



Committee: AUDIT COMMITTEE

Date: WEDNESDAY, 18 SEPTEMBER 2013

Venue: MORECAMBE TOWN HALL

Time: 6.00 P.M.

A G E N D A

1. Apologies for Absence

2. Minutes

Minutes of meeting held on 26 June 2013 (previously circulated).

3. Items of Urgent Business authorised by the Chairman

4. Declarations of Interest

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

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

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

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

5. Statement of Accounts 2012/13 (Pages 1 - 104)

Report of Chief Officer (Resources)

6. Review of Governance and the Annual Governance Statement 2012/13 (Pages 105 - 127)

7. Local Government Ombudsman - Annual Review 2012/13 (Pages 128 - 132)

Report of Chief Officer (Governance)

8. **Internal Audit Monitoring Report** (Pages 133 - 137)

Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

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

(iii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary - telephone (01524) 582170, or email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
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Published on Tuesday, 10 September 2013

AUDIT COMMITTEE**Statement of Accounts 2012/13
18 September 2013****Report of Chief Officer (Resources)****PURPOSE OF REPORT**

This report seeks Member approval for the 2012/13 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 2012/13 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 2013 be approved and that the Chairman signs and dates the Accounts accordingly.

REPORT

- 1.1 In accordance with the Accounts and Audit Regulations, the draft Accounts for 2012/13 were produced by 28 June and certified by the s151 Officer on that date. They were then made available for public inspection and they have also been externally audited.
- 1.2 The outcome of the external audit is set out in the Auditor's formal report at **Appendix A**. The External Audit Manager will be in attendance at the Committee meeting to present the report and answer any questions.
- 1.3 In summary, the results of the audit are as follows:
 - A number of minor presentational changes have been agreed as a result of the audit.
 - Subject to these changes being adjusted as appropriate within the Accounts, an unqualified audit opinion will be issued.
 - An unqualified Value for Money (VFM) conclusion is also expected.

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

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

FINANCIAL IMPLICATIONS

There are no changes to the financial outturn from that previously reported to Members.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Officer (Resources)' responsibilities, under her role as s151 Officer.

LEGAL IMPLICATIONS

There are no direct legal implications arising.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounts and Audit Regulations 2011.

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Ref:



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Report to those charged with governance (ISA 260) 2012/13

Lancaster City Council

September 2013

The contacts at KPMG
in connection with this
report are:

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Stephen Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

- 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 2013; and
 - our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during April 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> Evaluate and test selected controls over key financial systems Review accounts production process Review progress on critical accounting matters
Substantive Procedures	<ul style="list-style-type: none"> Planning and performing substantive audit procedures. Concluding on critical accounting matters. Identifying audit adjustments. Reviewing the Annual Governance Statement.
Completion	<ul style="list-style-type: none"> Declaring our independence and objectivity. Obtaining management representations. Reporting matters of governance interest. Forming our audit opinion.

Financial statements

Our *External Audit Plan 2012/13* presented to you in June 2013, set out the four stages of our financial statements audit process.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 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.

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any significant audit adjustments; however a number of presentational changes have been made to the notes to the Financial Statements which have been agreed with management and changed in the final version of the Financial Statements.
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.</p> <p>We are satisfied that the Authority has appropriate arrangements in place to address the risks and issues that we have identified.</p>
Accounts production and audit process	<p>The quality of the accounts and the supporting working papers has been maintained at a high standard in 2012/13, which assists with the delivery of an effective and efficient audit. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2011/12</i> relating to the financial statements.</p> <p>However, there are still outstanding recommendations from our <i>ISA 260 Report 2010/11</i>, see Appendix 3 for further details.</p>
Control environment	<p>The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound.</p> <p>We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have again been able to place reliance on their work where this was relevant to our work.</p> <p>We have raised one recommendation that will strengthen the Authority's control environment. This is detailed in Appendix 1.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Whole of Government Accounts review ■ A review of any post balance sheet events up to the date of signing our audit report. <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>

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

VFM conclusion and risk areas

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

We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

We have considered the specific VFM risks we set out in our External Audit Plan 2012/13, which were in relation to the financial resilience of the Authority and ability to secure VFM. The focus of the criteria for 2012/13 was on whether:

- 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.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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 2013.

Audit differences

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

We did not identify any material misstatements as a result of our audit work. There are no adjusted or unadjusted audit differences to report in 2012/13.

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 2012/13 (the Code)*. These have been agreed with management and changed in the final version of the Financial Statements.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:


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

Analysis of movements in the General Fund and Balance Sheet


Movements on the General Fund 2012/13	
£m	£m
Deficit on the provision of services	(3,445)
Adjustments between accounting basis & funding basis under Regulations	3,323
Transfers from earmarked Reserves	630
Increase in General Fund	508
Balance Sheet as at 31 March 2013	
£m	£m
Property, plant and equipment	208,512
Other long term assets	35,349
Current assets	24,690
Current liabilities	(12,912)
Long term liabilities	(130,706)
Net worth	124,933
General Fund	(3,182)
Other usable reserves	(18,233)
Unusable reserves	(103,518)
Total reserves	(124,933)

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

In our *External Audit Plan 2012/13*, presented to you in June, we identified the key risks affecting the Authority's 2012/13 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	<p>The Authority estimates it will have surplus resources of £367,000 in 2013/14 (assuming a 2% Council Tax increase), but will need to find savings of £1.1m in 2014/15 and £2.3m in 2015/16 which will need to be addressed during 2013/14. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</p>	<p>The final outturn for 2012/13 represented an under-spend of £547,000 against the budget, which was revised in December 2012.</p> <p>During the year, the Authority has made significant savings in order to manage the reductions in Local Government funding introduced as a result of the Comprehensive Spending Review. In total, efficiencies and savings of approximately £991,000 have been achieved across all service areas.</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 savings of £408,000 will be required in 2013/14 to bridge the Authority's budget gap. The Authority forecasts that these savings will be delivered before the year end.</p> <p>The Council has established and implemented a savings plan to achieve the required savings over the next 3 years. The updated £408,000 savings target has been factored into the 2013/14 budget. Savings will be achieved in all service areas but mainly in Environmental Services where combined employee and vehicle savings are anticipated to total £418,000.</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> <p>In addition, our review of the completeness of liabilities has not identified any issues. All liabilities have been appropriately accounted for within the Financial Statements.</p>

