	727
<b>Total</b>	<b>2,277</b>	<b>2,467</b>

### Liquidity Risk

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

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

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

	31/03/11	31/03/12
	£000	£000
Less than one year	0	1,041
One to two years	0	1,041
Three to five years	0	3,124
Six to ten years	0	5,207
11 to 20 years	0	10,414
21 to 30 years	0	10,414
More than 30 years	39,215	39,215
<b>Total</b>	<b>39,215</b>	<b>70,456</b>

## Market Risk

### *Interest Rate Risk*

The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long or short term loans were taken out during 2011/12.

The Council's investments held within instant access Call accounts are affected by movements in interest rates. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have remained at very low levels during the year. The Council also placed one investment during the year within the DMO Deposit Account and had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.63%, an increase of 1% on interest rates during 2011/12 would have had the following marginal effect:

	Actual	+1%
	£000	£000
<b>New or variable investments:</b>		
Call accounts	120	190
<b>Total</b>	<b>120</b>	<b>190</b>

This highlights that investments are very sensitive and given that current rates on the Council's investments are below 1%, an increase of 1% would more than double the yield. The investments placed and the instant access accounts were sensitive to interest rates which have been consistently low since the banking crisis (interest in the year £120K vs. £99K in the prior year, not including the notional interest on Icelandic investments).

Although new borrowings were taken on in year, this was on the 28 March so an increase of 1% would not make a material difference on loan interest costs, however, it would have had a significant impact on future year's interest costs as the loan was for £31.241M. Had the loan been 1% higher at the point the fixed rate EIP was taken on, this would have led to an additional £307K (allowing for a 60<sup>th</sup> of the loan to be repaid mid year) in 2012/13.

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

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Note : On the 28 March 2012 the Council paid £31.241M to the Government in order to exit the HRA subsidy system and become self financing from 01 April 2012.

2010/11 £000	NOTES	2011/12 £000	£000
<b>Expenditure</b>			
3,792	Repairs and maintenance	3,671	
3,198	Supervision and management	3,011	
128	Rent, rates, taxes and other charges	95	
1,749	Negative HRA Subsidy payable	2,242	7
36,519	Depreciation and impairment of non-current assets	8,460	4&5
1	Debt management costs	12	
0	HRA Self Financing Settlement Payment	31,241	
315	Movement in the allowance for bad debts	104	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0	10
<b>45,702</b>	<b>Total Expenditure</b>	<b>48,836</b>	
<b>Income</b>			
(11,755)	Dwelling rents	(12,506)	
(198)	Non-dwelling rents	(199)	
(1,801)	Charges for services and facilities	(1,627)	
(8)	Contributions towards expenditure	(8)	
(170)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	(170)	
<b>(13,932)</b>	<b>Total Income</b>	<b>(14,510)</b>	
<b>31,770</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>34,326</b>	
0	HRA services' share of Corporate and Democratic Core	0	
0	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	0	
<b>31,770</b>	<b>Net Cost for HRA Services</b>	<b>34,326</b>	
<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>			
(109)	Gain or Loss on sale of HRA non-current assets	(158)	
724	Interest payable and similar charges	698	
(236)	Interest and investment income	(54)	
(836)	Pension interest cost and expected return on pension assets	58	8
0	Capital grants and contributions receivable	(10)	
<b>31,313</b>	<b>(Surplus) or deficit for the year on HRA Services</b>	<b>34,860</b>	

**MOVEMENT ON THE HRA STATEMENT**

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

2010/11 £000		2011/12 £000
<b>(523)</b>	<b>Balance on the HRA at the end of the previous year</b>	<b>(452)</b>
31,313	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	34,860
3,037	Adjustments between accounting basis and funding basis under statute	183
<b>34,350</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>35,043</b>
(34,279)	Transfers to or (from) reserves	(35,796)
<b>71</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>(753)</b>
<b>(452)</b>	<b>Balance on the HRA at the end of the current year</b>	<b>(1,205)</b>

**NOTES TO THE HOUSING REVENUE ACCOUNT****1 NUMBER AND VALUES OF DWELLINGS**

As at 31 March 2012 the Council held the following number of dwellings:

	2010/11	2011/12
Bedsits	96	96
1 Bedroom		
Houses & Bungalows	657	657
Flats & Maisonettes	531	531
2 Bedroom		
Houses & Bungalows	498	496
Flats & Maisonettes	682	680
3 Bedroom		
Houses & Bungalows	1,249	1,248
Flats & Maisonettes	8	8
4 or more bedroomed dwellings	86	87
<b>TOTAL DWELLINGS</b>	<b>3,807</b>	<b>3,803</b>

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

	Value as at 01/04/2011 £000	Value as at 31/03/2012 £000
<b>Operational Assets:</b>		
Council Dwellings	107,918	104,216
Other land and buildings	82	82
	<b>108,000</b>	<b>104,298</b>
<b>Non-operational Assets</b>	1,422	1,427
<b>TOTAL</b>	<b>109,422</b>	<b>105,725</b>

Dwellings are valued on the basis of Existing Use Value (Social Housing). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the first year of which has now updated all values to 01 April 2010. This has resulted in a decrease in asset values of £1.743M in the year, which is the major part of the net movement in asset values shown above. This is principally attributable to a difference between the accumulated values from the annual rebasing exercises, and those contained in the recent full revaluation. The Major Repairs

Allowance of £2.325M, for 2011/12 has been used as a proxy for depreciation on dwellings. Non-dwelling assets were also revalued at 01 April 2010.

The vacant possession value of dwellings held on 01 April 2011 was £304.776M. The difference between this and the EUV-SH valuation of £106.672M (i.e. the update figure after the full valuation exercise effective as of 01 April 2011 but before depreciation, disposals etc) represents the economic cost to the Government of providing Council Housing at less than open market rents.

## 2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

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

	2010/11	2011/12
	£000	£000
<b>Opening Balance 01 April</b>	<b>6,868</b>	<b>6,581</b>
Transfer from General Reserves	173	102
Transfer to MRR – Depreciation	2,325	2,343
Transfer to HRA - Depreciation Adjustment	(18)	(18)
Capital Expenditure		
- Land	0	0
- Houses	(2,767)	(2,325)
- Other property.	0	0
<b>Closing Balance 31 March</b>	<b>6,581</b>	<b>6,683</b>

## 3 CAPITAL EXPENDITURE

Capital expenditure of £3.574M was incurred during the year, of which £3.528M was on works and improvements to dwellings and £46K on intangible assets. This was financed as follows:

	2010/11	2011/12
	£000	£000
Borrowing	0	0
Usable Capital Receipts	53	76
Revenue Contributions	1,283	1,035
Earmarked Reserves	80	128
Majors Repairs Reserve	2,767	2,325
Grants and Contributions	2	10
<b>Total Capital Financing</b>	<b>4,185</b>	<b>3,574</b>

Capital receipts totalling £291,000 were received during the year from the following sources:

	2010/11	2011/12
	£000	£000
Sale of dwellings	208	288
Sale of land	0	0
Repayment of Principal on Mortgages	3	3
Repayment of Right to Buy discounts	0	0
<b>Total Capital Receipts</b>	<b>211</b>	<b>291</b>

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



**4 DEPRECIATION**

Total depreciation charges for the year were as follows:

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Council Dwellings	2,307	2,325
Other land and buildings	2	2
Non-operational Assets	16	16
Deferred Charges on Intangible Assets	12	21
<u>Government Grants deferred write down</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b>2,337</b>	<b>2,364</b>

**5 IMPAIRMENT CHARGES**

An impairment charge of £6.879M in respect of Council Dwellings was made to the HRA for the financial year 2011/12. This was as a result of downward market valuations to the Council Housing Dwellings stock. £6.092M of the impairment charge is shown in the Income and Expenditure account; this is because there were insufficient balances against the individual assets on the Revaluation Reserve.

**6 INTANGIBLE ASSETS**

A charge of £21K was made during the year, this was made up as follows: a fourth year charge of £3K in respect of software purchased for the Task Total Repairs system, which is an upgrade of the contractor system, a third year charge of £4K in respect of the Testing and Implementation of Task Total Solution by Northgate, a second year charge of £5K for the initial purchase of the Central Control Equipment from Abritas and a further £9K for the purchase of the remaining Central Control Equipment from Abritas. The assets are to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

**7 HOUSING REVENUE ACCOUNT SUBSIDY**

The total Negative Housing Subsidy payable for the year 2011/12 was £2.253M (£1.731M for 2010/11), the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £2.242M (£1.749M for 2010/11). The £11K difference relates to an overestimated debtor brought forward from 2010/11.

	<b>2010/11</b>	<b>2011/12</b>
	£000	£000
Management Allowance	2,049	2,108
Maintenance Allowance	3,972	3,970
Major Repairs Allowance	2,307	2,325
Admissible Allowances	0	0
Anti-Social Behaviour Allowance	0	0
Charges for Capital	1,563	1,729
Rent Rebates	0	0
Notional Rent	(11,622)	(12,385)
Interest on Receipts	0	0
Government Grants	0	0
<u>Rental Constraint Allowance</u>	<u>0</u>	<u>0</u>
<b>Total Housing Subsidy</b>	<b>(1,731)</b>	<b>(2,253)</b>

**8 CONTRIBUTIONS TO/FROM PENSIONS RESERVE**

In accordance with the requirements of International Accounting Standard 19, the current service cost has been included within the Net Cost of Services and the net of the interest cost and the expected return on assets included within Net Operating Expenditure. Actuarial gains and losses

arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Movements in the HRA balance.

## 9 RENT ARREARS

Total arrears of rent at 31 March 2012 amounted to £374K (£402K for 2010/11). An amount of £435K (£653K for 2010/11) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The decrease in provision this year is directly attributable to the higher number of write off of debt mainly relating to rechargeable repairs and tenants rent arrears. This represents allowances of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

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

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

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

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

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

	2010/11 £000	2011/12 £000
<b>Adjustments between accounting basis and funding basis under statute</b>		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	159	159
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	0	0
Gain or loss on sale of HRA non-current assets.	109	158
HRA share of contributions to or from the Pension Reserve.	946	25
Capital Expenditure funded by the Housing Revenue Account	1,823	1,163
Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with the Code.	0	(1,322)
	<b>3,037</b>	<b>183</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Major Repairs Reserve	(287)	102
Transfer to/(from) Housing Repairs Account	0	0
Transfer to/(from) Earmarked Reserves	23	108
Transfer to/(from) Revaluation Reserves	0	1,322
Transfer to/(from) the Capital Adjustment Account	(34,015)	(37,328)
	<b>(34,279)</b>	<b>(35,796)</b>

The Collection Fund is an “agent’s statement” that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2010/11 £000	<b>INCOME</b>	<b>NOTES</b>	2011/12 £000
	<b>Council Tax</b>		
(56,199)	Income from Council Tax	<b>1</b>	(56,064)
	<b>Transfers from General Fund:</b>		
(10,464)	Council Tax Benefits		(10,521)
	<b>Business Rates</b>		
(32,176)	Income from Business Ratepayers	<b>2</b>	(39,292)
	<b>Contributions</b>		
(210)	From Provisions for Council Tax Amounts Written Off		(97)
<b>(99,049)</b>	<b>TOTAL INCOME</b>		<b>(105,974)</b>
	<b>EXPENDITURE</b>		
	<b>Precepts and Demands</b>		
48,100	Lancashire County Council		48,156
8,872	Lancaster City Council (including parish precepts)		8,891
6,348	Lancashire Police Authority		6,355
2,762	Lancashire Fire Authority		2,766
	<b>Business Rates</b>		
31,943	Payment to National Pool		39,060
234	Cost of Collection Allowance		232
	<b>Council Tax Bad and Doubtful Debts</b>		
210	Write-offs		97
370	Contribution to Provision for Non-Collection		649
	<b>Contribution towards previous year's estimated Collection Fund surplus</b>		
151	Council Tax		0
<b>98,990</b>	<b>TOTAL EXPENDITURE</b>		<b>106,206</b>
	<b>FUND BALANCE</b>		
(59)	(Surplus)/deficit for year		232
0	(Surplus)/deficit as at 01 April (Brought forward)		0
59	(Surplus)/deficit distributed in year		(232)
<b>0</b>	<b>(Surplus)/Deficit as at 31 March (Carried forward)</b>		<b>0</b>

**NOTES TO THE COLLECTION FUND**

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

**1 COUNCIL TAX**

Council Tax is charged based on the value of residential properties; these are classified into eight valuation bands estimating 01 April 1991 values for charging purposes. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lancashire County Council, Lancaster City Council 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 2011/12 the numbers are as follows:-

	<b>Chargeable Dwellings</b>	<b>Band D Equivalents</b>
Band A	20,192	11,190
Band B	14,793	10,265
Band C	11,070	8,933
Band D	5,902	5,485
Band E	3,625	4,182
Band F	1,808	2,494
Band G	802	1,255
Band H	43	84
<b>Total</b>	<b>58,235</b>	<b>43,889</b>
<i>Collection Rate</i>		99%
<b>Council Tax Base</b>		<b>43,450</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. For most businesses, this was set at 43.3p per £ for 2011/12 (41.4p for 2010/11). For local businesses with a rateable value of less than £18,000, a discount of 0.7p was allowed giving a rate of 40.7p per £. The rateable value at 31 March 2012 was £163,182,716 (£162,447,441 for 2010/11). 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 2011/12, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £10,028,000.

**3 MAJOR PRECEPTORS**

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

<b>Major Preceptors</b>	£000
Lancashire County Council	48,156
Lancashire Police Authority	6,355
Lancashire Fire Authority	2,766
Lancaster City Council	8,891
	<b>66,168</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 2012 the Council was responsible for 19 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/11 £	Income £	Transfers Out £	Expenditure £	Balance c/f 31/03/12 £
<b>Bequests and Endowments</b>					
(a) Council sole trustee					
Ashton Memorial	0	(1,094)	0	1,094	0
Williamson Park	0	(1,864)	0	1,864	0
Other	(5,012)	(924)	0	892	(5,044)
(b) Council not sole trustee	(9,807)	(113)	0	0	(9,920)
<b>School etc. Prize Funds</b>					
(a) Council sole trustee	(20,833)	(255)	0	0	(21,088)
(b) Council not sole trustee	0				0
<b>TOTAL</b>	<b>(35,652)</b>	<b>(4,250)</b>	<b>0</b>	<b>3,850</b>	<b>(36,052)</b>

	2010/11 £	2011/12 £
<b>Bequests and Endowments</b>		
<b>(a) Council sole trustee</b>		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	1,962	1,962
Revenue	0	0
Cash and Debtors	51,040	51,072
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	1,000	1,000
Cash and Debtors	10,852	10,965
<b>School etc. Prize Funds</b>		
<b>(a) Council sole trustee</b>		
Capital	0	0
Revenue	737	737
Cash and Debtors	21,544	21,799
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	0	0
Cash and Debtors	0	0
<b>TOTAL</b>	<b>87,135</b>	<b>87,535</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 are shown in the following table.