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

Key audit risk	Issue	Findings
	<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 surrender the lease.</p> <p>Terms of the surrender are being sought through additional negotiations but it is likely that the surrender will result in a significant payment to break the lease. It is currently anticipated that the surrender of the lease will conclude after the year end but before the accounts for 2012/13 are finalised.</p> <p>In addition, the Council is awaiting the outcome of a land tribunal relating to compulsory purchase order compensation at Luneside East.</p> <p>Once the case has been finalised, the Council may be required to update the 2012/13 accounts to reflect the outcomes of the decision.</p>	<p>The Lancaster Market Lease was surrendered in May 2013, after the Balance Sheet date.</p> <p>The Council has not accounted for the transaction in the 2012/13 Financial Statements as it was undertaken after the reporting period and does not meet the criteria of an adjusting event after the reporting period. Instead, the transaction has been disclosed as a non-adjusting event after the reporting period. This is because no binding agreement was in place at the 31 March 2013 as Allied had the right to withdraw.</p> <p>We are satisfied that the transaction has been correctly accounted for within the financial statements and in line with <i>International Accounting Standard (IAS) 10</i>.</p> <p>The Council has opted not to disclose the amount paid to cancel the lease as this is considered commercially sensitive. If this position changes before the date of signing the accounts, additional disclosure may be required.</p> <p>With regards to Luneside East, following determination of the CPO compensation claim by the Lands Tribunal, the Council was granted leave to appeal four heads of the claim. The Court of Appeal found in favour of the Council on three of these heads. The relevance of this decision is that the Lands Tribunal must now re-determine the compensation award and the liability for costs. Management believes that the Appeal decision places the Council in a much stronger position to not only resist the claimants application for costs but also recover some or all of its own costs. The revised costs award should be known within the next month or so.</p> <p>The Council continues to include a contingent asset and liability within the Financial Statements. In the event that a formal Lands Tribunal confirmation is received before the date of accounts signing, the disclosure in the accounts will need to be updated to reflect the updated position.</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 all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has a strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 05 July 2013, which was in line with our expectation. The accounts were signed by the Head of Resources before the 30 June deadline.
Quality of supporting working papers	Our <i>Prepared by Client List</i> set out our working paper requirements for the audit. The quality of working papers provided was high and met our requirements.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years *ISA 260* report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements. Appendix 2 provides further details.

However, there are still outstanding recommendations from our *ISA 260 Report 2010/11*, Appendix 3 provides further details.

Your organisational and IT control environment is effective overall.

We noted one area for further improvement relating to super user access rights.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

This work was undertaken by a specialist IT Trained Auditor. A key area of focus was the controls around the payroll system, as the Council upgraded its payroll system during the year.

Key findings

We consider that your organisational and IT controls are effective overall, but identified one issue during our audit:

- As part of our General IT Controls testing, we identified 4 users who had super user access but no longer required this level of access. Their access was originally granted to allow them to assist with a program change, however it had not been subsequently been revoked.

The Council has now revoked this access.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key:

- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

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 2013, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Financial Services Manager, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or

subject to correspondence with management;

- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc)

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2012/13 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
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details of our specific risk-based work.


We have considered the specific VFM risks we set out in our External Audit Plan 2012/13.

Key findings


In our External Audit Plan 2012/13 we set out our VFM audit approach.

This identified financial resilience and Securing VFM as key risks 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. The Authority has robust budgetary control procedures in place and key variances are reviewed by senior management and reported to the Budget and Performance Panel.</p> <p>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 £991,000 of efficiencies and savings during 2012/13 however additional savings of £408,000 will be required in 2013/14 and £440,000 and 2014/15. It is known, however, that these savings targets will increase as a result of the Government's recent spending review.</p> <p>The Authority has developed and Implemented Savings Plans which cover a rolling three year period. For example, after quarter 1 management review the savings identified for the current year and services are also required to identify new savings for future years, which are fed into the Medium Term Financial Strategy review in September.</p> <p>The Authority achieved a £547,000 under-spend against its Revised Budget for the year ended 31 March 2013 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 External Audit Plan 2012/13.

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 savings and efficiency reviews were sufficient to ensure the Authority achieved its financial budget in 2012/13.</p> <p>During our audit we have discussed with management the progress of the surrender of the Lancaster Market lease. Although Council gave Officers permission to discuss the terms of the lease surrender in November 2011, the surrender of the lease did not take place until May 2013. This was in large due to the Authority formally assessing the implications of all options from both a financial and VFM perspective.</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 our 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 recommendation.

We will formally follow up this recommendation next year.

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

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

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2011/12* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	-

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
1	3	<p>Bank reconciliation</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>Management response: Agreed</p> <p>Officer responsible: Financial Services Manager</p> <p>Due date: 31 March 2013</p>	<p>Our testing of bank reconciliations has identified that historical reconciling items have been investigated and cleared from the bank reconciliation.</p> <p>Status: Implemented</p>

Appendix 2: Follow up of prior year recommendations (cont.)

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
2	3	<p>Payroll Controls 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. 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>Management response: This will be addressed through system replacements</p> <p>Officer responsible: Financial Services Manager</p> <p>Due date: 31 March 2013</p>	<p>We reviewed a sample of payroll to GL reconciliations and found that they had been appropriately signed as prepared and reviewed.</p> <p>Status: Implemented</p>

Appendix 3: Follow up of 2010/11 outstanding recommendations

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

We re-iterate the importance of the outstanding 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 found to be still outstanding in our *ISA 260 2011/12*.

Number of recommendations that were:	
Outstanding in ISA260 2011/12 report	5
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	3

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012	Status as at September 2013
1	3	<p>General Ledger/Debtors and creditors reconciliations</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>Officer responsible: Systems Support Accountant</p> <p>Due date: September 2011</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>Status: Partially implemented.</p>	<p>We reviewed a sample of payroll to GL to Debtors/Creditors ledger reconciliations and found that they had been appropriately signed as prepared and reviewed.</p> <p>Status: Implemented</p>

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

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

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012	Status as at September 2013
2	3	<p>System access rights to financial systems</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>Officer responsible: Systems Support Accountant</p> <p>Due date: November 2011</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>Status: Partially implemented.</p>	<p>We have ascertained that no further reviews of access rights have been undertaken during the year.</p> <p>Status: Partially Implemented.</p>

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

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

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012	Status as at September 2013
3	3	<p>Posting and authorising of journals From our controls testing of journals we discovered that Principal Accountants at the Authority are able to post and authorise their own journals.</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>Officer responsible: Accountancy Services Manager Due date: 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>Status: Recommendation superseded</p>	<p>As issues relating to segregation of duties were once again identified as part of our 13/14 journals controls testing, we followed up the implementation of the recommended compensating control. However, testing confirmed that no formal sign off of monthly journal summaries is undertaken.</p> <p>Status: Outstanding</p>

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

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

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012	Status as at September 2013
4	3	<p>Physical verification of property, plant and equipment</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>Officer responsible: Internal Audit Manager</p> <p>Due date: 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>Status: Partially Implemented.</p>	<p>The Council's Financial Services Manager is currently producing a standardised asset inventory template which will be rolled out across all services. This will be accompanied by written guidelines for each service area to adhere to and will ensure that the Council's asset inventories are up to date.</p> <p>Status: Partially Implemented.</p>

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

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

No.	Risk	Issue, recommendation, Officer responsible and due date	Status as at September 2012	Status as at September 2013
5	3	<p>Payroll controls There were a number of payroll control weaknesses we detected as part of our audit work. These included:</p> <p>No independent review of payroll exception reports; and The payroll system and personnel systems do not reconcile.</p> <p>These weaknesses increase the likelihood of the payroll costs in the accounts being misstated.</p> <p>Officers responsible and due date: Payroll - Exchequer Services Manager September 2011 Payroll / HR System Human Resources Manager / Accountancy Services Manager 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>Status: Partially Implemented.</p>	<p>Through our review of the implementation of the new system upgrade, we are satisfied that the issue of discrepancies between the payroll and personnel system are no longer prevalent. The new system has resolved this issue.</p> <p>Status: Recommendation Superseded</p>

Appendix 4: 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 this. 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 4: Declaration of independence and objectivity (cont.)

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 2013, 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 5: 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 2013, 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 2013 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 2012/13.

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 2013 and of the Authority's expenditure and income for the year then ended; and
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority 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.

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

Appendix 5: Draft management representation letter (cont.)

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

The wording for these representations is prescribed by auditing standards.

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

8. The Authority has disclosed to you all 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 2012/13 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 2012/13.

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 2012/13.

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.

12. The surrender of the Lancaster Market lease has been appropriately accounted for as a non-adjusting post balance sheet event.

This letter was tabled and noted at the meeting of the Audit Committee on 18 September 2013.

Yours faithfully,

Head of Resources and Section 151 Officer

On behalf of Lancaster City Council *Use the actual title*



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City | Coast | Countryside

Statement of Accounts

For the year ended 31 March 2013



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1 Introduction

This document sets out the City Council's annual accounts for the financial year ended 31 March 2013. 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 2012/13 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 2012/13. 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.

	2012/13		Actual	Variance from
	Original Budget	Revised Budget		Revised Budget
	£000	£000	£000	£000
Expenditure:				
Community Engagement	4,789	4,761	4,637	(124)
Environmental Services	3,876	3,645	3,372	(273)
Governance	1,427	1,344	1,377	33
Health & Housing	2,167	2,184	2,142	(42)
Office of the Chief Executive	339	223	220	(3)
Regeneration & Planning	2,261	2,207	1,875	(332)
Resources	3,843	3,853	4,019	166
Corporate Accounts	1,570	1,659	1,742	83
Net Cost of General Fund Services	20,272	19,876	19,384	(492)
Interest Payable & Similar Charges	1,425	1,117	1,062	(55)
Parish Precepts	542	542	542	0
Contribution from General Fund Balance	(743)	(38)	509	547
NET REVENUE EXPENDITURE	21,496	21,497	21,497	0
Funded by:				
General Government Grants	(764)	(765)	(765)	0
Revenue Support Grant	(225)	(225)	(225)	0
National Non Domestic Rates	(11,593)	(11,593)	(11,593)	0
Council Tax	(8,914)	(8,914)	(8,914)	0
TOTAL FUNDING	(21,496)	(21,497)	(21,497)	0

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 2012/13 (including parish precepts) was originally approved by Council on 29 February 2012 at £20.732M, representing net revenue expenditure of £21.496M less general government grants of £764K. It assumed that Balances would be just under £1.3M at 31 March 2013, though these were increased by a further £361K following the 2011/12 outturn.

Between 2011/12 and 2012/13 the General Fund budget reduced by £1.286M or 5.8%, primarily as a result of Government funding reductions.

At outturn for 2012/13 there has been a net underspending of £547K against the Revised Budget, some of the main areas where underspending has occurred are shown below:

	£'000
Salary Savings	-123
Vehicle Leasing Savings	-190
Additional Planning Fee Income	-143
Housing/Council Tax Benefit Savings	-145
General Savings on Supplies & Services	-195
Delayed Spending	-65
Additional Contribution to Bad Debts Provision	+338

As a result of the outturn, General Fund unallocated Balances stand at £3.182M as at 31 March 2013, 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 a further contribution of £367K is already budgeted to be added to Balances during 2013/14. The use of Balances to generate savings in future years will be an important element in addressing the Council's financial challenges and establishing a sustainable budget.

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.

The net underspend for 2012/13 on the HRA was £426K, which has been transferred into HRA unallocated Balances. As at 31 March 2013 the HRA unallocated Balance amounted to £776K, which is £426K above the £350K minimum approved level. The main areas of underspending in the HRA in 2012/13 were as follows:

	£'000
Reduction in Contribution to Bad Debts Provn.	-81
Reduced Capital Financing (from Revenue)	-320

3 Capital Position

In 2012/13 the City Council spent £8.914M on capital schemes, summarised as follows:

Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£000	Capital Financing	£000
Council Housing	3,591	Grants & Contributions	1,017
Environmental Services	1,545	Reserves	3,834
Community Engagement	278	Revenue Financing	1,027
Health & Housing Services	670	Unsupported Borrowing	2,594
Regeneration & Planning Resources	724	Capital Receipts	442
Total	8,914	Total	8,914

The Council's revised Capital Programme for 2012/13 was £9.590M, and slippage of £0.454M is expected to be rolled forward into 2013/14, due to various changes and delays.

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

In 2012/13 the net cost of financing external borrowing (e.g. interest charges) was £3.639M, and the value of long term debt owed as at 31 March 2013 amounted to £73.7M, of which £5.33M relates to finance lease liabilities and £68.37M relates to PWLB long term borrowing. A further £1M 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 £244M as at 31 March 2013.

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 2013 showed a net liability of £56.360M compared to £46.611M for the previous financial year. This represents an increase in net liabilities of £9.749M. This is largely due to higher actuarial losses on scheme liabilities than gains on scheme assets.

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, the next full triennial valuation (as at 31 March 2013) is currently underway and this will inform Employer contribution rates for the three years from 2014/15 onwards, taking into account regulatory and any other changes.

5 Changes in Accounting Policies

There have been no changes to accounting policies that affect the 2012/13 Statement of Accounts.

6 Conclusion

Although the Council's General Fund budget and the associated Government funding reduced significantly in 2012/13, it managed these reductions well, and has again improved its financial standing as at 31 March 2013. Balances are higher than forecast, and the Council has other substantial earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years, in delivering against its corporate priorities. Given funding prospects, the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings initiatives are still needed for General Fund services, in order to balance future years' budgets and ensure 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 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 Resources;
- 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 Resources' Responsibilities

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

In preparing this Statement of Accounts, the Head of Resources has:

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

The Head of Resources has also:

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

3 Head of Resources' Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority at 31 March 2013 and the income and expenditure for the year then ended.



Nadine Muschamp, CPFA
Head of Resources

Date : 28 June 2013

Nadine Muschamp, CPFA
Head of Resources

Date : 18 September 2013

4 Audit Committee Chairman's Certificate

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was considered and approved by the Audit Committee on 18 September 2013.