<b>Income &amp; Expenditure Account</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Interest	(4,528)	(4,250)
Capital	0	0
	<b>(4,528)</b>	<b>(4,250)</b>
<b>Expenditure</b>		
Ashton Memorial	1,088	1,094
William Smith Festival	224	217
Whalley Playground	659	659
Lune Bank Gardens	11	13
Williamson Park	1,863	1,865
War Memorial Fund	2	2
Crook of Lune	500	0
Transfers Out	5,765	0
	<b>10,112</b>	<b>3,850</b>
<b>Excess (Income)/Expenditure</b>	<b>5,584</b>	<b>(400)</b>
<b>Balance Sheet</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£</b>	<b>£</b>
<b>Assets</b>		
Investments	3,699	3,699
Debtors	1,167	1,167
Bank	82,269	82,669
	<b>87,135</b>	<b>87,535</b>
<b>Represented by:</b>		
Reserves as at 31st March	81,550	87,935
Income in year	5,585	(400)
	<b>87,135</b>	<b>87,535</b>

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

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

#### **Ashton Memorial**

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

#### **Williamson Park**

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

#### **William Smith Festival**

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

#### **Whalley Playground**

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

#### **Lune Bank Gardens**

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

#### **Crook of Lune**

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

## Glossary of Terms used in the Accounting Statements

### Accounting Policies

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

- recognising
- selecting measurement bases for, and
- presenting

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

Accounting policies do not include estimation techniques.

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

### Acquired Operations

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

### Actuarial Gains and Losses

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

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

### Capital Expenditure

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

### Class of Tangible Fixed Assets

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

Property, plant and equipment  
Investment property  
Assets held for sale

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

### Consistency

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

### Constructive Obligation

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

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

### Contingent Asset

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



### **Contingent Liability**

A contingent liability is either:

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

### **Corporate and Democratic Core**

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

### **Current Service Cost (Pensions)**

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

### **Curtailment**

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

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

### **Defined benefit Scheme**

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

### **Defined Contribution Scheme**

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

### **Depreciation**

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

### **Discontinued Operations**

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

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

## **Discretionary benefits**

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

## **Estimation Techniques**

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

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

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

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

## **Exceptional Items**

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

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

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

## **Extraordinary Items**

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

## **Fair value**

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

## **Finance Lease**

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

## **Government Grants**

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

## **Impairment**

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

## **Infrastructure Assets**

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

## **Interest Cost (Pensions)**

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

**Long-term Contracts**

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

**Net book value**

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

**Net Current Replacement Cost**

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

**Net Debt**

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

**Non-operational Assets**

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

**Operating Leases**

A lease other than a finance lease.

**Past Service Cost**

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

**Prior Period Adjustments**

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

**Projected Unit Method**

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

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

**Related Parties**

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

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

Examples of related parties of an authority include:

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

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

These lists are not intended to be comprehensive.

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

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

### **Related Party Transaction**

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

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

This list is not intended to be comprehensive.

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

### **Remuneration**

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

### **Residual value**

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

### **Retirement benefits**

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

### **Scheme Liabilities**

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

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

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

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

**Tangible Fixed Assets**

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

**Useful Life**

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

**Vested Rights**

In relation to a defined benefit scheme, these are:

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

## ANNUAL GOVERNANCE STATEMENT 2011/12 (DRAFT)

### SCOPE OF RESPONSIBILITY

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

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

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the Council's website or can be obtained from the Internal Audit Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how Lancaster City Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to reviewing the effectiveness of the system of internal control and the publication of an annual governance statement.

### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lancaster City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2012 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

### THE GOVERNANCE FRAMEWORK

The following paragraphs set out the key elements (as incorporated in the Code of Corporate Governance) that the Council relies upon to deliver effective corporate governance.

- An annual review of the Council's vision for the local area, consulting directly with the community. The Council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.



- A performance management framework which establishes clear priorities, objectives and plans of action at corporate, service, team and individual levels
- Performance management systems which measure and monitor the quality of services delivered and provide elected members and officers with the information required to ensure that they are delivered in accordance with the authority's objectives.
- Arrangements for the executive to manage performance through the Corporate Management Team and quarterly Performance Review Team meetings.
- Review and challenge of performance through the Overview & Scrutiny function and particularly via the Budget & Performance Panel.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the Overview and Scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The Council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The Council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy*.
- The Head of Resources (formerly Head of Financial Services) has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The Council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. Rules for financial management and the scheme of delegation of the Council are set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The Council's Audit Committee is charged with overseeing and, independently of the Executive and Overview and Scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- The Head of Governance is the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The Cabinet is responsible for taking key decisions in line with the Council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The Council publishes a *Forward Plan* containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.



- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer (Section 151 Officer).
- The Council aims to identify and meet the development needs of both elected members and officers.
- The *Code of Corporate Governance* sets out the Council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The Council's internal audit service is delivered by an in-house team required to operate to professional standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2006*'. The Council has also set out a commitment to maintain an objective and professional relationship with its external auditors and other statutory inspectors.

## REVIEW OF EFFECTIVENESS

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

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

- The Audit Committee and the Head of Governance, in her role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Head of Resources (formerly Head of Financial Services) has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel. The Council is in the process of implementing revised performance reporting and management arrangements.
- The Localism Act 2011 introduced a new standards regime with effect from the 1st July 2012, and the Council adopted a revised Code of Conduct at its meeting on the 18th July 2012. There is a statutory requirement under the Act for the Council to promote and maintain high standards of conduct by its members, and it is the role of the Standards Committee to provide assistance and advice to the Council in this respect, and to deal with complaints of breach of the Code of Conduct.

- The senior management structure has developed further during 2011/12 and beyond and some aspects of the Council's constitution, such as the scheme of delegation, have been updated to a degree to reflect this. The extent of structural change has overtaken further planned updates and development of the Constitution, however. Whilst the current position is not ideal, it is not considered that it presents any new governance issues. A phased approach will be taken in completing the necessary updates.
- The Authority had all out elections in May 2011. The diverse political makeup of the Council, set in the context of the Council's current democratic model (Cabinet and Scrutiny) has resulted in a number of tensions developing. Taken alongside past events impacting the Council, these factors have presented a challenge to the maintenance of fully effective governance arrangements.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control.
- In October 2011 the Council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the Council's accounts for 2010/11. They also provided an unqualified conclusion on the Council's arrangements for securing value for money. The external auditors made some recommendations to help strengthen the control environment but none of these were deemed to be critical (high priority) to the operation of the Authority
- Following the audit of the 2011/12 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30<sup>th</sup> September 2012.
- The work carried out by both the Council's external and internal auditors has indicated that effective internal financial controls exist within the Council's main financial systems to ensure the accuracy and integrity of the information they provide.

## **SIGNIFICANT GOVERNANCE ISSUES**

The Council has identified its overriding challenge as ensuring that the Council and its partners can identify and meet the needs of the district's citizens, whilst responding to current and future financial constraints. It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance, with continuous review in key areas including:

- The identification of efficiencies and measures to improve Value for Money;
- The efficient and effective operation of the constitution;
- Developing the ways in which the Council communicates with local people and enables them to be at the forefront of decision making;

- The shaping of services through the continuing development of both the workforce itself and of the organisation's leadership and management values and practices.

The annual review has highlighted that more immediate attention needs to be given to the following aspects of the Council's governance arrangements:

- **Partnership working and administrative arrangements;** to ensure that the Council's partnership working and supporting arrangements are fit for purpose and delivered in an efficient and cost-effective manner;
- **The performance management framework;** to ensure the Council can achieve its planned outcomes and objectives whilst addressing any underperformance and risk quickly, efficiently and effectively;
- **Democratic structures and cultural aspects of governance;** challenges have been posed by the outcome of a "no overall control" Council in the City Council elections in May 2011, along with the changes introduced by the Localism Act (e.g. new Standards regime) and potential changes (e.g. in democratic structures) and a continued period of austerity. Together these present a need to ensure that democratic processes are appropriate, efficient and effective and that elected members, officers, and partners are able to operate positively in an environment of mutual trust and respect whilst fostering a healthy culture of challenge and confident decision making.

The Council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

**E Blamire**  
**Leader of the Council**

**M Cullinan**  
**Chief Executive**

**S Taylor**  
**Head of Governance**  
**Monitoring Officer**

**N Muschamp**  
**Head of Resources**  
**(Section 151 Officer)**



*cutting through complexity™*

# Report to those charged with governance (ISA 260) 2011/12

Lancaster City Council

September 2012



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Stephen Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

**This report summarises:**

- the key issues identified during our audit of Lancaster City Council's ('the Authority's) financial statements for the year ended 31 March 2012; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

**Financial statements**

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



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

Our final accounts visit on site took place between 16 and 27 July. During this period, we carried out the following work:

**Substantive Procedures**

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

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

**Completion**

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

**VFM conclusion**

We have also now completed our work in respect of the 2011/12 VFM conclusion. This included work to complete an assessment of the significant risks related to VFM for Lancaster City Council.

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
  - Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
  - Section 4 outlines the key findings from our work on the VFM conclusion.
- Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

**Acknowledgements**

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



## Section two Headlines

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

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion by 30 September 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding of the Authority's activities.</p>
Audit adjustments	<p>Our audit has not identified any significant audit adjustments; however a number of presentational changes have been made to the notes to the Financial Statements which have been agreed with management and changed in the final version of the Financial Statements.</p> <p>We have raised a number of recommendations that will strengthen the Authority's control environment. These are detailed in Appendix 1.</p>
Critical accounting matters	<p>We have worked with Officers and performed work in relation to the key risks identified during the planning phase of our audit. We are satisfied that the Authority has appropriate arrangements in place to address the risks and issues that we have identified.</p>
Accounts production and audit process	<p>The quality of the accounts and the supporting working papers has been maintained at a high standard in 2011/12, which assists with the delivery of an effective and efficient audit. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has made some progress in implementing the recommendations in our <i>ISA 260 Report 2010/11</i> relating to the financial statements however 5 recommendations remain outstanding.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete, there are two areas still to be finalised.</p> <ul style="list-style-type: none"> <li>■ Whole of Government Accounts final review.</li> <li>■ A review of any post balance sheet events up to the date of signing our audit report.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
VFM conclusion	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.</p>
VFM risk areas	<p>We have considered the specific VFM risks we set out in our <i>Audit Fee Letter 2011/12</i>, which were in relation to the financial resilience of the Authority and ability to secure VFM. The focus of the criteria for 2011/12 was on whether:</p> <ul style="list-style-type: none"> <li>- The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> <li>- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</li> </ul>



We have identified no issues in the course of the audit that are considered to be material.

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

**Proposed audit opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2012.

**Audit differences**

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

We did not identify any material misstatements as a result of our audit work. There are no adjusted or unadjusted audit differences to report in 2011/12.

We identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 (the Code)* which have been amended in the final version of the financial statements.

**Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

**Analysis of movements in the General Fund and Balance Sheet**

Movements on the General Fund 2011/12	£m
Deficit on the provision of services	(6,803)
Adjustments between accounting basis & funding basis under Regulations	7,165
Transfers to earmarked reserves	(1,362)
<b>Decrease in General Fund</b>	<b>(1,000)</b>


Balance Sheet as at 31 March 2012	£m
Property, plant and equipment	209,257
Other long term assets	36,709
Current assets	20,341
Current liabilities	(8,865)
Long term liabilities	(122,248)
<b>Net worth</b>	<b>135,194</b>
General Fund	(2,674)
Other reserves	(132,520)
<b>Total reserves</b>	<b>(135,194)</b>


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

In our *External Audit Plan 2011/12*, presented to you in March, we identified the key risks affecting the Authority's 2011/12 financial statements.

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

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

Key audit risk	Issue	Findings
	<p><b>Savings Plans</b></p> <p>The Authority's 2011/12 budget included a range of cost saving targets identified in response to government funding cuts</p> <p>As at December 2011 the Authority was forecasting that it would deliver its 2011/12 budget, with an under spend of £37,000.</p> <p>The Authority has set a balanced budget for 2012/13 but currently estimates that an additional £408,000 of savings will be required for 2013/14 and £440,000 in 2014/15.</p> <p>For many Authorities it is likely to become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p>	<p>The final outturn for 2011/12 represented an under-spend of £653,000 against the Revised Budget which was updated in January 2012.</p> <p>During the year the Authority has made significant savings in order to cope with the reductions in Local Government funding introduced as a result of the Comprehensive Spending Review in 2010. In total efficiencies and savings of approximately £450,000 have been achieved in service areas linked to corporate priorities.</p> <p>Our detailed budgetary control testing found the Authority has robust procedures in place to monitor budget variances and implement remedial action as necessary. However additional savings of £182,000, growth of £405,000 and contributions from reserves of £418,000 will be required in 2012/13 to bridge the Authority's budget gap. The Authority estimates these savings will be delivered before the year end with the exception of £29,000 which will be deferred, relating to revised operating hours for CCTV staff.</p> <p>We will continue to monitor the Authority's financial position going forward to ensure that savings targets are being achieved and performance is in line with expectations and budget.</p>

Key audit risk	Issue	Findings
	<p><b>Code Changes</b></p> <p>The 2011/12 <i>Local Government Accounting Code of Practice ("the Code")</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 Code also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 Code. The Authority needs to review and appropriately address Code changes in its 2011/12 financial statements.</p>	<p>The Finance Team at the Authority have a good understanding of the Code requirements and the changes that have been required for 2011/12.</p> <p>We held discussions with key staff throughout the audit process to ensure the impact of the accounting changes relating to heritage assets were reflected in the financial statements. As a result of the changes, £7.9m of assets have been recognised in the balance sheet for the first time.</p> <p>We performed detailed audit testing on the valuation of the heritage assets disclosed in the financial statements. This work did not identify any issues.</p> <p>Other key changes include enhanced disclosure of termination benefits received by former employees. This disclosure is designed to provide the reader of the accounts with additional information and ensure that the accounts are transparent.</p> <p>In addition, as part of our quality checks over the financial statements, we have reviewed all disclosures to ensure that they are in line 2011/12 Code of Practice. As a result of this review, minor presentational changes have been made to the accounts which have been agreed with management.</p>

Key audit risk	Issue	Findings
	<p><b>Future of Lancaster Market</b></p> <p>The Authority currently leases the Lancaster Market on a long term lease from Allied (Lancaster) Limited. During the year, Members have taken the decision to review the current lease arrangements with a view to negotiating a surrender of this lease.</p> <p>It is likely that any successful negotiation will result in a significant payment to break the current lease. The Council must ensure that it fully understands the implications of surrendering the lease from both a financial statements and financing perspective.</p> <p>Similarly, the Council must be able to demonstrate that any actions taken represent value for money.</p>	<p>Discussions over the future of the Lancaster Market have been a key area of focus throughout our audit in 2011/12.</p> <p>Although no formal decision was made to terminate the lease agreement during 2011/12, it has been important for us to assess the impact of any potential decisions on the Authority's financial position in the future as this will be a key area of judgement and focus for us in 2012/13.</p> <p>A number of accounting proposals relating to the market have been presented to us by the Authority for consideration. With the help of technical experts from our Department for Professional Practice, we have critically appraised each of the options and provided comments which the Authority may wish to consider.</p> <p>During the year, the Authority has also reviewed the value of the market within the financial statements which has been impaired by £6.015m to reflect its loss making nature. The Authority has however increased the value of the lease liability by £2.5m to reflect the value of the associated land on which the market is situated and which was previously not included. This is in line with revisions made to the Code in 2011/12.</p> <p>To date, the Authority has not made a formal decision in relation to the future of the market. This issue will remain a key audit risk in 2012/13.</p>

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

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

The Authority has implemented the majority of the prior year recommendations included in our *ISA 260 Report 2010/11*.