Cllr Malcolm Thomas

Date : 18 September 2013

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

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

	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Balance £000	HRA Earmarked Reserves £000	Major Repairs Reserve £000	Usable Capital Receipts £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves (Restated) £000	Total Authority Reserves £000
Balance at 31/3/2012	2,674	7,175	1,205	2,418	6,683	208	195	20,558	114,636	135,194
Movements in 2012/13										
Surplus/(deficit) on the provision of services	(3,445)	0	397	0	0	0	0	(3,048)	0	(3,048)
Other Comprehensive Income and expenditure	0	0	0	0	0	0	0	0	(8,746)	(8,746)
Total comprehensive income and expenditure	(3,445)	0	397	0	0	0	0	(3,048)	(8,746)	(11,794)
Adjustments between accounting & funding basis under regulations	3,323	0	7,413	0	(6,683)	(176)	28	3,905	(2,372)	1,533
Net Increase/Decrease before transfers to earmarked reserves	(122)	0	7,810	0	(6,683)	(176)	28	857	(11,118)	(10,261)
Transfers (to)/from earmarked reserves	630	(630)	(8,239)	8,239	0	0	0	0	0	0
Increase/(decrease) in 2012/13	508	(630)	(429)	8,239	(6,683)	(176)	28	857	(11,118)	(10,261)
Balance at 31/03/2013	3,182	6,545	776	10,657	0	32	223	21,415	103,518	124,933

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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.

2011/12				2012/13		
Gross Exp	Gross Inc	NET		Gross Exp	Gross Inc	NET
£000	£000	£000	NOTES	£000	£000	£000
			<i>Continuing Operations:</i>			
12,980	(11,560)	1,420	Central Services to the Public	12,728	(11,477)	1,251
11,250	(5,042)	6,208	Cultural and Related Services	11,241	(5,084)	6,157
10,999	(4,323)	6,676	Environmental and Regulatory Services	10,829	(4,479)	6,350
15,191	(4,367)	10,824	Planning Services	8,047	(4,290)	3,757
1,974	(2,825)	(851)	Highways and Transport Services	1,842	(2,695)	(853)
56,815	(22,553)	34,262	Local Authority Housing (HRA)	18,495	(22,146)	(3,651)
44,025	(42,104)	1,921	Other Housing Services	45,040	(43,814)	1,226
2,313	(562)	1,751	Corporate and Democratic Core	2,055	(192)	1,863
1,023	(48)	975	Non Distributed Costs	975	(56)	919
156,570	(93,384)	63,186	Cost of Services	111,252	(94,233)	17,019
1,618	(1,180)	438	Other Operating Expenditure	8 1,036	(457)	579
24,167	(17,122)	7,045	Financing and Investment Income and Expenditure	9 21,401	(14,152)	7,249
0	(22,990)	(22,990)	Taxation and Non Specific Grant Income	10 0	(21,799)	(21,799)
		47,679	(Surplus)/Deficit on Provision of Services			3,048
		(1,332)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets			(1,533)
		10,372	Actuarial (Gains)/Losses on Pension Assets/Liabilities	40		8,746
		0	Other Comprehensive Income and Expenditure			0
		9,040	Other Comprehensive Income and Expenditure			7,213
		56,719	Comprehensive Income and Expenditure			10,261

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).

31 March 2012		<i>NOTES</i>	31 March 2013
£000			£000
209,257	Property, Plant & Equipment	11	208,512
7,926	Heritage Assets	12	7,926
27,638	Investment Property	13	26,846
142	Intangible Assets	14	129
57	Assets Held for Sale	19	57
917	Long Term Investments		382
29	Long Term Debtors		9
245,966	Long Term Assets		243,861
14,624	Short Term Investments		18,103
374	Inventories	16	389
5,343	Short Term Debtors	17	6,198
0	Cash & Cash Equivalents	18	0
20,341	Current Assets		24,690
(277)	Cash & Cash Equivalents		(1,812)
(1,457)	Short Term Borrowing		(1,389)
(7,131)	Short Term Creditors	20	(9,711)
(8,865)	Current Liabilities		(12,912)
(223)	Long Term Creditors		(223)
(510)	Provisions	21	(422)
(74,904)	Long Term Borrowing		(73,701)
(46,611)	Other Long Term Liabilities		(56,360)
(122,248)	Long Term Liabilities		(130,706)
135,194	Net Assets		124,933
20,558	Usable Reserves	22	21,415
114,636	Unusable Reserves	23	103,518
135,194	Total Reserves		124,933

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.

2011/12	NOTES	2012/13
£000		£000
(47,679) Net surplus or (deficit) on the provision of services	27	(3,048)
25,152 Adjustments to net surplus or deficit on the provision of services for non-cash movements		10,472
(2,452) Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(1,512)
(24,979) Net cash flows from Operating Activities		5,912
(7,597) Investing Activities	25	(5,649)
31,441 Financing Activities	26	(1,798)
(1,135) Net increase or decrease in cash and cash equivalents		(1,535)
858 Cash and cash equivalents at the beginning of the reporting period		(277)
(277) Cash and cash equivalents at the end of the reporting period		(1,812)

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 2012/13 financial year and its position at 31 March 2013. 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

There are no future changes to accounting policies which affect the 2012/13 Statement of Accounts.

1.3 Accruals of Income and Expenditure

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

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

1.4 Acquisitions and Discontinued Operations

Acquired operations

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

Discontinued operations

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

1.5 Cash and Cash Equivalents

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

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

1.6 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 4.9%.
- 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 (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

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

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

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

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

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

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

1.12 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.

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 (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

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

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

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

1.16 Inventories and Long term Contracts

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

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

1.17 Investment Property

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

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

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

1.18 Leases

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation

to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and 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 (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in

the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid on the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.19 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA *Service Reporting Code of Practice 2012/13* (SeRCOP). The total absorption costing principle is used – the full costs of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

1.20 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following basis:

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

1.21 Provisions, Contingent Liabilities and Contingent Assets.

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

1.22 Reserves

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

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

1.23 Revenue Expenditure Funded from Capital under Statute

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

1.24 Value Added Tax (VAT)

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

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

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

There are none to report which affect the 2012/13 Statement of Accounts.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Resources on 28 June 2013. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 28 June 2013 and they provided information about conditions existing at 31 March 2013, 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.

There is one liability that represents a non-adjusting post balance sheet event which relates to the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. When authorities assume liability on 01 April 2013, a provision needs to be recognised. As these appeals relate to 2012/13 and prior years the estimated Council proportion needs to be recognised here but not in the figures in the financial statements. The liability is estimated to be £2.412M.

It should also be noted that as at 31 March 2013 the Council was in the process of surrendering its lease on Lancaster Market. Whilst this will be a material event in 2013/14 it has no impact on the financial statements for 2012/13. Instead, it has been treated as a non-adjusting event because the Council was not contractually bound as at 31 March 2013. In addition, no figures are being disclosed at this stage because they are still considered commercially sensitive.

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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

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

2011/12 Comparative Figures

	Usable Reserves						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(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							
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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
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)
Adjustments primarily involving the Capital Grants Unapplied Account:							
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)	
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	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							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(214)		214				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(2)				2
Adjustment primarily involving the Major Repairs Reserve:							
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			
Adjustments primarily involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements						159	(159)
Adjustments primarily involving the Pension Reserve:							
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
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(30)						30
Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure							
	11	1,322					(1,333)
Adjustments relating to other comprehensive income and expenditure							
							0
Appropriations to/from earmarked reserves	1,362	861		(2,223)			
Adjustments to employee absences account	13	16					(29)
Total Adjustments	(22,153)	(33,566)	(208)	(102)	(2,223)	178	58,074
Total adjustment to Comprehensive Income and Expenditure	(55,719)						

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

2012/13

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

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 2012/13.