**Accounts production and audit process**

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

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has a strong financial reporting process. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 06 July 2012 which was in line with our expectations. The accounts were signed by the Head of Financial Services before the 30 June deadline.
<b>Quality of supporting working papers</b>	Our 'Prepared by Client List' set out our working paper requirements for the audit. The quality of working papers provided was high and met our requirements.
<b>Response to audit queries</b>	Officers resolved the majority of audit queries in a reasonable time.

**Prior year recommendations**

The Authority has now implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Appendix 2 provides further details.

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

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

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

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

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

In relation to the audit of the financial statements of Lancaster City Council for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Financial Services Manager, a draft of which is reproduced in Appendix 4. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2011/12 financial statements.



#### Our VFM conclusion

considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

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

#### Background

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

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

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

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



#### Conclusion

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

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

The following page includes further details on our specific risk-based work.




Section four – VFM conclusion  
**Specific VFM risks**




We have considered the specific VFM risks we set out in our Audit Fee letter 2011/12.

In our *Audit Fee letter 2011/12* we set out our VFM audit approach. This identified financial resilience as a key risk for the Authority. As a result, our work to support our value for money opinion has focussed on the Authority’s financial planning and management over the medium to long-term period. Further details of our findings are contained below.

Key VFM risk	Focus of our work	Key findings
	<p>The systems and processes used by the Authority to manage effectively financial risks and opportunities, and the ability of the Authority to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Throughout the year we have reviewed the Authority’s budget and financial plans to ensure they accurately reflect the Authority’s financial position.</p> <p>The Authority has robust budgetary control procedures in place and key variances are reviewed by senior management.</p> <p>The Authority has had to make significant savings during the year as a result of Local Government funding cuts arising from the Comprehensive Spending Review. The Authority has achieved its target of £465,000 of efficiencies and savings during 2011/12 however additional savings of £182,000 will be required in 2012/13.</p> <p>The Authority achieved a £653,000 under-spend against its Revised Budget for the year ended 31 March 2012 demonstrating it is able to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>

We have considered the specific VFM risks we set out in our Audit Fee letter 2011/12.

Key VFM risk	Focus of our work	Key findings
	<p>The prioritisation of resources within tighter budgets, for example the achievement of cost reductions and improvements in efficiency and productivity.</p>	<p>The arrangements in place for identifying, implementing and monitoring cost improvement programmes were sufficient to ensure the Authority achieved its financial budget in 2011/12.</p> <p>During our audit we have discussed with management options relating to the future of the Lancaster Market. The Authority has provided evidence to demonstrate that they are formally assessing the implications of all options from both a financial and VFM perspective. To date a formal decision has not been made regarding the future of the market however, we will continue to monitor progress and decisions made going forward.</p> <p>We have gained assurance throughout the audit process that the Authority has implemented appropriate measures to secure economy, efficiency and effectiveness in the Authority's use of resources.</p>

## Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

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

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Bank reconciliation</b></p> <p>Whilst no material misstatements were identified in the year-end bank reconciliation, there are a number of historic immaterial errors which are rolled forward each year.</p> <p>As a result the bank reconciliation is becoming increasingly complex and difficult to follow leading to a risk that un-reconciled amounts may become significant unidentifiable.</p> <p>We recommend that all historical reconciling items are investigated and cleared so they no longer appear on the bank reconciliation.</p>	<p><b>Management response:</b> Agreed</p> <p><b>Officer responsible:</b> Financial Services Manager</p> <p><b>Due date:</b> 31 March 2013</p>
2	<b>3</b>	<p><b>Payroll Controls</b></p> <p>The payroll to GL reconciliation is not signed as prepared or reviewed. Consequently there is an insufficient audit trail to demonstrate that the control has been operating effectively and on timely basis throughout the year.</p> <p>The Authority should ensure that all reconciliations are signed and dated as prepared and reviewed in order to provide a sufficient audit trail that the control has been operating as designed.</p>	<p><b>Management response:</b> This will be addressed through system replacements</p> <p><b>Officer responsible:</b> Financial Services Manager</p> <p><b>Due date:</b> 31 March 2013</p>

## Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2010/11*.

Although the outstanding recommendations are not of high risk, we re-iterate the importance of the recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	8
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	4

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
1	3	<p><b>General Ledger/Debtors and creditors reconciliations</b></p> <p>The Authority's reconciliation between the general ledger and the creditors and debtors systems is not signed as prepared or reviewed. This means that there is a limited audit trail over the timeliness of preparation and review of the control</p> <p>The Authority should ensure that the reconciliation and review process is fully documented to provide a sufficient audit trail.</p>	<p><b>Systems Support Accountant</b> <b>September 2011</b></p>	<p>Our testing of the debtors and creditors reconciliations in 2011/12 identified a number of instances where reconciliations have been signed as prepared but where there is no evidence of review.</p> <p>We recommend all reconciliations are signed as prepared and as reviewed to provide a full audit trail.</p> <p><b>Status:</b> Partially implemented.</p>

## Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
2	<p><b>3</b></p>	<p><b>General Ledger/Council Tax and NNDR reconciliation</b></p> <p>The Authority's interface between the general ledger and Council Tax and NNDR system does not always work effectively. As a result, management have developed a reconciliation to identify the differences to ensure that the two systems reflect the appropriate information.</p> <p>The reconciliation involves a large amount of manual input and is very complicated in its nature. This presents a risk to the accuracy of the data within the general ledger system.</p> <p>In addition, the frequency of the performance of the reconciliation has reduced during the year, which increases the risk of errors going undetected.</p> <p>Management should review the current process of reconciling the two systems and try to:</p> <ul style="list-style-type: none"> <li>■ reduce the complex nature of the reconciliation;</li> <li>■ increase the accuracy of the automatic interface, so as to reduce the level of manual intervention; and</li> <li>■ increase the frequency of the reconciliation to at least a monthly basis.</li> </ul>	<p><b>Accountancy Services Manager</b></p> <p><b>March 2012</b></p>	<p>Our audit work during 2011/12 has found that there continues to be on going problems between the systems interface.</p> <p>However, our review of the reconciliation between the Council Tax and NNDR system found that although discrepancies between the interfaces continue to occur, the authority is able to produce clear working papers to demonstrate how the two systems reconcile.</p> <p><b>Status:</b> Implemented.</p>

## Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
3	③	<p><b>System access rights to financial systems</b></p> <p>There is no periodic review of system access rights for financial systems. As a result there is a risk that employees have inappropriate access to the financial systems.</p> <p>Management should review the access rights to its financial systems on a periodic basis to ensure that access rights remain appropriate.</p>	<p><b>Systems Support Accountant</b></p> <p><b>November 2011</b></p>	<p>Through discussions with IT staff at the Authority we have identified that a review of access rights has been performed during the year.</p> <p>However, the outcome of the review was not formally documented, leading to a lack of evidence to demonstrate that the review took place and that the recommendation was implemented.</p> <p>The Authority should ensure that any future review of access rights is formally documented in order to demonstrate the review has been performed during the year.</p> <p><b>Status:</b> Partially implemented.</p>
4	③	<p><b>Testing of the disaster recovery system</b></p> <p>Best practice would be for the Authority to test the backups of its financial systems on an annual basis to ensure that its disaster recovery plan is working effectively.</p> <p>As part of our IT systems work there was no evidence to support that backups of the system had been tested to ensure they recovered data effectively.</p>	<p><b>Information Services Manager</b></p> <p><b>January 2012</b></p>	<p>Our testing of General IT Controls found no issues with regards to data recovery procedures in 2011/12.</p> <p><b>Status:</b> Implemented.</p>

## Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
5	3	<p><b>Posting and authorising of journals.</b></p> <p>From our controls testing of journals we discovered that Principal Accountants at the Authority are able to post and authorise their own journals.</p> <p>There should be segregation of duties between those that can post journals and those that can authorise them to ensure that journals are not incorrectly/inappropriately posted.</p>	<p><b>Accountancy Services Manager</b></p> <p>N/A</p>	<p>Our testing of journals during 2011/12 found that Principal Accountants at the Authority continue to be able to post and authorise their own journals.</p> <p>Due to the large number of journals posted by Principal Accountants at the Authority, it is not deemed feasible for each one to be separately authorised.</p> <p>We therefore recommend that the Accountancy Services Manager should perform a scan review of the monthly journal listing to ensure that journals being posted are in line with expectations. The journals list should be signed and dated to provide evidence that this review has taken place.</p> <p><b>Status:</b> Recommendation superseded</p>
6	3	<p><b>Review of open orders</b></p> <p>We were unable to confirm that a review of open orders had been completed by each service area as part of the accounts closedown process.</p> <p>The Authority should retain evidence of this review to ensure it has correctly considered what liabilities require disclosing at year end.</p>	<p><b>Accountancy Services Manager</b></p> <p>March 2012</p>	<p>In 2011/12 we performed audit work to verify whether the Authority had identified all outstanding liabilities at year end. No unrecorded liabilities or issues with the month end procedures were identified.</p> <p><b>Status:</b> Implemented</p>



## Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2012
7	3	<p><b>Physical verification of property, plant and equipment</b></p> <p>The Authority does not perform a formal annual physical verification of its plant and equipment to confirm existence of those assets. Property is typically verified through the asset valuation process.</p> <p>Management should introduce a process to ensure that its fixed asset records remain accurate.</p>	<p><b>Internal Audit Manager</b> March 2012</p>	<p>In response to this recommendation the Authority stated that Internal Audit would undertake a corporate review of arrangements for compiling and maintaining inventories during 2011/12.</p> <p>We have reviewed the findings recorded by Internal Audit from their in year review. Limited assurance was given and an action plan has been devised for the Authority which must now be implemented.</p> <p><b>Status:</b> Partially Implemented.</p>
8	3	<p><b>Payroll controls</b></p> <p>There were a number of payroll control weaknesses we detected as part of our audit work. These included:</p> <ul style="list-style-type: none"> <li>■ No independent review of payroll exception reports; and</li> <li>■ The payroll system and personnel systems do not reconcile.</li> </ul> <p>These weaknesses increase the likelihood of the payroll costs in the accounts being misstated.</p>	<p><b>Payroll - Exchequer Services Manager</b> September 2011</p> <p><b>Payroll / HR System Human Resources Manager / Accountancy Services Manager /</b> April 2012.</p>	<p>Our audit work has confirmed that payroll exception reports have been prepared and reviewed by the Authority during 2011/12.</p> <p>Discrepancies do continue to occur between the payroll system and personnel system. However this issue will be resolved with the implementation of the new payroll system in 2012/13.</p> <p><b>Status:</b> Partially Implemented.</p>

## Appendix 3: Declaration of independence and objectivity

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

### Requirements

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

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

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

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

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

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

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

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

### General procedures to safeguard independence and objectivity

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

## Appendix 3: Declaration of independence and objectivity (continued)

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

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

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

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

### Auditor declaration

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 4: Draft management representation letter

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

**The wording for these representations is prescribed by auditing standards.**

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

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Lancaster City Council (“the Authority”) for the year ended 31 March 2012, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

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

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

### Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority’s income and expenditure for the year then ended
  - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2011/12.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

### Information provided

4. The Authority has provided you with:
    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
  5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
  6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement; whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Appendix 4: Draft management representation letter

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

**The wording for these representations is prescribed by auditing standards.**

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

7. The Authority has disclosed to you all information in relation to:

- a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority financial statements communicated by employees, former employees, analysts, regulators or others.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in

the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

The Authority further confirms that:

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

This letter was tabled and agreed at the meeting of the Audit Committee on 19 September 2012.

Yours faithfully,

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





*cutting through complexity™*

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**AUDIT COMMITTEE****Local Government Ombudsman – Annual Review  
2011/12  
19 September 2012****Report of Head of Governance****PURPOSE OF REPORT**

The Commission for Local Government Administration has published its Annual Review Report for 2011/12. This provides an overview of the work undertaken by the Ombudsmen. The Local Government Ombudsman has also sent her Annual Review letter with the annual summary of statistics on complaints made about the authority for the year ending 31 March 2012. This report highlights particular matters in the published documents which may be of interest to Members.

**This report is public**

**RECOMMENDATIONS**

- (1) **That the Ombudsman’s Annual Review letter for 2011/12 be noted**
- (2) **The Committee is requested to consider whether any feedback should be submitted to the Ombudsman on the Annual Review letter.**

**1.1 Background**

There are currently two Local Government Ombudsmen in England who provide an accessible and responsive complaints service directly to members of the public. The complaints are examined independently and decisions made are based on impartial, rigorous and proportionate investigations. The Ombudsmen also use their knowledge of complaints to identify good practice and promote good public administration and service improvement.

**1.2 Key Issues in 2011/2012**

The Independent Housing Ombudsman (IHO) has been established as a result of the Localism Act 2011. It will handle complaints from Local Authority tenants about their landlord from April 2013.

The LGO’s jurisdiction of handling complaints from schools that was established in 2010 will end in July 2012 and the power restored to the Department of Education.

The LGO have developed a new series of *Focus Reports* as a means of Councils learning from casework in specific service areas. These support



good local public administration and service improvement by describing good practice, highlighting what can go wrong and making recommendations for improvement. The LGO have received positive feedback so far and plan to publish more during 2012/13.

In 2011/12 the Ombudsmen received a total of 20,906 complaints, a similar figure to the 20,840 received in the previous year. Planning complaints have fallen for a second year reflecting a continued trend from the previous year.

77 reports were issued on complaints about councils in 2011/12 compared with 29 the previous year. A report on a complaint is published when the LGO feels it is necessary to bring the complaint to the wider attention of the council and the public.

The LGO will from next year publish all final decisions on complaints on their website. The Annual Report and other publications can be found on the Ombudsmen's Website.

### 1.3. Complaints against Lancaster City Council

The report for Lancaster City Council appended to this report provides a summary of enquiries and complaints received by the LGO team and those forwarded to the Investigation Team for the period 01/04/2011 to 31/03/2012.

A total of 30 cases were received by the Advice Team, and 16 of these were forwarded to the investigation team. These include 8 premature complaints sent to the LGO without the council being given an opportunity to investigate, 2 resubmitted cases and 14 new cases. Premature cases can later be resubmitted to the investigation team after the council has had an opportunity to consider the complaint. Two of the eight premature complaints were resubmitted to the investigation team. The Advice Team may also forward "new" cases to the investigation team and these may include cases where the council may not have been contacted. Advice on why the LGO would not be able to investigate was given on 6 cases.

Table 1 below shows the cases received and investigated over the last three years.

Year Cases	2009/2010	2010/2011	2011/2012
Received by the Advice Team	24	28	30
Forwarded to the Investigation Team	9	16	16

**Table1**

Appendix 1 also shows a summary of the 16 decisions following the LGO Investigation Team's findings. 5 complaints were not investigated and of the 11 cases investigated; there was insufficient evidence of maladministration in 3 cases. In 4 cases there was minor or no injustice found. In the remaining 4 cases the injustice found was resolved during the enquiry. One complaint was resolved before the completion of the investigation and the other three as a

result of the investigation.

Members will note that the case resolved during investigations involved managing council tenancies and the council waived charges relating to septic tank emptying. One of the cases resolved after the enquiry was in relation to Housing Benefit and the council apologised for not treating the grievance at Stage 2 of the complaints process properly. The other two cases were about a household planning application. On these, the council was asked to apologise and provide clear policies and guidance to planning officers.

Members will also note that there was an improvement in the average number of days taken to respond to first enquiries as shown in Table 2 which was well under the required 28 calendar days set by the LGO.

<b>Response times</b>	<b>No of first enquiries</b>	<b>Average no of days to respond</b>
2011/2012	5	21.2
2010/2011	6	29.7
2009/2010	5	35.0
2008/2009	6	24.2

Table 2

## 2.0 Proposal Details

- 2.1 The Committee is requested to consider whether any feedback should be submitted to the Ombudsman.

## 3.0 Consultation

- 3.1 There has been no consultation

## 4.0 Options and Options Analysis (including risk assessment)

- 4.1 There are no options, as the report is for noting, although it would be open to the Committee to respond to the Annual Review if it so wished.

### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

None arising directly from this report.

### **LEGAL IMPLICATIONS**

There are no direct legal implications

### **FINANCIAL IMPLICATIONS**

There are no direct financial implications.

**OTHER RESOURCE IMPLICATIONS**

**Human Resources:**

None

**Information Services:**

None

**Property:**

None

**Open Spaces:**

None

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been consulted and has no comments to add.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

1. Local Government Ombudsman Annual Local Authority Report – Lancaster City C 2011/12
2. Local Government Ombudsman Annual Review Letter 2011/12

**Contact Officer:** Rosebella Kotonya

**Telephone:** 01524 58 2192

**E-mail:** rkotonya@lancaster.gov.uk

**Ref:**

Local Government  
**OMBUDSMAN**

22 June 2012

Mr M Cullinan  
Chief Executive  
Lancaster City Council  
Town Hall  
Dalton Square  
LANCASTER  
LA1 1PJ

Dear Mr Cullinan

**Annual Review Letter**

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ended 31 March 2012. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number forwarded by the Advice Team to my office, and decisions made on complaints about your authority. The decision descriptions have been changed to more closely follow the wording in our legislation and to give greater precision. Our guidance on statistics provides further explanation ([see our website](#)).

The statistics also show the time taken by your authority to respond to written enquiries.

I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention.

***Changes to our role***

I am also pleased to have this opportunity to update you on changes to our role. Since April 2010 we have been exercising jurisdiction over the internal management of schools on a pilot basis in 14 local authority areas. This was repealed in the Education Act 2011 and the power restored to the Secretary of State for Education. During the short period of the pilot we believe we have had a positive impact on the way in which schools handle complaints. This was endorsed by independent research commissioned by the Department for Education which is available [on their website](#).

Our jurisdiction will end in July 2012 and all complaints about internal school matters will be completed by 31 January 2013.

From April 2013, as a result of the Localism Act 2011, local authority tenants will take complaints about their landlord to the Independent Housing Ombudsman (IHO). We are working with the IHO to ensure a smooth transition that will include information for local authority officers and members.

/....

Page 2  
Mr M Cullinan

### ***Supporting good local public administration***

We launched a new series of Focus reports during 2011/12 to develop our role in supporting good local public administration and service improvement. They draw on the learning arising from our casework in specific service areas. Subjects have included school admissions, children out of school, homelessness and use of bankruptcy powers. The reports describe good practice and highlight what can go wrong and the injustice caused. They also make recommendations on priority areas for improvement.

We were pleased that a survey of local government revenue officers provided positive feedback on the bankruptcy focus report. Some 85% said they found it useful.

In July 2011, we also published a report with the Centre for Public Scrutiny about how complaints can feed into local authority scrutiny and business planning arrangements.

We support local complaint resolution as the most speedy route to remedy. Our training programme on effective complaint handling is an important part of our work in this area. In 2011/12 we delivered 76 courses to councils, reaching 1,230 individual learners.

We have developed our course evaluation to measure the impact of our training more effectively. It has shown that 87% of learners gained new skills and knowledge to help them improve complaint-handling practice, 83% made changes to complaint-handling practice after training, and 73% said the improvements they made resulted in greater efficiency.

Further details of publications and training opportunities are on [our website](#).

### ***Publishing decisions***

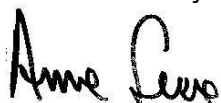
Following consultation with councils, we are planning to launch an open publication scheme during the next year where we will be publishing on our website the final decision statements on all complaints. Making more information publicly available will increase our openness and transparency, and enhance our accountability.

Our aim is to provide a comprehensive picture of complaint decisions and reasons for councils and the public. This will help inform citizens about local services and create a new source of information on maladministration, service failure and injustice.

We will publish a copy of this annual review with those of all other English local authorities on our website on 12 July 2012. This will be the same day as publication of our Annual Report 2011/12 where you will find further information about our work.

We always welcome feedback from councils and would be pleased to receive your views. If it would be helpful, I should be pleased to arrange a meeting for myself or a senior manager to discuss our work in more detail.

Yours sincerely



Anne Seex  
Local Government Ombudsman

LGO advice team

Enquiries and complaints received	Adult Care Services	Benefits & Tax	Corporate & Other Services	Education & Childrens Services	Environmental Services & Public Protection & Regulation	Highways & Transport	Housing	Planning & Development	Total
Advice given	1	0	0	1	2	0	0	2	6
Premature complaints	0	0	0	0	2	1	3	2	8
Forwarded to Investigative team (resubmitted)	0	1	0	0	0	0	0	1	2
Forwarded to Investigative team (new)	0	1	1	0	4	0	3	5	14
<b>Total</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>8</b>	<b>1</b>	<b>6</b>	<b>10</b>	<b>30</b>

Investigative team - Decisions

Not investigated	Investigated			Report	Total
	No reason to use exceptional power to investigate	Investigation not justified & Other	No or minor injustice & Other		
2	1	2	4	0	16

Response times to first enquiries	No of first enquiries	Avg no of days to respond
	5	21.2

**AUDIT COMMITTEE****Internal Audit Annual Report and  
Assurance Statement 2011/12  
19 September 2012****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2011/12 financial year and to present an annual Statement of Assurance regarding the Council's Internal Control Framework.

**This report is public**

**RECOMMENDATIONS**

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.10 to 2.20) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement.

**1.0 Introduction**

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). The Code of Practice for Internal Audit<sup>1</sup> specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

**2.0 Report**

- 2.1 Internal Audit is established as a section of Financial Services, reporting operationally to the Head of Financial Services. Professionally, it operates to standards set out in the CIPFA Code of Practice for Internal Audit and operates and reports functionally in accordance with an approved Audit Charter.

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<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)



**Annual Audit Plan 2011/12**

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2011/12 Internal Audit Plan was approved by the Audit Committee at its meeting on 29<sup>th</sup> June 2011. Adjustments to the plan were approved by the Committee at its meetings on 21<sup>st</sup> September 2011 and 15<sup>th</sup> February 2012. The annual outturn position was reported to the Committee on 18<sup>th</sup> April 2012 the summary of which is replicated in the following table.

Area of work	Resources (days)			
	Original Plan	Revised Plan (15/02/12)	Actuals	Variance
<b>Assurance Audit</b>				
Core Financial Systems	50	108	119	11
Revenues & Benefits Shared Services	85	107	113	6
Core Management Arrangements	110	30	28	-2
Risk Based Assurance Audits	105	192	203	11
Follow-Up Reviews	70	60	56	-4
<b>Sub-Total, Assurance Work</b>	<b>420</b>	<b>497</b>	<b>519</b>	<b>22</b>
Advice & Support Work	125	95	90	-5
Efficiency & VFM	30	0	0	0
Investigations	30	9	9	0
Audit Management	55	61	69	8
Other Duties (Non-Audit)	15	15	20	5
General Contingency	40	18	0	-18
<b>Total Chargeable Days</b>	<b>685</b>	<b>695</b>	<b>707</b>	<b>12</b>
Non-Chargeable Activities (note1)	101	101	105	4
<b>Total Available Days</b>	<b>786</b>	<b>796</b>	<b>812</b>	<b>16</b>

*Note 1 Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.*

**Explanation of Major Variances**

- 2.3 The summary shows that overall, a total of 707 days were delivered compared with the approved plan of 695 days and the original plan of 685 days. This was largely possible through a continuing good sickness record within the section and ongoing attention to procedures to ensure that "non-chargeable" time is minimised.
- 2.4 Within the main programme of assurance work, the audits of core financial systems and the Revenues and Benefits Shared Service exceeded the original plan by a total of 97 days. This reflects additional work required in developing and refining a new approach to these audits, covering all significant systems in this year and in establishing arrangements with Preston City Council to enable audit work to proceed.
- 2.5 There was also a significant re-focusing of resources (98 days) in to the Risk Based Assurance audit section of the plan, this arising mainly from the audits of the RMS Partnering Contact and the specific piece of work concerning the

Hala Flats Pebbledashing job and also from the audit into Consultancy Commissioning and Procurement. These demands were managed in part through a reduction in resources (82 days) devoted to the Core Management Arrangements of the assurance work section of the plan.





- 2.6 Overall, 99 days more than originally planned were spent on assurance audit work. This shift in resources was mostly managed during the year through reduced time spent on: Efficiency & VfM (30 days); Investigations Contingency (21 days) and by use of the General Contingency (40 days).

### **Review of the Effectiveness of Internal Audit**

- 2.7 The Accounts & Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review is included within the report on the annual review of governance elsewhere on the agenda.

### **Results of Assurance Work**





- 2.8 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.9 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31<sup>st</sup> March 2011, and any subsequent changes in assurance level.

### **Controls Assurance Statement**

- 2.10 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.
- 2.11 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's figures for comparison.

Assurance Level (at most recent review)	No of Audits	
	2011/12	2010/11
Maximum 	7	4
Substantial 	13	13
Limited 	4	12
Minimal 	0	0
Totals	24	29

- 2.12 A “maximum” assurance opinion has been given in seven instances, the majority of these being from in-depth audits of the transactions processed by the following financial systems:
- Income Tax and National Insurance
  - Income Management
  - Council Tax
  - Housing and Council Tax Benefits
- 2.13 “Maximum” assurance has also been given in respect of the Council’s Treasury Management arrangements, the approach to the National Fraud Initiative (NFI) and Car Parking management.
- 2.14 One audit during the year, into the operation and management of corporate purchasing cards, originally resulted, in June 2011 in a “minimal” assurance opinion. This reflected the findings that, whilst purchasing cards were being used appropriately, arrangements for the retention of appropriate documentation and for reclaiming VAT needed strengthening. At the follow-up review in May 2012, these issues had been addressed and the progress made with the action plan resulted in the assurance opinion being raised to “substantial”.
- 2.15 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At the present time this consists of the 4 audits whose assurance ratings stand as “limited”. These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.
- 2.16 In the Internal Audit Manager’s view, the internal audit work undertaken has not identified any issues of sufficient significance to warrant specific mention in the annual governance statement.

### Financial Systems

- 2.17 Assurance levels on the Council’s key financial systems are once again consistently high. Taking into account the progress made in respect of purchasing cards (mentioned above), all systems audits have resulted in a “maximum” or “substantial” assurance opinion.
- 2.18 Given this position, and the improvements made regarding procurement card arrangements, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information the key financial systems provide and no significant ongoing control weaknesses have been identified.

**Governance Arrangements**

2.19 Resources devoted to auditing core management arrangements were reduced during the year. A specific audit of Business Continuity arrangements resulted in a “substantial” assurance opinion. A substantial action plan resulting from an audit of Information Management during 2010/11 (assurance level “limited”) continues to be worked on and the Committee will receive further updates on this issue. The main messages arising from this audit will be incorporated in the governance review and in drafting the Annual Governance Statement.