	Balance at 1 April 2011	Transfers Out	Transfers in	Balance at 31 March 2012	Transfers Out	Transfers in	Balance at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Revenue Support	0	0	0	0	0	0	0
Municipal Buildings	300	(86)	250	464	(258)	180	386
Open Spaces Commuted Sums	192	(59)	71	204	(58)	58	204
Other Commuted Sums	1,353	(280)	562	1,635	(343)	30	1,322
Restructuring	666	(505)	425	586	(154)	0	432
Renewals	200	(47)	546	699	(216)	382	865
Capital Support	538	(253)	720	1,005	(657)	78	426
Job Evaluation	338	(285)	0	53	(49)	0	4
Planning Delivery Grant	47	(21)	0	26	(23)	0	3
Concessionary Travel	70	(70)	0	0	0	0	0
Performance Reward Grant	309	(119)	34	224	(98)	0	126
Market Reserve	140	(22)	530	648	(29)	0	619
Impairment Reserve	1,363	(1,363)	0	0	0	0	0
Invest to Save Reserve	0	(207)	1,436	1,229	(7)	325	1,547
Welfare Reforms Reserve	0	0	200	200	0	0	200
Other Reserves £100K and under	297	(166)	71	202	(113)	322	411
Total	5,813	(3,483)	4,845	7,175	(2,005)	1,375	6,545

HRA:

Hsg Mgt System Replacement	347	(47)	57	357	(13)	57	401
Flats Planned Maintenance	944	(83)	136	997	(37)	136	1,096
Central Control Equipment	83	0	5	88	0	5	93
Fixed Lifeline Equipment	44	(13)	15	46	(15)	15	46
Sheltered Housing Reserves	726	(3)	34	757	(93)	62	726
Business Support Reserve	0	0	0	0	0	8,102	8,102
Other Reserves £100K and under	166	(103)	110	173	0	20	193
Total	2,310	(249)	357	2,418	(158)	8,397	10,657

8 OTHER OPERATING EXPENDITURE

	2011/12	2012/13
	£000	£000
Parish council precepts	537	542
Levies	0	0
Payments to the Government Housing Capital Receipts Pool	214	193
(Gains)/losses on the disposal of non-current assets	(313)	(156)
	438	579

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2011/12	2012/13
	£000	£000
Interest payable and similar charges	2,709	3,867
Pensions interest cost and expected return on pensions	843	1,429
Interest receivable and similar income	(1,659)	(245)
Income and expenditure in relation to investment properties and changes in their fair value	5,309	1,057
Other investment income and expenditure	(157)	1,141
	7,045	7,249

10 TAXATION AND NON SPECIFIC GRANT INCOME

	2011/12	2012/13
	£000	£000
Council tax income	(8,861)	(8,954)
Non domestic rates	(10,028)	(11,593)
Non-ringfenced government grants	(3,699)	(990)
Capital grants and contributions	(402)	(262)
	(22,990)	(21,799)

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
Cost/Valuation									
at 1 April 2012	139,733	72,974	12,113	41,529	8,559	7,926	300	10,791	293,925
additions	3,573	759	1,850	0	0	0	18	243	6,443
donations	0	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	(527)	2	0	0	0	0	0	0	(525)
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	2,064	0	0	0	0	0	3	0	2,067
derecognition - disposals	(282)	0	(580)	0	0	0	0	0	(862)
derecognition - other assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
other transfers	0	48	93	0	(89)	0	2,398	(2,646)	(196)
At 31 March 2013	144,561	73,783	13,476	41,529	8,470	7,926	2,719	8,388	300,852
Accumulated Depreciation and Impairment									
at 1 April 2012	(35,517)	(23,162)	(6,533)	(11,473)	(2)	0	(55)	0	(76,742)
depreciation charge	(1,683)	(1,089)	(1,237)	(1,530)	(1)	0	(21)	0	(5,561)
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	(2,662)	0	0	0	0	0	0	0	(2,662)
derecognition - disposals	62	0	489	0	0	0	0	0	551
At 31 March 2013	(39,800)	(24,251)	(7,281)	(13,003)	(3)	0	(76)	0	(84,414)
Net Book Value									
at 31 March 2012	104,216	49,812	5,580	30,056	8,557	7,926	245	10,791	217,183
at 31 March 2013	104,761	49,532	6,195	28,526	8,467	7,926	2,643	8,388	216,438

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 2013, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 budgeted to cost £509K. Similar commitments at 31 March 2012 were £502M. The major commitments are:

	£000
■ Luneside East Lands Tribunal	30
■ Disabled facilities grants	376
■ Sea and Flood defence	84
■ YMCA places for change scheme	19

Revaluations

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

The significant assumptions applied in estimating the fair values are:

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

	Council Dwellings	Other Land and Buildings	Heritage assets	Total
	£000	£000	£000	£000
Adjustments to fair value by year:				
31 March 2013	(1,133)	2	0	(1,131)
31 March 2012	(4,772)	(7,520)	0	(12,292)
31 March 2011	(36,000)	(1,598)	0	(37,598)
31 March 2010	(19,006)	2,636	7,926	(8,444)
31 March 2009	6,454	(1,432)	0	5,022
Net valuation over 5 year cycle	(54,457)	(7,912)	7,926	(54,443)

12 HERITAGE ASSETS

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

	2011/12 £000	2012/13 £000
Opening Balance		
Civic Regalia and other donated items	609	609
Museum Collections	7,131	7,131
Public Art Works	168	168
Art Collection	17	17
	7,926	7,926
Cost of Acquisitions	0	0
Value of Assets Acquired by Donation	0	0
Disposal of Collectable Assets	0	0
Impairment of Assets Recognised in Period	0	0
Closing Balance		
Civic Regalia and other donated items	609	609
Museum Collections	7,131	7,131
Public Art Works	168	168
Art Collection	17	17
	7,926	7,926

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.

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.

	2011/12	2012/13
	£000	£000
Rental income from investment property	(529)	(706)
Direct operating expenses arising from investment property	380	516
Net (gain)/loss	(149)	(190)

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.

	2011/12	2012/13
	£000	£000
Balance at start of the year	26,913	27,638
Additions:		
■ Purchases	0	73
■ Construction	0	0
■ Subsequent expenditure	20	0
Disposals:	0	0
Net gains/losses from fair value adjustments	705	(1,061)
Transfers:		
■ to/from Inventories	0	0
■ to/from Property, Plant & Equipment	0	196
Other changes	0	0
Balance at end of the year	27,638	26,846

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.