**Other Audits**

2.20 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council’s Annual Governance Statement. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

**3.0 Details of Consultation**

3.1 No specific consultation has been undertaken in compiling this report.

**4.0 Options and Options Analysis (including risk assessment)**

4.1 The proposal is that the Committee accepts Internal Audit’s assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

**5.0 Conclusion**

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2011/12 financial year, Internal Audit’s work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b></p> <p>This report has no direct impact on these areas.</p>
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None arising from this report.</p>
<p><b>SECTION 151 OFFICER’S COMMENTS</b></p> <p>The Section 151 Officer has been consulted and has no further comments.</p>
<p><b>LEGAL IMPLICATIONS</b></p> <p>None arising from this report</p>

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

Internal Audit Plan 2011/12

**Contact Officer:** Derek Whiteway



**Telephone:** 01524 582028

**E-mail:** [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk)



**Ref:** aud/ctte/aud/120919/IAAnnRep

<b>09/0738 Information Management and Security</b>		
09-Nov-11	Limited	 Many of the actions from the original review are in the process of being addressed, however it is recognised that establishing and maintaining an effective information management regime presents an ongoing and developing challenge.
<b>09/0755 Contaminated Land</b>		
21-Oct-11	Substantial	 All three risks evaluated are now considered well managed. As such, it is felt that the assurance opinion can be raised to substantial.
<b>10/0787 National Fraud Initiative 2010/11</b>		
15-Aug-11	Maximum	 The Authority has good arrangements in place to meet the requirements of the National Fraud Initiative and to act upon matches returned. Investigations have revealed three instances of fraud and a relatively low incidence of error (<1%). Arrangements are in place to recover amounts overpaid.
<b>10/0789 Development Management Capacity</b>		
02-Nov-11	Substantial	 Of the four risks evaluated at the time of the audit, three are now considered well managed and improvements are in hand in relation to management of the fourth risk. Therefore, the assurance opinion has been raised to substantial.
<b>10/0791 Corporate Learning and Development</b>		
29-Nov-11	Limited	 Whilst there has been limited progress in addressing the issues raised in the original review the HR Manager is to put to Management Team proposals for changes with a view to improvement and the implementation of the a new HR/Payroll system provides an opportunity for change.
<b>10/0799 IT Standards and Change Control</b>		
27-Apr-12	Limited	 Effective IT standards and change control should ensure any changes to the IT environment are appropriate, authorised and correct, and service delivery and system quality and security is not compromised. Whilst a change control policy setting out these standards has been drafted it is yet to be formally adopted and published and a number of actions which are linked to the introduction of this document remain outstanding. Progress to develop a program documentation standard has been delayed as a result of the ongoing negotiations surrounding the One Connect shared service arrangement. The level of assurance which can be provided at this time therefore remains at limited.
<b>10/0806 Treasury Management</b>		
27-Jan-12	Maximum	 The original review established that treasury risks associated with a failure to comply with the Code of Practice are well managed, therefore the action plan developed was agreed with a view to improving the efficiency of operations. Three out of the four actions agreed have been addressed, or are in the process of being implemented therefore a maximum level of assurance remains.
06-Jun-11	Maximum	 This review has established that the treasury management framework developed by the Authority is in line with the requirements of the Code of Practice, and that high levels of reliance can be placed on the authority's arrangements to ensure that treasury management activity is compliant with its approved policy.
<b>10/0809 Transactional Applications - Expenses Audit</b>		
27-Sep-11	Substantial	 The level of assurance remains at substantial given that the revised employee expenses and benefits guidance is awaiting approval and publication. Clearer guidance and the imminent introduction of monthly quality control checks should ensure that a consistent approach is applied across the authority and value for money is obtained.
31-May-11	Substantial	 The Authority has a robust system in place to ensure that expense claims and employee benefits are valid, reasonable and are fully compliant with current HMRC regulations. However, there are concerns relating to the scope for interpretation within the employee expenses and benefits guidance, which needs to be addressed in order to ensure that a consistent approach is applied across the authority and value for money is obtained.
<b>10/0810 Transactional Applications - Payroll Audit</b>		
29-May-12	Substantial	 Arrangements are in place to ensure that payroll transactions are appropriate, correct and effectively managed and these will be further strengthened upon implementation of the new Payroll system (ResourceLink Aurora) which is expected to be within the next six months.
07-Sep-11	Substantial	 Good arrangements are in place to ensure that payroll transactions are appropriate, correct and effectively managed.
<b>10/0811 Transactional Applications - Creditors Audit</b>		
05-Apr-11	Substantial	 The Authority has good systems and processes in place to ensure that creditor transactions are appropriate, correct and effectively managed.


**10/0812 Transactional Applications - Car Parking Audit**

16-Nov-11	Maximum		The assurance opinion has been raised to maximum as minor control weaknesses identified during the original review have now been addressed. A small residual risk remains relating to the control of permit stationery which is not pre-numbered, but Management accept this risk and related security arrangements are good.
18-Aug-11	Substantial		Car parking arrangements are effectively managed and income is maximised.

**10/0813 Transactional Applications - Sundry Debtors**

22-Aug-11	Substantial		The Authority has good arrangements for the management and collection of debts and changes are being made to Council Housing procedures with a view to improving their administrative efficiency and collection rates.
19-Apr-11	Substantial		The Authority has a sound system to record and manage debts. Minor issues found in the audit are being addressed and Council Housing is in the process of putting together a business case which, if accepted, it hopes will improve their debt management and collection arrangements.



**10/0814 Transactional Applications - VAT**

19-Apr-11	Substantial		The Authority has good arrangements for accounting for VAT and for complying with VAT regulations. VAT returns are accurate and are completed and submitted on time. The incidence of errors is low, the majority found having no impact on the VAT return and the impact of the remainder is considered insignificant. Relevant staff have been informed and have accepted their errors and their increased awareness should further reduce the low error rate.
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**10/0815 Transactional Applications - Income Tax and NI**

20-Jun-11	Maximum		The Authority has good systems and processes in place to ensure that the deduction of income tax and NI is compliant with HM Revenue and Custom requirements.
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**10/0816 Transactional Applications - Income Management**

02-Nov-11	Maximum		The assurance opinion has been raised to maximum as action has been taken to withdraw all stocks of manual receipt books that are no longer required across the authority.
08-Jul-11	Substantial		The Authority has a sound system for the recording, receipting and accounting of income. A maximum level of assurance could be achieved through the withdrawal of all stocks of manual receipt books across the authority.


**10/0817 Transactional Applications - Main Accounting**

27-Sep-11	Substantial		The level of assurance remains at substantial the only remaining outstanding matter being technical issues relating to the Council Tax and NNDR feeders.
31-May-11	Substantial		A substantial level of assurance has been given reflecting the position that the only outstanding matter relates to technical issues with the Council Tax and NNDR feeders.

**10/0819 Transactional Applications - Purchasing Cards**

29-May-12	Substantial		The assurance opinion has been raised to reflect that procedures and processes surrounding purchasing card transactions have been strengthened, with the majority of actions resulting from the original review having been fully implemented. Arrangements will be further strengthened once the system which has recently been developed to scan documentation supporting purchasing card transactions is rolled out across the authority and periodic checking is introduced.
15-Jun-11	Minimal		Whilst purchasing cards are used appropriately, the assurance opinion reflects the fact that a significant proportion of the transactions tested were not supported by appropriate documentation and arrangements relating to the reclaiming of VAT need strengthening. Work is needed to improve purchasing efficiency and the wider use of procurement cards could be an option if the issues relating to record keeping were resolved.

**11/0821 Repairs and Maintenance Section - Partnership with Herbert T Forrest**

27-Oct-11	Substantial		The partnership has now been in place for 18 months of its five year programme. Following the clarification of a number of points regarding its operation, and a review of the RMS staffing structure, the service is in a sound position to develop and increase the benefits from the partnership. Good arrangements are in place to ensure that work carried out under the partnership agreement is completed on time, within budget and to a high standard. Working relationships between the parties have progressed positively, resulting in Planned Maintenance Officers being better positioned to develop efficiency and effectiveness in operating the partnership framework. Building on the revised line management structure, plans to review working practices throughout RMS should further strengthen current arrangements
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<b>11/0822</b>	<b>Transactional Applications - NNDR (National Non-Domestic Rates)</b>		
15-Sep-11	Substantial		NNDR transactions are appropriate, correct and effectively managed confirmed through testing of transactions. Arrangements have been put in place during the course of the audit to address issues raised concerning grant claim submissions and write-offs.
<b>11/0823</b>	<b>Transactional Applications - Council Tax</b>		
16-Aug-11	Maximum		Testing found council tax transactions are appropriate, accurate and effectively managed and the incidence of error is very low and insignificant.
<b>11/0824</b>	<b>Transactional Applications - Housing and Council Tax Benefits</b>		
02-Dec-11	Maximum		The Authority has good systems and processes in place to ensure that housing and council tax benefits are appropriate, correct and effectively managed, and the incidence of error is low.
<b>11/0826</b>	<b>Consultancy Commissioning and Procurement Arrangements</b>		
16-Sep-11	Substantial		The level of assurance reflects findings in the 22 engagements considered, where arrangements were generally good and compliant with Contract Procedure Rules.
<b>11/0828</b>	<b>Business Continuity</b>		
28-Nov-11	Substantial		A substantial level of assurance can be provided in relation to the aims and objectives of Exercise Newland II being met. It is felt that this practical approach provides a very positive and effective means of developing the Authority's overall resilience, particularly if the lessons learned are shared and applied corporately as appropriate.
<b>11/0831</b>	<b>Williamson Park</b>		
12-Jan-12	Limited		Since the transfer of Williamson Park back into direct council control in April 2010, staff within the Community Engagement Service have implemented many changes in order to bring its operations in line with Council policies and procedures and strengthen existing arrangements. A number of controls are in the process of being developed or implemented which once completed would raise the assurance opinion.

**AUDIT COMMITTEE****Review of Governance and the  
Annual Governance Statement 2011/12  
19 September 2012****Report of the Chief Executive****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Annual Governance Statement for the 2011/12 financial year and for a revised Code of Corporate Governance.

**This report is public**

**RECOMMENDATIONS**

- (1) **That the draft Annual Governance Statement for 2011/12 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.**
- (2) **That the draft revised Code of Corporate Governance at Appendix D is approved.**

**1.0 Introduction**

- 1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance in the Council and to oversee the production of the authority's annual Governance Statement and recommend its adoption.* (The Constitution, part 3 section 8).

**Accounts & Audit Regulations**

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

**2.0 Report**

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE<sup>1</sup> during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (this was approved by Audit Committee on 23<sup>rd</sup> January 2008) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

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<sup>1</sup> "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

- 2.2 Following the publication of its *“Statement on the Role of the Chief Financial Officer in Local Government, 2010”*, CIPFA has issued an associated *“Application Note to Delivering Good Governance in Local Government”*. This includes a series of “expanded governance requirements” in relation to the Chief Financial Officer’s role which are expected to be incorporated into governance frameworks and the annual review. This has been done this year.
- 2.3 Alongside these expanded requirements, is an expectation that the annual governance statement includes a specific statement on whether the authority’s financial arrangements conform with the governance requirements of the Statement on the Role of the CFO, and where they do not, explain why and how they deliver the same impact. The draft statement for 2011/12 includes a statement that the Council’s arrangements comply with those requirements.

### **3.0 Proposal Details**

#### **Review of Compliance with the Code of Governance**

- 3.1 A review has been undertaken of the Council’s position and performance against the Code of Governance approved in January 2008, along with the expanded financial governance requirements referred to in §2.2.. The results of the evaluation exercise are demonstrated in the Overview Charts (including a comparison with the 2010/11 results) and the Evaluation Report which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.
- 3.2 The current Code of Corporate Governance consists of a set of sixty-seven elements within the following six core principles, which underpin a council’s system of governance:
- 1. Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area**
  - 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles**
  - 3. Promoting the values of the authority and demonstrating the values of good governance through behaviour**
  - 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
  - 5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively**
  - 6. Engaging with local people and other stakeholders to ensure robust local public accountability.**

#### **Assurance**

- 3.3 A document compiled in previous years to detail the identified “sources” of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 3.4 As in previous years, individual “assurance statements” have been sought from Service Heads in relation to internal control and governance

arrangements within their areas. This assurance has been built in to the overall evaluation.

#### **Review of the Effectiveness of Internal Audit**

- 3.5 The Accounts & Audit (England) Regulations 2011 include a requirement that local authorities undertake an annual review of the effectiveness of their internal audit and that this should form a part of the overall review of governance.
- 3.6 Whilst compliance with professional standards is clearly important in operating a robust service, it is just one in a wide range of factors in effectiveness, defined as the extent to which the service delivered meets the organisation's expectations and adds value. As in previous years, a self-assessment, relating to "characteristics of effectiveness" (including compliance with proper practices) has been undertaken and is attached at Appendix B. Elected Members should also consider their own perceptions and experiences, through the Audit Committee, relating to the work and output of internal audit.
- 3.7 In conclusion, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements.

#### **Governance Review - Evaluation Results**

- 3.8 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. It also highlights in some areas that the financial climate and organisational/constitutional changes being experienced raise some additional challenges to maintaining effective governance.
- 3.9 The number of factors in which there remains a perceived shortfall in performance has reduced from 11 to 9. There is no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position and any plans to improve arrangements during 2011/12 and beyond.

#### **The Draft Annual Governance Statement**

- 3.10 Following the evaluation exercise, the Annual Governance Statement attached at Appendix C) has been drafted.
- 3.11 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 September 2012) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
  2. The Purpose of the Governance Framework
  3. The Governance Framework
  4. Review of Effectiveness
  5. Significant Governance Issues

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

#### **Signatories to the Statement**

- 3.13 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

#### **The Code of Corporate Governance**

- 3.14 The current Code of Corporate Governance, last revised in 2009, has been reviewed and a proposed draft revision is presented as Appendix D. This updates the previous Code to include the Council's current corporate plan values and priorities. The expanded governance requirements arising from the CIPFA "*Statement on the Role of the CFO in Local Government*" have been incorporated in the revised draft (and are highlighted with a grey background).
- 3.15 The review also identified a number of elements included in the Code which the Council originally added, but which fall outside the CIPFA/SOLACE recommended framework. In the majority of cases, these elements are superseded by the expanded governance requirements mentioned above. It is proposed to delete these elements, which are shown as being struck out from the code.
- 3.16 Members are asked to consider and approve the revised draft Code of Corporate Governance.

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

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

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

- 5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

#### **6.0 Conclusion**

- 6.1 The draft Annual Governance Statement and the results of the review reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2012/13.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

The report has no direct impact on the above issues.

**FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has been involved in the governance review process and has no further comments.

**LEGAL IMPLICATIONS**

There are no legal implications arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been involved in the governance review process and has no further comments.

**BACKGROUND PAPERS**

Accounts and Audit (England) Regulations 2011

**Contact Officer:** Derek Whiteway

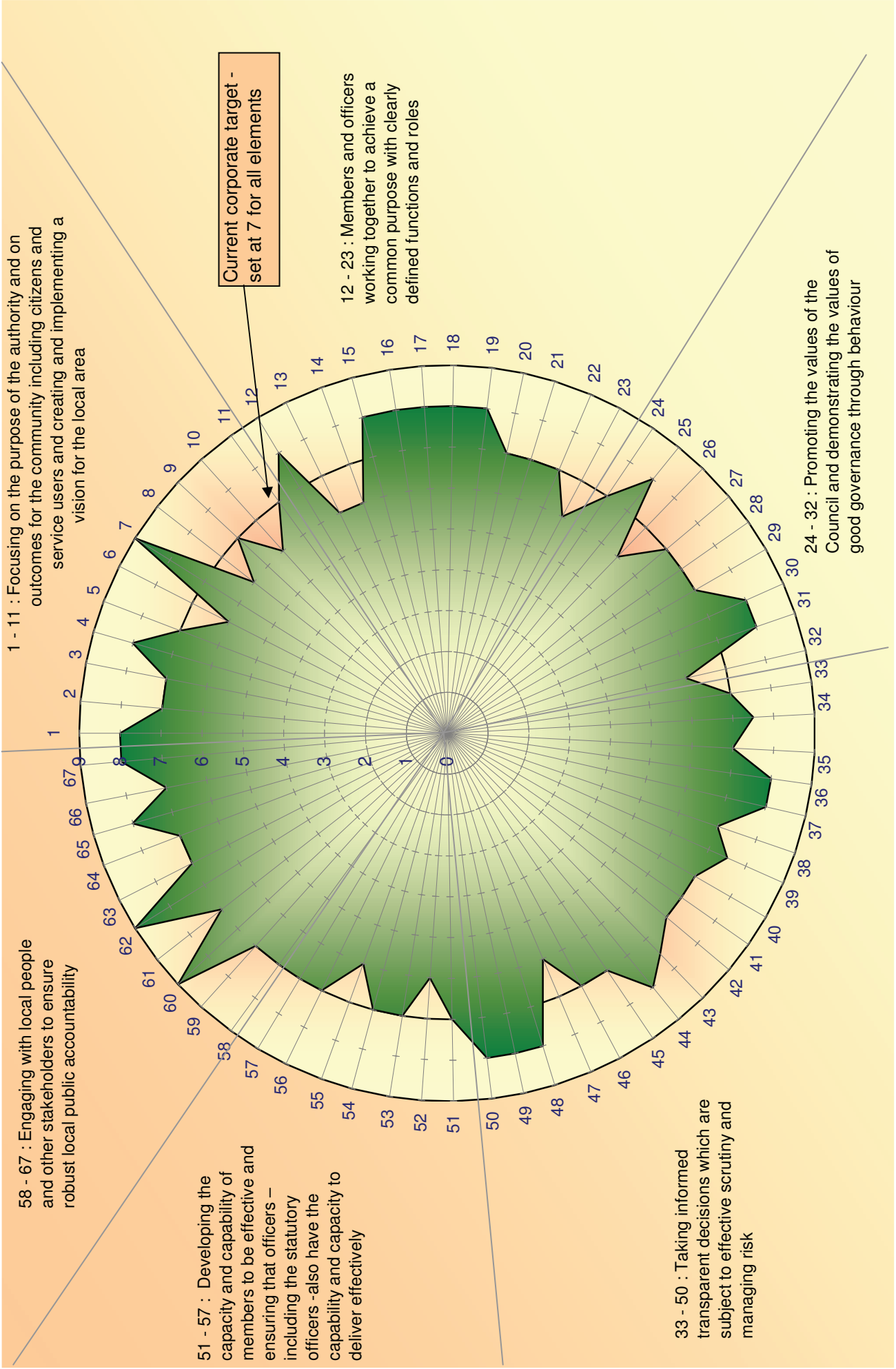
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**Ref:** aud/ctee/audit/2012/120919/ags

**Governance Review 2010/11 - Evaluation Results**

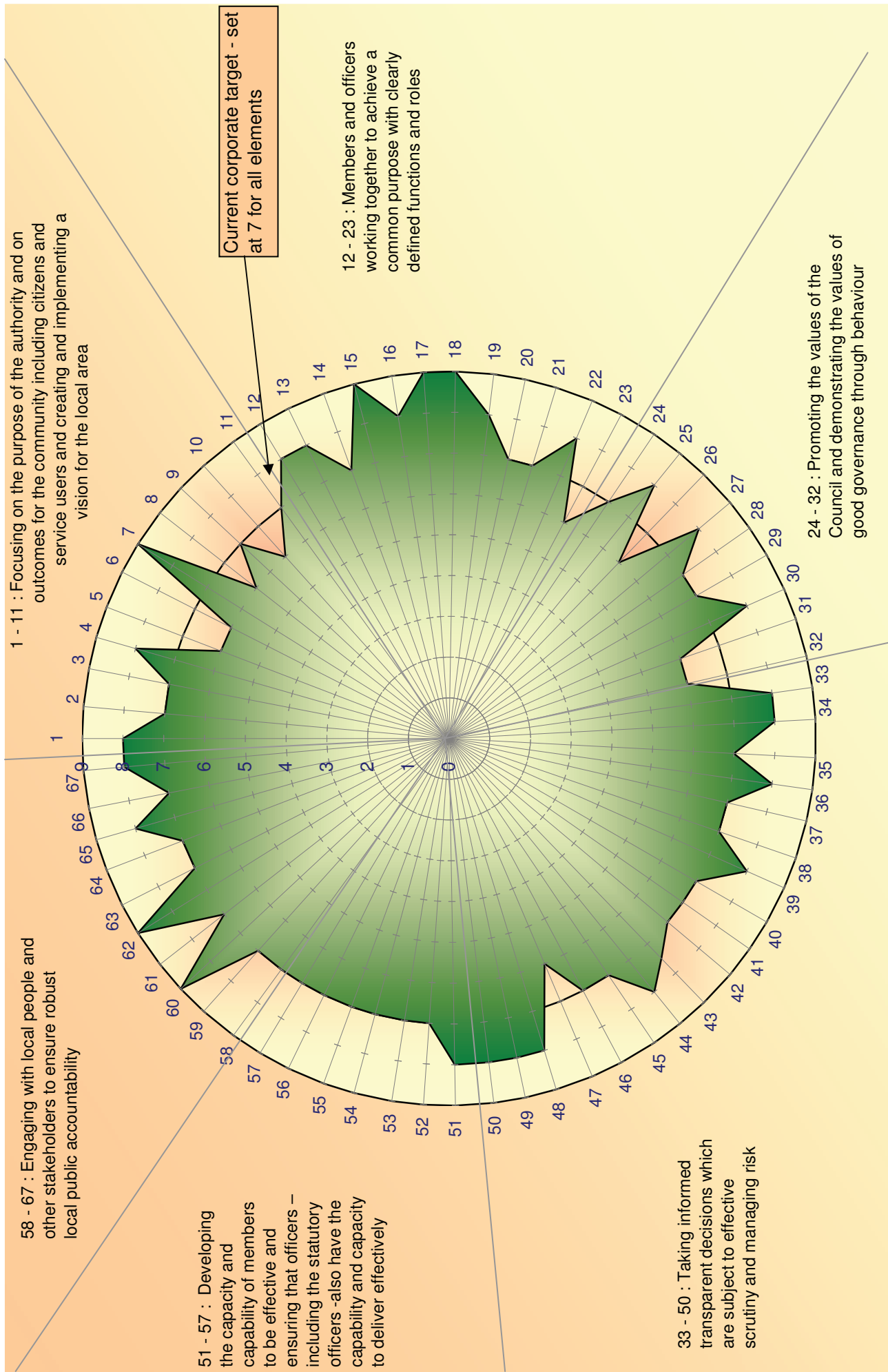
**Appendix A**





**Governance Review 2011/12 - Evaluation Results**

**Appendix A**



## Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
1	Developing and promoting the authority's purpose and vision	8	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	8	
3	Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners	7	
4	Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding	8	
5	Knowing how well the Council is performing against planned outcomes	6	Full benefits remain to be derived from the ongoing review of the performance management framework and introduction of a new system.
6	Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	6	
7	Publishing annual information on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
8	Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.	6	As nos 5 & 6.
9	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
10	Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance delivery.	6	Corporate Plan 2012-15 sets out priorities, outcomes and measures. These are being built into the developing performance management framework and new PM system.
11	Measuring the environmental impact of policies, plans and decisions.	8	

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

No	Element	Score	Comments/Conclusions
12	Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice	8	
13	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	8	
14	Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required	7	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	9	
16	Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives	8	
17	Making the Head of Financial Services (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	9	
18	Making the Head of Governance (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	9	
19	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
20	Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members	7	

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

No	Element	Score	Comments/Conclusions
21	Ensuring that effective mechanisms exist to monitor service delivery	7	
22	Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	8	
23	When working in partnership, ensuring that: members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; there is clarity about the legal status of the partnership; representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	6	Recent period of change experienced with the removal of local LSPs and advent of greater emphasis on shared service delivery models. A new "commissioning" approach to grant-funded partnership arrangements is being developed. Further assurance is required as to the efficiency and effectiveness of arrangements across the range of partnership working.

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

No	Element	Score	Comments/Conclusions
24	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
25	Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated	8	
26	Having protocols in place to ensure that standards for joint working between members and staff and between the Council (members/officers), its partners and the community are defined and communicated	6	See no 23
27	Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice	8	
28	Developing and maintaining shared values including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	7	
29	Having arrangements in place to ensure that systems and processes are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	7	
30	Maintaining an effective standards committee	8	
31	Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council	6	Challenges have been posed by the outcome of a "no overall control" Council in the City Council elections in May 2011, along with the changes introduced by the Localism Act (e.g. new Standards regime) and potential changes (e.g. in democratic structures) and a continued period of austerity.
32	In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged	6	See no 23

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

No	Element	Score	Comments/Conclusions
33	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	8	
34	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	8	
35	Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice	7	
36	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
37	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	7	
38	Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)	7	
39	Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately	8	
40	Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs	7	
41	Ensuring that risk management processes specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of those risks	7	
42	Ensuring that there are well-established and clear arrangements for financing risk	7	
43	Ensuring that sound financial management is promoted	7.5	
44	Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access	8	
45	Having effective arrangements to counter fraud and corruption	7	
46	Having effective arrangements in place to ensure business continuity	7	

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

No	Element	Score	Comments/Conclusions
47	Ensuring the safety of staff, contractors and visitors	6	Potential access and security issues identified within major council buildings is under consideration by Cabinet.
48	Ensuring that the Council's internal control framework is subject to regular independent assessment	8	
49	Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra vires doctrine but also striving to utilise available powers to the full benefit of its communities	8	
50	Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes	8	



Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively

No	Element	Score	Comments/Conclusions
51	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	8	
52	Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council	7	
53	Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively	7	
54	Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	7	
55	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	7	
56	Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council	7	
57	Ensuring that effective Member development and employee development strategies and actions are in place	7	

## Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability

No	Element	Score	Comments/Conclusions
58	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
59	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
60	Producing an annual report on the activity of the scrutiny function	9	
61	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place	7	
62	Holding meetings in public unless there are good reasons for confidentiality	9	
63	Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	7	
64	Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result	7	
65	Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	8	
66	Ensuring that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	7	
67	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>IA operates in accordance with "proper practices" as defined in professional codes of practice.</p>	<p>The IA section operates to the CIPFA Code of Practice for Internal Audit (2006). Compliance with the code is included in benchmarking exercise alongside other Lancashire district councils.</p>	<p>Review the outcomes from an ongoing benchmarking exercise.</p>
<p>IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.</p>	<p>Results of audit work are reported to each Audit Committee and summarised in the annual report and assurance statement demonstrate the level of assurance provided and how improvements are being realised.</p>	
<p>IA understands its position in relation to the organisation's other sources of assurance and plans its work accordingly.</p>	<p>Internal audit identifies other sources of assurance and takes these into account when preparing the internal audit plan.</p>	
<p>Understands the whole organisation, its needs and objectives.</p>	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives. Individual audit assignments identify risks to the achievement of those objectives.</p>	
<p>Be seen as a catalyst for change at the heart of the organisation.</p>	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and efficiency/value for money. Individual assignments may be catalyst for change, for example the recent review of the complaints policy and processes.</p>	<p>Continue to liaise and consult with Management Team on the options for IA to provide a corporate role.</p>

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>Add value and assist the organisation in achieving its objectives.</p>	<p>Demonstrated through individual audit assignments and also corporate work.</p>	<p>Continue to review scope and nature of IA's contribution and reflect this in future plans and development programmes.</p>
<p>Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.</p>	<p>Internal audit provides help and advice on request and supports specific projects identified in plan and on <i>ad hoc</i> basis.</p>	<p>Continue to consider and promote scope for IA involvement in significant projects.</p>
<p>Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.</p>	<p>When identifying risks and in formulating the plan changes on the national agenda are considered. The audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the local authority.</p>	<p>Continue to develop through consultation with Management Team and service managers</p>
<p>Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.</p>	<p>Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and engaging managers in developing actions to manage risks, thereby encouraging ownership of the control environment amongst managers.</p>	<p>Develop greater liaison with and shared understanding with service managers through post-audit feedback meetings.</p>
<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.</p>	<p>Resource issues are addressed in the Strategic &amp; Business and Annual Plan process. Ongoing consideration is given to alternative sources of audit resource, including areas requiring specialist skills.</p>	

**APPENDIX C****LANCASTER CITY COUNCIL  
ANNUAL GOVERNANCE STATEMENT 2011/12 (DRAFT)****SCOPE OF RESPONSIBILITY**

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

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

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the Council's website or can be obtained from the Internal Audit Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how Lancaster City Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to reviewing the effectiveness of the system of internal control and the publication of an annual governance statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lancaster City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2012 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

**THE GOVERNANCE FRAMEWORK**

The following paragraphs set out the key elements (as incorporated in the Code of Corporate Governance) that the Council relies upon to deliver effective corporate governance.

- An annual review of the Council's vision for the local area, consulting directly with the community. The Council's vision, priorities and objectives are brought

together and published in the three-year *Corporate Plan*. A performance management framework which establishes clear priorities, objectives and plans of action at corporate, service, team and individual levels

- Performance management systems which measure and monitor the quality of services delivered and provide elected members and officers with the information required to ensure that they are delivered in accordance with the authority's objectives.
- Arrangements for the executive to manage performance through the Corporate Management Team and quarterly Performance Review Team meetings.
- Review and challenge of performance through the Overview & Scrutiny function and particularly via the Budget & Performance Panel.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the Overview and Scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The Council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The Council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy*.
- The Head of Resources (formerly Head of Financial Services) has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The Council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. Rules for financial management and the scheme of delegation of the Council are set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The Council's Audit Committee is charged with overseeing and, independently of the Executive and Overview and Scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- The Head of Governance is the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors

and co-opted Members.

- The Cabinet is responsible for taking key decisions in line with the Council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The Council publishes a *Forward Plan* containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer (Section 151 Officer).
- The Council aims to identify and meet the development needs of both elected members and officers.
- The *Code of Corporate Governance* sets out the Council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The Council's internal audit service is delivered by an in-house team required to operate to professional standards set out in the *CIPFA Code of Practice for Internal Audit in Local Government 2006*. The Council has also set out a commitment to maintain an objective and professional relationship with its external auditors and other statutory inspectors.

## REVIEW OF EFFECTIVENESS

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

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

- The Audit Committee and the Head of Governance, in her role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Head of Resources (formerly Head of Financial Services) has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by



the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel. The Council is in the process of implementing revised performance reporting and management arrangements.

- The Localism Act 2011 introduced a new standards regime with effect from the 1st July 2012, and the Council adopted a revised Code of Conduct at its meeting on the 18th July 2012. There is a statutory requirement under the Act for the Council to promote and maintain high standards of conduct by its members, and it is the role of the Standards Committee to provide assistance and advice to the Council in this respect, and to deal with complaints of breach of the Code of Conduct.
- The senior management structure has developed further during 2011/12 and beyond and some aspects of the Council's constitution, such as the scheme of delegation, have been updated to a degree to reflect this. The extent of structural change has overtaken further planned updates and development of the Constitution, however. Whilst the current position is not ideal, it is not considered that it presents any new governance issues. A phased approach will be taken in completing the necessary updates.
- The Authority had all out elections in May 2011. The diverse political makeup of the Council, set in the context of the Council's current democratic model (Cabinet and Scrutiny) has resulted in a number of tensions developing. Taken alongside past events impacting the Council, these factors have presented a challenge to the maintenance of fully effective governance arrangements.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control.
- In October 2011 the Council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the Council's accounts for 2010/11. They also provided an unqualified conclusion on the Council's arrangements for securing value for money. The external auditors made some recommendations to help strengthen the control environment but none of these were deemed to be critical (high priority) to the operation of the Authority
- Following the audit of the 2011/12 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30<sup>th</sup> September 2012.
- The work carried out by both the Council's external and internal auditors has indicated that effective internal financial controls exist within the Council's main financial systems to ensure the accuracy and integrity of the information they

provide.