	2011/12 £000	2012/13 £000
Balance at start of year:		
■ Gross carrying amounts	723	790
■ Accumulated amortisation	(490)	(648)
Net carrying amount at start of year	<u>233</u>	<u>142</u>
Additions:		
■ Purchases	67	54
Assets reclassified as held for sale	0	0
Revaluation 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	(158)	(67)
Net carrying amount at the end of year	<u>142</u>	<u>129</u>
Comprising:		
■ Gross carrying amounts	790	844
■ Accumulated amortisation	(648)	(715)
	<u>142</u>	<u>129</u>

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:

	<u>Long-term</u>		<u>Current</u>	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Investments				
Loans and receivables	917	382	14,624	18,103
Available-for-sale financial assets				
Unquoted equity investment at cost				
Financial assets at fair value through profit and loss				
Total investments	<u>917</u>	<u>382</u>	<u>14,624</u>	<u>18,103</u>
Debtors				
Loans and receivables	29	9	5,343	6,198
Financial assets carried at contract amounts				
Total Debtors	<u>29</u>	<u>9</u>	<u>5,343</u>	<u>6,198</u>
Bank account	0	0	0	0
Total assets	<u>946</u>	<u>391</u>	<u>19,967</u>	<u>24,301</u>
Borrowings				
Financial liabilities at amortised cost	69,415	68,374	1,041	1,042
Financial liabilities at fair value through profit and loss				
Finance lease liabilities	5,489	5,327	416	347
Total borrowings	<u>74,904</u>	<u>73,701</u>	<u>1,457</u>	<u>1,389</u>
Creditors				
Financial liabilities at amortised cost	223	223	7,131	9,711
Financial liabilities carried at contract amount				
Total Creditors	<u>223</u>	<u>223</u>	<u>7,131</u>	<u>9,711</u>
Bank overdraft	0	0	277	1,812
Total liabilities	<u>75,127</u>	<u>73,924</u>	<u>8,865</u>	<u>12,912</u>

Income, Expense, Gains and Losses

	2011/12					2012/13				
	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	2,715	0	0	0	2,715	3,834	0	0	0	3,834
Losses on derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in fair value	0	6	0	0	6	0	0	0	0	0
Impairment losses	0	(1,364)	0	0	(1,364)	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	2,715	(1,358)	0	0	1,357	3,834	0	0	0	3,834
Interest income	0	(120)	(7)	0	(127)	0	(120)	(50)	0	(170)
Interest income accrued on impaired financial assets	0	(174)	0	0	(174)	0	(36)	0	0	(36)
Increases in fair value	0	0	0	0	0	0	0	0	0	0
Gains and derecognition	0	0	0	0	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	0	(294)	(7)	0	(301)	0	(156)	(50)	0	(206)
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
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0
Net (gain)/loss for the year	2,715	(1,652)	(7)	0	1,056	3,834	(156)	(50)	0	3,628

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 2012		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	83,769	106,948	86,613	100,267
Long-term creditors & provisions	733	733	645	645
Total	84,502	107,681	87,258	100,912

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 2012		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	20,884	20,884	24,683	24,683
Long-term debtors	29	29	9	9
Total	20,913	20,913	24,692	24,692

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	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Balance outstanding at start of year	36	36	182	243	100	95	5	0	323	374
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	0	0	61	4	(5)	11	(5)	0	51	15
Balance outstanding at year-end	36	36	243	247	95	106	0	0	374	389

17 DEBTORS

	31 March 2012 £000	31 March 2013 £000
Council Taxpayers	352	2,166
Central Government Bodies	1,618	807
Housing Rents	263	338
Other Local Authorities	565	513
Commercial Ratepayers	83	86
Other entities and individuals	2,462	2,288
	5,343	6,198

18 CASH AND CASH EQUIVALENTS

	31 March 2012 £000	31 March 2013 £000
Bank current account	(277)	(1,812)
	(277)	(1,812)

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	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Balance at start of the year.	0	0	452	57
Assets newly classified as held for sale:				
- Property, plant and equipment	0	0	277	0
Revaluation losses	0	0	0	0
Revaluation gains	0	0	0	0
Impairment losses	0	0	0	0
Disposals	0	0	(672)	0
Balance at end of the year.	0	0	57	57

20 CREDITORS

	31 March 2012	31 March 2013
	£000	£000
Council Taxpayers	(78)	(147)
Central Government Bodies	(2,035)	(3,021)
Housing Rents	(114)	(142)
Other Local Authorities	(915)	(1,035)
Commercial Ratepayers	(704)	(373)
Other entities and individuals	(3,285)	(4,993)
	(7,131)	(9,711)

21 PROVISIONS

	REVENUE	CAPITAL		
	Insurance	General Fund		Total
	£000	Clawback	£000	£000
Balance at 1 April 2012	453	57		510
Additional provisions made	62	0		62
Amounts used	(150)	0		(150)
Balance at 31 March 2013	365	57		422

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 2011/12 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 and as such an additional contribution of £155K was made into the provision. The Council has been notified that it is now liable for a levy of £51K in respect of these claims, therefore this amount has been transferred into an insurance reserve pending payment. The £104K balance has been left in the provision as there could still be future levies applied.

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.

	31 March 2012	31 March 2013
	£000	£000
General Fund Balance	2,674	3,181
HRA Balance	1,205	776
HRA Business Support Reserve	0	8,102
Major Repairs Reserve	6,683	0
Housing Mgt System Replacement Reserve	358	401
Flats Planned Maintenance	997	1,096
Sheltered Equipment	289	291
Sheltered Planned Maintenance	354	310
Sheltered Support Grant Maintenance	185	197
Renewals Reserve	594	722
Performance Reward Grant Reserve	223	125
Market Reserve	647	619
Capital Support	1,005	426
Open Spaces Commuted Sums	205	204
Other Commuted Sums	1,636	1,322
Municipal Buildings Reserve	464	386
Restructuring Reserve	586	433
Welfare Reforms Reserve	200	200
Invest to Save Reserve	1,229	1,547
Highways Reserve	47	129
Capital Grants Unapplied	195	222
Capital Receipts Unapplied	208	32
Other Reserves under £100K	574	694
Total usable reserves	20,558	21,415

23 UNUSABLE RESERVES

	31 March 2012	31 March 2013
	£000	£000
Revaluation Reserve	17,468	18,179
Financial Instruments Adjustment Account	(351)	(190)
Capital Adjustment Account	144,364	142,015
Pensions Reserve	(46,681)	(56,360)
Deferred Credits	11	9
Accumulated Absences Account	(184)	(184)
Collection Fund Adjustment Account	9	49
Total unusable reserves	114,636	103,518

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.

	2011/12	2012/13
	£000	£000
	Restated	
Balance at 1 April	16,678	17,468
Upwards revaluation of assets	6,954	2,094
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services.	(5,623)	(527)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services.	1,331	1,567
Difference between fair value depreciation and historical cost depreciation.	(369)	(856)
Accumulated gains on assets sold or scrapped.	(172)	0
Amount written off to the Capital Adjustment Account.	(541)	(856)
Balance at 31 March	17,468	18,179

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.