## **SIGNIFICANT GOVERNANCE ISSUES**

The Council has identified its overriding challenge as ensuring that the Council and its partners can identify and meet the needs of the district's citizens, whilst responding to current and future financial constraints. It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance, with continuous review in key areas including:

- The identification of efficiencies and measures to improve Value for Money;
- The efficient and effective operation of the constitution;
- Developing the ways in which the Council communicates with local people and enables them to be at the forefront of decision making;
- The shaping of services through the continuing development of both the workforce itself and of the organisation's leadership and management values and practices.

The annual review has highlighted that more immediate attention needs to be given to the following aspects of the Council's governance arrangements:

- **Partnership working and administrative arrangements;** to ensure that the Council's partnership working and supporting arrangements are fit for purpose and delivered in an efficient and cost-effective manner;
- **The performance management framework;** to ensure the Council can achieve its planned outcomes and objectives whilst addressing any underperformance and risk quickly, efficiently and effectively;
- **Democratic structures and cultural aspects of governance;** challenges have been posed by the outcome of a "no overall control" Council in the City Council elections in May 2011, along with the changes introduced by the Localism Act (e.g. new Standards regime) and potential changes (e.g. in democratic structures) and a continued period of austerity. Together these present a need to ensure that democratic processes are appropriate, efficient and effective and that elected members, officers, and partners are able to operate positively in an environment of mutual trust and respect whilst fostering a healthy culture of challenge and confident decision making.

The Council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

**E Blamire**  
**Leader of the Council**

**M Cullinan**  
**Chief Executive**

**S Taylor**  
**Head of Governance**  
**Monitoring Officer**

**N Muschamp**  
**Head of Resources**  
**(Section 151 Officer)**



**LANCASTER CITY COUNCIL**  
*Promoting City, Coast & Countryside*

# Code of Corporate Governance

Version 1.02  
15 August 2012

## Version Control

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Author: **Derek Whiteway, Internal Audit Manager**

## Document History

Document Title	Version	Reference / Date	Comments
Code of Corporate Governance	1.00	23/01/08	First version of the Code approved by Audit Committee
	1.01	04/09/09	Updated to reflect the councils' vision and priorities stated in the 2009-12 corporate plan and to set out review processes, etc.
	1.02	15/08/12	Updated to reflect 2012-15 corporate plan and incorporate CIPFA "extended requirements associated with its report on "The Role of the Chief Financial Officer in Local Government", 2010

## LANCASTER CITY COUNCIL

### CODE OF CORPORATE GOVERNANCE

#### Background

1. The council's vision is: **“By promoting city, coast and countryside, we will secure a safe and prosperous community that is proud of its natural and cultural assets and provides lasting opportunities for all.”**
2. Our values, priorities and supporting themes are set out in the Corporate Plan for 2012-15 as follows:

#### Values:

- **Leading our communities:** We will bring communities together to deal with the major issues facing us and work with our partners to deliver real improvements to the quality of life of those in our district
- **Providing value for money:** Ensuring that the council's limited resources are used in the most cost effective manner to deliver our approved priorities and agreed standards of service
- **Putting our customers first:** Our customers are at the heart of what we do. We will listen to, respect and value their views, using them to shape our services
- **Maintaining a skilled and professional workforce:** We are proud of our skilled and professional employees. We want our people to feel supported, valued and proud to serve our communities and be our ambassadors in the community

#### Priorities:

- **Economic Growth**
- **Health and Wellbeing**
- **Clean, Green and Safe Places**
- **Community Leadership**

#### Supporting themes:

- **Working together in partnership**
- **Managing the Council's resources**
- **Environmental sustainability**

3. A sound system of corporate governance underpins the achievement of all the Council's strategic objectives but is also key to ensuring that the Council is a performing organisation as it forms a significant element of the Use of Resources assessment regime.
4. In 2007 CIPFA and SOLACE issued a Framework document and supporting guidance entitled "Delivering Good Governance in Local Government" under which the Council is urged to:
  - develop and maintain an up-to-date local code of governance consistent with the core principles set out in this Framework, including arrangements for ensuring its ongoing application and effectiveness;
  - review its existing governance arrangements against this Framework;

- prepare a governance statement in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
5. This local Code of Corporate Governance has been produced to show how Lancaster City Council will implement the core principles and detailed provisions of the CIPFA/SOLACE Framework and therefore ensure full compliance with it.

### Core Principles

6. The following six core principles have been developed from those promoted by the Good Governance Standard produced by the Independent Commission on Good Governance in Public Services with support from OPM and CIPFA. The council defines good governance as meaning:
1. Focusing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.
  2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
  3. Promoting the values of the Council and demonstrating the values of good governance through behaviour
  4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively
  6. Engaging with local people and other stakeholders to ensure robust local public accountability

These six core principles have been developed by identifying a number of supporting principles/objectives and by defining a range of measures that the council relies upon to deliver them. These have been extended by reference to CIPFA's "*Application Note to Delivering Good Governance in Local Government*" arising from its *Statement on the Role of the Chief Financial Officer in Local Government (2010)*. This is all brought together in the Governance Framework which is set out in the following pages.

## GOVERNANCE FRAMEWORK

Core Principle 1 Focusing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area	
The Council Seeks To	This Is Done By:
Exercise strategic leadership by developing and clearly communicating the Council's purpose and vision and its intended outcomes for citizens and service users.	<ol style="list-style-type: none"> <li>1. Developing and promoting the Council's purpose and vision</li> <li>2. Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements</li> <li>3. Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners</li> </ol> <p><del>Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding</del>  <del>Knowing how well the Council is performing against planned outcomes</del>  <del>Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes</del></p> <ol style="list-style-type: none"> <li>4. Publishing annual accounts on a timely basis to communicate the Council's activities and achievements, its financial position and performance</li> </ol>
Ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.	<ol style="list-style-type: none"> <li>5. Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.</li> <li>6. Putting in place effective arrangements to identify and deal with failure in service delivery</li> </ol>
Ensure that the Council makes best use of resources and that tax payers and service users receive excellent value for money.	<ol style="list-style-type: none"> <li>7. Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance effectively.</li> <li>8. <b>Ensuring that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use</b></li> <li>9. <b>Ensuring that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary</b></li> <li>10. <b>Ensuring compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code</b></li> </ol> <p><del>Measuring the environmental impact of policies, plans and decisions.</del></p>



<b>Core Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Ensure there is effective leadership throughout the Council by being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function	11. Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice
	<b>12. Ensuring that the Section 151 (s151) Officer reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.</b>
	13. Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers
Ensure that constructive working relationships exist between Council members and officers and that the responsibilities of Council members and officers are carried out to a high standard	14. Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required
	15. Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management
	<b>16. Ensuring that the authority's governance arrangements allow the s151 Officer direct access to the Chief Executive and to other leadership team members</b>
	17. Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives.
	18. Making the Head of Resources (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
	<b>19. Appointing a professionally qualified s151 Officer whose core responsibilities include those set out in the Statement on the Role of the Chief Financial Officer in Local Government and ensure that they are properly understood throughout the authority</b>
	<b>20. Ensuring that the s151 Officer:</b>
	<ul style="list-style-type: none"> <li>○ leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively</li> <li>○ has a line of professional accountability for finance staff throughout the organisation</li> </ul>
	<b>21. Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance</b>
	<b>22. Ensuring that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role.</b>
23. Making the Head of Legal and HR Services (as Monitoring Officer) responsible to the Council for ensuring	

that agreed procedures are followed and that all applicable statutes and regulations are complied with

<b>Core Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles (continued)</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Ensure that relationships between the Council and the public are clear so that each knows what to expect of the other.	<p>24. Having protocols in place to ensure effective working relationships between members and officers in their respective roles</p> <p>25. Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members.</p> <p>26. Ensuring that effective mechanisms exist to monitor service delivery</p> <p>27. Ensuring that the organisation’s vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p>
	<p><b>28. Establishing a medium term business and financial planning process to deliver strategic objectives including:</b></p>
	<table border="1"> <tr> <td> <ul style="list-style-type: none"> <li>○ <b>A medium term financial strategy to ensure sustainable finances</b></li> <li>○ <b>A robust annual budget process that ensures financial balance</b></li> <li>○ <b>A monitoring process that enables this to be delivered</b></li> <li>○ <b>Ensuring that these are subject to regular review to confirm the continuing relevance of assumptions used</b></li> </ul> </td> </tr> </table>
<ul style="list-style-type: none"> <li>○ <b>A medium term financial strategy to ensure sustainable finances</b></li> <li>○ <b>A robust annual budget process that ensures financial balance</b></li> <li>○ <b>A monitoring process that enables this to be delivered</b></li> <li>○ <b>Ensuring that these are subject to regular review to confirm the continuing relevance of assumptions used</b></li> </ul>	
	<p>29. When working in partnership, ensuring that:</p> <ul style="list-style-type: none"> <li>○ members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council;</li> <li>○ there is clarity about the legal status of the partnership;</li> <li>○ representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles;</li> <li>○ representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.</li> </ul>

Core Principle 3 Promoting the values of the Council and demonstrating the values of good governance through behaviour	
The Council Seeks To	This Is Done By:
Ensure that Council members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<p>30. Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect</p> <p>31. Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated.</p> <p>32. Having protocols in place to ensure that standards for joint working between members and staff and between the Council, its partners and the community are defined and communicated.</p> <p>33. Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice</p>
Ensure that organisational values are put into practice and are effective.	<p>34. Developing and maintaining shared values, including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners</p> <p>35. Having arrangements in place to ensure that systems and processes, <b>including those for financial administration, financial control and protection of the authority's resources and assets</b>, are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice</p> <p>36. Maintaining an effective standards committee</p> <p>37. Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council</p> <p>38. In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged.</p>

<b>Core Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Be rigorous and transparent about how decisions are taken and to listen to and act upon on the outcome of constructive scrutiny	39. Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall
	<b>40. Ensure an effective internal audit function is resourced and maintained</b>
	41. Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
	42. Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice
	43. Maintaining an effective audit committee which is independent of the executive and scrutiny functions
	<b>44. Ensure that the authority's governance arrangements allow the s151 Officer direct access to the audit committee and external audit</b>
Have good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs	45. Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints
	46. Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)
	<b>47. Ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority</b>
	48. ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately
	<b>49. Ensuring the authority's governance arrangements allow the s151 Officer to bring influence to bear on all material decisions</b>
	<b>50. Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance</b>
	51. Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately

<b>Core Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Ensure that an effective risk management system is in place	52. Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs
	53. <b>Ensuring the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports</b>
	54. <b>Ensuring the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorization and approval processes</b>
	55. Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access <del>Ensuring that risk management processes specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of those risks.</del> <del>Ensuring that there are well established and clear arrangements for financing risk</del>
<del>Maintain a robust system of internal control which includes systems and procedures to mitigate principal risks</del>	<del>Ensuring that sound financial management is promoted Having effective arrangements to counter fraud and corruption Having effective arrangements in place to ensure business continuity Ensuring the safety of staff, contractors and visitors Ensuring that the Council's internal control framework is subject to regular independent assessment</del>
Use legal powers to the full benefit of the citizens and communities in the area	56. Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra-vires doctrine but also striving to utilise available powers to the full benefit of its communities 57. Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes

<b>Core Principle 5 Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	58. Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis
	59. Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council
	<b>60. Ensuring the s151 Officer has the skills, knowledge, experience and resources to perform effectively in both the financial and non financial areas of their role</b>
	<b>61. Reviewing the scope of the s151 Officer’s other management responsibilities to ensure financial matters are not compromised</b>
Develop the capability of people with governance responsibilities and evaluate their performance, as individuals and as a group	<b>62. Providing the finance function with the resources, expertise and systems necessary to perform its role effectively</b>
	63. Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively
	<b>64. Embedding financial competencies in person specifications and appraisals</b>
	<b>65. Ensuring that councillors’ roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities</b>
Encourage new talent for membership of the Council so that best use can be made of individual' skills and resources in balancing continuity and renewal.	66. Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed
	67. Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members.
	68. Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council
	69. Ensuring that effective Member development and employee development strategies and actions are in place.

<b>Core Principle 6 Engaging with local people and other stakeholders to ensure robust local public accountability.</b>	
<b>The Council Seeks To</b>	<b>This Is Done By:</b>
Exercise leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships	<p>70. Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom</p> <p>71. Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships</p> <p>72. Producing an annual report on the activity of the scrutiny function</p>
Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Council, in partnership or by commissioning	<p>73. Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place</p> <p>74. Holding meetings in public unless there are good reasons for confidentiality</p> <p>75. Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands</p> <p>76. Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result</p> <p>77. Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period</p> <p>78. Ensuring that that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p>
Make best use of human resources by taking an active and planned approach to meet responsibility to staff.	79. Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making

## Review of Arrangements

7. The CIPFA/SOLACE Framework requires the Council to:
  - consider the extent to which it complies with the principles and requirements of good governance set out in the Framework
  - identify systems, processes and documentation that provide evidence of compliance
  - identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
  - identify the issues that have not been addressed adequately in the authority and consider how they should be addressed
  - identify the individuals who would be responsible for undertaking the actions required and plan accordingly.
8. A corporate working group assumes responsibility for conducting a detailed self-assessment of compliance with the above core principles and supporting principles. This includes the listing of documentary evidence to support the results. Much of the required evidence is taken from the following key systems and processes:
  - Strategic and business planning;
  - Communication;
  - Performance management;
  - Risk management;
  - Value for money;
  - Probity;
  - Financial strategy;
  - Financial standing;
  - Financial management;
  - Asset management.
9. The key officers involved in the self assessment are:
  - Head of Resources (the Section 151 Officer)
  - Head of Governance (the Monitoring Officer)
  - Internal Audit Manager
10. The results of the self-assessment are reported for review by the full corporate Management Team. Any significant non-compliance issues identified in the self-assessment process are disclosed within the Annual Governance Statement and fed into the business planning process. This means that they are subjected to systematic monitoring which in turn ensures their resolution.
11. The Annual Governance Statement is reported to the Audit Committee, which has the responsibility for overseeing its production and for recommending its adoption.

## Annual Governance Statement

12. Regulation 4(2) of the Accounts and Audit Regulations 2003 requires a local authority to “conduct a review at least once in a year of the effectiveness of its system of internal control and include (in the financial statements) a Statement on Internal Control, prepared in accordance with proper practices....”.
13. The CIPFA SOLACE Framework defines proper practice for the form and content of an Annual Governance Statement (AGS), which meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.