	2011/12	2012/13
	£000	£000
Balance at 1 April	192,748	144,364
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	(26,240)	(6,874)
■ Amortisation of Intangible Assets	(158)	(67)
■ Revenue Expenditure funded from Capital under statute.	(1,237)	(1,031)
■ Reversal of Icelandic bank impairment	1,364	0
■ HRA self financing payment.	(31,241)	0
■ Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(866)	(310)
Sub total	134,370	136,082
Adjusting amounts written out of the Revaluation Reserve	541	856
Net written out amount of the cost of non current assets consumed in the year.	134,911	136,938
Capital financing applied in the year:		
■ Use of Capital Receipts Reserve	759	442
■ Use of the Major Repairs Reserve	2,325	3,435
■ Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	1,272	1,017
■ Application of grants to capital financing from the Capital Grants Unapplied Account.	190	0
■ Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,906	2,702
■ Capital expenditure charged against the General Fund and HRA balances	2,295	1,426
Sub total	143,658	145,960
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	706	(3,945)
Movement in the Donated Asset Account credited to the Comprehensive Income and Expenditure Statement	0	0
Balance at 31 March	144,364	142,015

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 2012 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.

	2011/12	2012/13
	£000	£000
Balance at 1 April	(509)	(351)
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	158	161
Balance at 31 March	(351)	(190)

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.

	2011/12	2012/13
	£000	£000
Balance at 1 April	(36,045)	(46,681)
Actuarial gains or losses on pensions assets and liabilities	(10,372)	(8,746)
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(3,511)	(4,071)
Employer's pension contribution and direct payments to pensioners payable in the year	3,247	3,138
Balance at 31 March	(46,681)	(56,360)

Collection Fund Adjustment Account

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

	2011/12	2012/13
	£000	£000
Balance at 1 April	38	9
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	(29)	40
Balance at 31 March	9	49

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. No transactions have been effected in 2012/13 as the values are considered to be immaterial.

	2011/12	2012/13
	£000	£000
Balance at 1 April	(214)	(184)
Settlement or cancellation of accrual made at the end of the preceding year	214	0
Amounts accrued at the end of the current year	(184)	0
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	30	0
Balance at 31 March	(184)	(184)

24 CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

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

	2011/12	2012/13
	£000	£000
Interest received	(115)	(1)
Interest paid	1,608	1,873

25 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2011/12	2012/13
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(7,291)	(5,245)
Receipts from sale of Property, Plant and Equipment, investment property and intangible	1,174	469
Acquisition of short and long term borrowing	(3,262)	(3,454)
Other receipts from investing activities	1,782	2,581
Net cash flows from investing activities	(7,597)	(5,649)

26 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2011/12	2012/13
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(504)	(426)
Repayment of short-term and long-term borrowing	0	(1,041)
Cash receipts of long and short term borrowing	31,241	0
Payments and receipts relating to NNDR	704	(331)
Net cash flows from financing activities	31,441	(1,798)

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.

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

Income and Expenditure 2011/12 Comparative Figures	<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 & Policy</i>	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer Fees & Charges	(2,138)	(22,016)	(2,694)	(6,448)	(578)	(14,783)	0	0	(4,327)	(618)	(53,602)
Government Grants	(8)	(599)	0	(52,295)	(105)	0	0	0	0	0	(53,007)
Interest	(3)	(17)	0	(8,903)	0	(553)	0	0	0	0	(9,476)
Other Grants & Contributions	(849)	(6)	(1,404)	(534)	(12)	(2,550)	0	0	(88)	(940)	(6,383)
Total income	(2,998)	(22,638)	(4,098)	(68,180)	(695)	(17,886)	0	0	(4,415)	(1,558)	(122,468)
Employee expenses	3,279	0	7,221	2,634	1,283	3,020	0	353	941	2,018	20,749
Premises	1,036	0	4,490	459	18	4,476	0	0	2,600	483	13,562
Transport	106	0	1,842	30	39	191	0	4	11	60	2,283
Supplies & Services	2,895	780	3,099	8,088	872	37,669	0	3	824	1,242	55,472
Total expenditure	7,316	780	16,652	11,211	2,212	45,356	0	360	4,376	3,803	92,066
Net expenditure	4,318	(21,858)	12,554	(56,969)	1,517	27,470	0	360	(39)	2,245	(30,402)

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.

	2011/12	2012/13
	£000	£000
Net expenditure in Service analysis	(30,402)	(62,094)
Net expenditure of services and support services not included in the analysis	1,575	(46)
Amounts in the Comprehensive Income and Expenditure statement not reported to management in the analysis	70,414	61,088
Amounts included in the analysis not included in the Comprehensive Income and Expenditure statement	21,599	18,071
Cost of Services in the Comprehensive Income and Expenditure Statement	63,186	17,019

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.

2012/13	Services included in		Net Cost of Services	Corporate amounts	Total
	Service Analysis	Analysis but not NCS			
	£000	£000			
Customer Fees and Charges	(54,924)	30,496	(24,428)	0	(24,428)
Government Grants	(54,576)	1,881	(52,695)	0	(52,695)
Interest	(5,329)	5,259	(70)	0	(70)
Other Grants and Contributions	(3,715)	185	(3,530)	0	(3,530)
Recharges	0	(12,337)	(12,337)	0	(12,337)
Capital Financing Income	0	(1,173)	(1,173)	0	(1,173)
Taxation & Non Specific Grant Inc	0	0	0	(21,799)	(21,799)
Total Income	(118,544)	24,311	(94,233)	(21,799)	(116,032)
Employee expenses	20,229	(7,389)	12,840	0	12,840
Premises	15,022	(1,973)	13,049	0	13,049
Transport	2,121	(519)	1,602	0	1,602
Supplies & Services	19,078	(9,506)	9,572	0	9,572
Other Operating Expenditure	0	0	0	579	579
Financing & Investment Inc & Exp	0	0	0	7,249	7,249
Transfer Payments	0	53,190	53,190	0	53,190
Support Services	0	11,927	11,927	0	11,927
Capital Charges	0	9,072	9,072	0	9,072
Total expenditure	56,450	54,802	111,252	7,828	119,080
Surplus or Deficit on the Provision of Services	(62,094)	79,113	17,019	(13,971)	3,048
2011/12 Comparative Figures	Services included in		Net Cost of Services	Corporate amounts	Total
	Service Analysis	Analysis but not NCS			
	£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)
Total Income	(122,468)	29,084	(93,384)	(22,990)	(116,374)
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
Total expenditure	92,066	64,504	156,570	7,483	164,053
Surplus or Deficit on the Provision of Services	(30,402)	93,588	63,186	(15,507)	47,679

28 ACQUIRED AND DISCONTINUED OPERATIONS

The Council nominates one of its Councillors onto the Board of Storey Ltd. There is no ultimate controlling party, however. The principal activity of the company is the operation of the Storey Creative Industry Centre on a non-profit making basis. The company ceased trading on 15 August 2012 and went into voluntary liquidation on 4 September 2012 thereby forfeiting on its headlease with the Council. As owner/landlord of the building the Council took back possession of the building and direct

management and control of the operation from 8 October 2012 with the sub-tenants of SCIC Ltd continuing to manage the building during the interim period.