14. The Council therefore publishes an AGS based on the CIPFA SOLACE model governance statement. The AGS covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure:
- the authority's policies are put into place
  - the authority's values are met
  - laws and regulations are complied with
  - required processes are adhered to
  - financial statements and other published information are accurate and reliable
  - human, financial and other resources are managed efficiently and effectively
  - high quality services are delivered efficiently and effectively.
15. It therefore covers performance issues – good governance promotes good service but poor service performance reflects a failure of governance. Consequently, the council takes the view that approval and ownership of the AGS should be at a corporate level and should be confirmed not only by the Chief Executive as the most senior officer and the Leader as the most senior member, but also the Section 151 Officer and the Monitoring Officer
16. These four individuals therefore sign the AGS on behalf of the council once the review and approval process has been followed. The AGS will be recommended for adoption by the Audit Committee and published with the annual financial statements so that the publication timetable for the financial statements drives the AGS approval timetable.

### **Service Assurance Statements**

17. As indicated above, before signing the AGS the Leader and Chief Executive will seek assurances that the review and approval process has been followed. This ensures that the views of the statutory officers have been taken into account, and they have in turn sought the views of auditors (internal & external) and other inspectorates as to the adequacy and effectiveness of the Council's system of governance.
18. However in reviewing and approving the AGS members will also require assurances on the effectiveness of the governance framework from managers across the Council, as it is they who are charged with embedding corporate governance systems within their directorates.
19. The council has therefore adopted a system of Service Assurance Statements which are compiled on an annual basis to coincide with the production of the AGS. These require Service Heads to review the operation of a wide range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues.
20. The completed Service Assurance Statements are scrutinised to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues. Any significant non-compliance issues emerging will be included in the Annual Governance Statement itself.

**AUDIT COMMITTEE****Internal Audit Monitoring Report  
19 September 2012****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2012/13 Internal Audit Plan, seek Members' approval for a change to planned resource allocations, and advise Members of the results of recent audits.

**This report is public**

**RECOMMENDATIONS**

- (1) That the current monitoring position is noted.**
- (2) That the proposed change to the 2011/12 internal audit plan set out in paragraph 2.4 is approved.**
- (3) That the results of recent audits (sections 3-5 of the report) are noted.**
  - 1.1 This report now combines the content of the "Internal Audit Monitoring" and the "Results of Internal Audit Work" reports which have previously been submitted to Audit Committee.
  - 2.0 Audit Plan Monitoring to 6<sup>th</sup> August 2012**
    - 2.1 The 2012/13 Internal Audit Plan was approved by the Audit Committee at its meeting on 18<sup>th</sup> April 2012. This report is based on the monitoring position up to 6<sup>th</sup> August 2012 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position as that date was as shown in the following table.

Area of work	Resources (audit days)					
	Actuals to 06/08/12	Remaining	Committed	Original Plan	Variance	Proposed Plan
<b>Assurance Work</b>						
Core Financial Systems	31	10	41	60	19	60
Revenues & Benefits Shared Services	6	0	6	85	79	85
Core Management Arrangements	5	10	15	110	95	95
Risk Based Assurance Audits	62	24	86	135	49	125
Follow-Up Reviews	17	38	55	60	5	55
<b>Sub-Total, Assurance</b>	<b>121</b>	<b>82</b>	<b>203</b>	<b>450</b>	<b>247</b>	<b>420</b>
<b>Consultancy Work</b>						
Support Work	34	21	55	30	-25	60
Ad-Hoc Advice	31	34	65	65	0	65
<b>Sub-Total, Consultancy</b>	<b>65</b>	<b>55</b>	<b>120</b>	<b>95</b>	<b>-25</b>	<b>125</b>
<b>Other Work</b>						
Other Duties (Non-Audit)	9	6	15	15	0	15
Audit Management	16	39	55	55	0	55
<b>Sub-Total, Other Work</b>	<b>25</b>	<b>45</b>	<b>70</b>	<b>70</b>	<b>0</b>	<b>70</b>
<b>Contingencies</b>						
Investigations	10	0	10	30	20	30
General Contingency	0	0	0	40	40	40
<b>Sub-Total, Contingencies</b>	<b>10</b>	<b>0</b>	<b>10</b>	<b>70</b>	<b>60</b>	<b>70</b>
<b>Total</b>	<b>221</b>	<b>182</b>	<b>403</b>	<b>685</b>	<b>282</b>	<b>685</b>

- 2.2 The monitoring position takes account of ongoing and planned work commitments. The summary shows that overall, current commitments total 403 days compared with the original plan of 685 days, giving an uncommitted resource of 282 days. This includes the general contingency of 40 days and a balance of 20 days set as contingency for investigation work.
- 2.3 At this stage in the year, the only significant point arising in the plan is in the time allocated to "Support Work" which currently shows an over-commitment of resources of 25 days. This has mainly arisen through work with the Complaints Officer Working Group established following completion of the internal audit into the complaints policy and procedures. The work of the Group is now nearing completion.
- 2.4 To meet an anticipated 30 days overspend on the Support Work element of the plan it is proposed to reduce the allocations to "Core Management Arrangements" by 15 days, "Risk Based Assurance Work" by 10 days and "Follow-Up Reviews" by 5 days. The Committee is asked to approve these changes.
- 2.5 Otherwise, the current position with the plan does not show any particular pressures developing. At this point in the year, it is considered prudent to

maintain the existing level of contingencies (both general and that for investigations).

- 2.6 Following a request raised at the last Audit Committee, proposals for an audit of septic tank management arrangements have been drawn up and agreed with the relevant Service Heads; this audit is now underway.
- 2.7 Drawing on the results of the annual governance review (elsewhere on this agenda), audit proposals are currently being developed for Management Team's consideration in relation to:
- The performance management framework
  - Partnership working and administration arrangements

### 3.0 Results of Internal Audit Work to 6<sup>th</sup> August 2012

- 3.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 12<sup>th</sup> April 2012. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.
- 3.2 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
<b>New Audit Reports – none issued since the last meeting</b>				
11/0831	Williamson Park		Limited	
11/0829	Housing Rents		Substantial	
11/0833	Asset Management		Substantial	
11/0842	Purchase Ordering and Creditor Payments		Substantial	
11/0830	Consultancy Commissioning and Procurement		Substantial	
11/0837	Complaints Policy and Management		Minimal	
12/0851	Disabled Facilities Grants		Substantial	
12/0850	Whistleblowing Policy and Processes		Substantial	
<b>Follow up Reviews</b>				
10/0799	IT Standards and Change Control		Limited	
10/0819	Purchasing Cards		Substantial	
10/0810	Payroll		Substantial	
10/0762	Planning Probity		Substantial	

### 4.0 Matters Arising from Audit Reviews

- 4.1 The key action points in relation to those reports where a “Limited” or “Minimal” assurance opinion has been given are:

**4.2 11/0831 Williamson Park (Limited)**

- 4.2.1 Relevant buildings at the Park are to be included on the corporate building conditions survey to ensure they are treated in the same way as the council's other municipal buildings. This should involve the production of a planned maintenance and inspection programme which will significantly improve current arrangements.
- 4.2.2 The costs and benefits of utilising a cash collection service are to be explored, current arrangements being insecure and insurance limits relating to transferring cash occasionally being exceeded.
- 4.2.3 Stock control arrangements are to be strengthened in compliance with Financial Regulations and Procedures following the recent introduction of the new till system.
- 4.2.4 Energy contracts have been reviewed. A move to a new gas supplier from May 2013 will deliver savings. The currently contracted electricity tariff compares favourably with other available rates and will be maintained.

**4.3 11/0837 – Complaints (Minimal)**

- 4.3.1 The audit found that, whilst public accessibility to the complaints policy is good, the definition of complaint was not universally understood throughout the council, Service approaches to complaints management varied and complaints data was not being captured completely and consistently, thus potentially leading to significant or consistent failings going unnoticed. However, there was a clear desire and willingness throughout the council to improve arrangements and, following the audit, an officer working group was established to work on a comprehensive review of the Authority's approach to complaints handling.
- 4.3.2 The officer working group has developed proposals for a revised Customer Comments, Compliments and Complaints Policy, which Management Team has considered and which has now been issued for consultation to relevant officers. In tandem with this, attention is being given to the information systems needed to capture relevant data in relation to complaints and provide the information to enable more effective management of complaints.

**4.4 10/0799 - IT Standards and Change Control (Limited)**

- 4.4.1 A change control policy has been drafted and is awaiting formal approval prior to it being published on the Intranet. A number of actions remain outstanding as they are reliant on the introduction of the above change control policy. Work in these areas had been put on hold during the shared service negotiations with Lancashire County Council (One Connect Ltd).

**5.0 Update on Previous Assurance Opinions**

- 5.1 There is one area where the assurance opinion has remained at "Limited", this being the audit of Information Management and Security, the follow-up report for which was issued in November 2011.
- 5.2 The follow-up report concluded that effective information management and security was being seen as increasingly important and there was a corporate willingness to improve. It has been recognised that the improvement programme is a long-term and ongoing process. Cultural aspects of

information management are seen as a major factor in achieving further improvement, with senior managers having a key role to play.

- 5.3 It is proposed that a review of progress is built in alongside current audit work in relation to information security and involvement with the Information Management Group and that an update report brought to the next meeting of the Audit Committee.

**6.0 Details of Consultation**

- 6.1 Management Team continues to be consulted in developing the plan.

**7.0 Options and Options Analysis (including risk assessment)**

- 7.1 The options available to the Committee are either to endorse the proposed changes to the plan and the schedule of future audits, or to propose an alternative course of action.

**8.0 Conclusion**

- 8.1 There are no unmanageable pressures within the audit plan at present. A minor realignment of the original plan allocations is required to reflect additional time spent on Support Work issues. The programme of audits for the rest of the year continues to be developed in consultation with senior management.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>	
<p><b>SECTION 151 OFFICER'S COMMENTS</b></p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p><b>LEGAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>	
<p><b>MONITORING OFFICER'S COMMENTS</b></p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p><b>BACKGROUND PAPERS</b></p> <p>Internal Audit Plan 2012/13</p>	<p><b>Contact Officer:</b> Derek Whiteway  <b>Telephone:</b> 01524 582028  <b>E-mail:</b> dwhiteway@lancaster.gov.uk  <b>Ref:</b> aud/comm/audit/120919IAMon</p>

## Internal Audit Annual Plan 2012/13 - Update at 06 August 2012

## Appendix A

Work Allocations		Actuals to 06/08/12	Remaining	Committed	Approved Plan (18/04/12)	Variance	Status at 06/08/12
Job No	Title						
<b>1. ASSURANCE WORK</b>							
<b>LCC Core Financial Systems</b>							
11/0829	Transactional Applications - Housing Rents	4	0	4			✓
11/0833	Asset Management	3	0	3			✓
11/0842	Purchase Ordering and Creditor Payments 2011/12	16	0	16			✓
12/0857	Purchase Ordering and Creditor Payment Process within Environmental Services	8	10	18			⚠
<b>Sub-total - Core Financial Systems</b>		<b>31</b>	<b>10</b>	<b>41</b>	<b>60</b>	<b>19</b>	
<b>Revenues Shared Service - Financial Systems</b>							
11/0835	Council Tax (Preston)	4	0	4			✓
11/0839	Housing and Council Tax Benefit (Preston)	2	0	2			✓
<b>Sub-total - Revenues Shared Services</b>		<b>6</b>	<b>0</b>	<b>6</b>	<b>85</b>	<b>79</b>	
<b>Core Management Arrangements</b>							
12/0846	National Fraud Initiative 2012/13	5	10	15			⚠
<b>Sub-total - Core Management Arrangements</b>		<b>5</b>	<b>10</b>	<b>15</b>	<b>110</b>	<b>95</b>	
<b>Risk Based Assurance Work Programme</b>							
11/0830	Consultancy Commissioning and Procurement Arrangements - CBRE & Cobbetts	2	0	2			✓
11/0831	Williamson Park	0	0	0			✓
11/0837	Complaints	6	0	6			✓
11/0844	Festival Market - Income Management Arrangements	2	0	2			✓
12/0847	AONB	15	5	20			⚠
12/0850	Corporate Whistleblowing Arrangements	23	2	25			⚠
12/0851	Disabled Facilities Grant (DFG)	8	0	8			✓
12/0855	Septic Tanks	4	7	11			⚠
12/0856	Information Security and the Use of Emails	2	10	12			⚠
<b>Sub-total - Risk Based Assurance Work</b>		<b>62</b>	<b>24</b>	<b>86</b>	<b>135</b>	<b>49</b>	
<b>Follow-Up Reviews</b>		<b>17</b>	<b>38</b>	<b>55</b>	<b>60</b>	<b>5</b>	∞
<b>SUB-TOTAL - ASSURANCE WORK</b>		<b>121</b>	<b>82</b>	<b>203</b>	<b>450</b>	<b>247</b>	
<b>2. CONSULTANCY WORK</b>							
<b>Support Work (projects and other)</b>							
12/0845	LDCVS	3	0	3			✓
10/0509	RIPA Monitoring and Central Register	1	1	2			∞
12/0848	Governance Annual Review & Statement 2011/12	7	1	8			⚠
11/0838	Payroll/HR Systems Replacement	0	5	5			⚠
10/0807	Information Management Group	1	1	2			∞
12/0849	Complaints Officer Working Group	20	5	25			⚠
12/0858	Public Services Network Code of Connection - Access Controls	2	8	10			⚠
<b>Sub-total - Support Work</b>		<b>34</b>	<b>21</b>	<b>55</b>	<b>30</b>	<b>-25</b>	
<b>Ad-Hoc Advice</b>		<b>31</b>	<b>34</b>	<b>65</b>	<b>65</b>	<b>0</b>	∞
<b>SUB-TOTAL - CONSULTANCY WORK</b>		<b>65</b>	<b>55</b>	<b>120</b>	<b>95</b>	<b>-25</b>	
<b>3. OTHER</b>							
11/0392	Deputy s151 Officer Duties	9	6	15			∞
<b>SUB-TOTAL - OTHER</b>		<b>9</b>	<b>6</b>	<b>15</b>	<b>15</b>	<b>0</b>	
<b>4. AUDIT MANAGEMENT</b>							
11/0172	Committee Work	3	12	15			∞
11/0189	Audit Planning & Monitoring	13	27	40			∞
<b>SUB-TOTAL - AUDIT MANAGEMENT</b>		<b>16</b>	<b>39</b>	<b>55</b>	<b>55</b>	<b>0</b>	
<b>5. CONTINGENCIES</b>							
<b>Investigations</b>		<b>10</b>	<b>0</b>	<b>10</b>	<b>30</b>	<b>20</b>	
<b>General Contingency</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>40</b>	
<b>SUB-TOTAL - CONTINGENCIES</b>		<b>10</b>	<b>0</b>	<b>10</b>	<b>70</b>	<b>60</b>	
<b>TOTALS</b>		<b>221</b>	<b>182</b>	<b>403</b>	<b>685</b>	<b>282</b>	

Key: ✓ Completed    ⚠ In Progress    ? Not Yet Started    ∞ Continuous or Multi-Year Activity  
 CFwd Carried Forward to 2013/14 Plan    ✗ Abandoned