The Council had provided a loan totalling £90K to the company during 2011/12 fully repayable including interest over a maximum period of three years from the date of the first repayment, being 16 April 2012, however this was subsequently written off prior to 31 March 2013. It is expected that the company will be fully wound up by the appointed liquidators during 2013/14 with no further net liabilities arising for the Council (see also Note 35).

29 TRADING OPERATIONS

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

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

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.

	2011/12	2012/13
	£000	£000
Net deficit/(surplus) on trading operations	(159)	1,095
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	0	0
Net surplus posted to other operating expenditure	(159)	1,095

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.

	2011/12	2012/13
	£000	£000
Expenditure on agency arrangement	181	204
Income on agency arrangement	(166)	(164)
Net deficit arising on agency arrangements (local top-up)	15	40

31 MEMBERS ALLOWANCES

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

	2011/12	2012/13
	£000	£000
Basic Allowances	197	198
Special Responsibility Allowances	75	82
Expenses	5	5
Total	277	285

32 OFFICERS REMUNERATION

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

	<i>Salary, Fees and allowances</i>	<i>Expenses & 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>
	£000	£000	£000	£000	£000	£000
2012/13						
Chief Executive	107	2	0	109	22	131
Head of Community Engagement	62	0	0	62	13	75
Head of Environmental Services	62	1	0	63	13	76
Head of Resources	62	1	0	63	13	76
Head of Governance	62	0	0	62	13	75
Head of Health & Housing	62	1	0	63	13	76
Head of Property Services	11	1	65	77	1	78
Head of Regeneration & Planning	62	2	0	63	13	76
2011/12						
Chief Executive	107	2	0	109	22	131
Deputy Chief Executive	77	1	72	150	16	166
Head of Community Engagement	62	0	0	62	13	75
Head of Environmental Services	62	1	0	63	13	76
Head of Financial Services	62	1	0	63	13	76
Head of Governance	62	1	0	62	13	75
Head of Health & Housing	62	1	0	63	13	76
Head of Property Services	55	1	65	121	11	132
Head of Regeneration & Planning	62	1	0	63	13	76

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	2011/12 Number of Employees	2012/13 Number of Employees
£50,000 - £54,999	1	-
£55,000 - £59,999	-	-
£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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
							£	£
£0 - £20,000	0	1	8	4	8	5	80,559	49,326
£20,001 - £40,000	0	0	2	3	2	3	57,048	105,828
£40,001 - £60,000	0	0	1	0	1	0	52,833	0
£60,001 - £80,000	0	0	1	1	1	1	71,771	73,425
£80,001 - £100,000	0	0	2	0	2	0	171,963	0
£100,001 - £150,000	0	0	1	0	1	0	115,924	0
Total	0	1	15	8	15	9	550,098	228,579

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.

	2011/12	2012/13
	£000	£000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	139	100
Rebate of fee in respect of IFRS work	(10)	0
Fees payable in respect of other statutory inspections	0	0
Fees payable for the certification of grant claims and returns for the year	37	30
Total	166	130

34 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13. The figures for 2011/12 have been restated to recognise contributions and donations previously omitted.

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:

	2011/12	2012/13
Credited to Taxation and Non Specific Grant Income	£000	£000
Revenue Support Grant	3,100	225
Council Tax Freeze Grant	209	209
Lancashire County Council - Performance Reward Grant	(33)	0
New Homes Bonus	231	462
RHP Bold Street Renovations	0	63
Environment Agency Artle Beck Flood Defences	146	32
Other EA Grants	23	23
HCA Funding	83	0
Recycled Housing Grants	45	27
Local Services Support Grant	159	94
Private Contributions	66	88
Other Grants Under £50K	72	29
Total	4,101	1,252

	2011/12	2012/13
Credited to Services	£000	£000
DCLG YMCA Places of Change Grant	11	33
DCLG Disabled Facilities Grant	615	638
Grant: Sefton BC Strategic Monitoring	57	66
Regional Housing Grant Bold Street Renovation Scheme	4	0
HCA Winning Back the West End	79	90
Sustrans Links to Schools	136	0
Major Repairs Allowances	2,325	0
Supporting People	155	197
Strand 2 - Exercise Referral Project: Other Grants	77	78
Parliamentary Elections/A.V. Referendum: Government Grants	106	16
Arnsdale & Silverdale AONB Grants	163	153
Performance Reward Grant	33	0
Second Homes Funding	391	312
Govt Grants Police Commissioner Elections	0	148
Natural England Mcmbe Bay Improvement Area	0	156
Council Tax Benefit Grant: Government Grants	10,596	10,468
Standard Rent Allowances: Government Grants	30,827	31,458
War Widows Benefit Grant: Government Grants	49	55
Rent Rebates - Council Housing: Government Grants	9,453	10,085
NNDR Administration: Government Grants	237	233
Other Grants Under £50K	571	737
Total	55,885	54,923

	2011/12	2012/13
Capital Grants Receipts in Advance	£000	£000
DFG Grant	141	297
Townscape Heritage Initiative	250	0
Poulton Pedestrian Route, Section 106	127	127
Environment Agency Sea and Flood Defences	101	59
DCLG Empty Homes Funding	0	955
YMCA Places of Change, DCLG	52	0
Bold St Renovation, Regional Housing Grant	55	0
EP Exemplar Project Funding	48	48
Other Grants Under £50K	61	147
Total	835	1,633

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 2013 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 2012/13 is shown in Note 31. There are no other material transactions to disclose in respect of elected members.

Officers

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

Entities Controlled or Significantly Influenced by the Authority

The Council nominates four of its City Councillors as trustees of the Dukes Playhouse Ltd. There is no ultimate controlling party, however. Payment of revenue grant support totalling £143.9K was made to the company in 2012/13 for its core activities, i.e. to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. This included the provision of grant in lieu of rent free Council accommodation to the value of £12.5K. In addition, the Council also provided grant totalling £24.2K in its role as Accountable Body for the Local Strategic Partnership and Take Pride Community funding towards the development of the Lancaster Arts Partnership as well as a further £1.7K Diversionsary Activities grant for a pilot music programme in Market Square. The Youth Arts Centre occupies a former church, which is also owned by the Council. The company maintains the building and pays an annual rent of £8K to the Council in respect of this.

The Council nominates one of its Councillors onto the Board of Heysham Mossgate (Community Facilities) Company Ltd. There is no ultimate controlling party however, and the Council made no financial support to the company during 2012/13. 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 principal activity of the company is the operation of the Storey Creative Industry Centre on a non-profit making basis. The company ceased trading on 15 August 2012 and went into voluntary liquidation on 4 September 2012 thereby forfeiting on its headlease with the Council. As owner/landlord of the building the Council took back possession of the building and direct management and control of the operation from 8 October 2012 with the sub-tenants of SCIC Ltd continuing to manage the building during the interim period (*see also Note 28*).

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.

	2011/12	2012/13
	£000	£000
Opening Capital Financing Requirement	50,819	83,188
<i>Capital investment</i>		
Property, Plant and Equipment	7,479	7,739
Re-assessment of finance lease liability	2,474	195
Investment Properties	20	90
Intangible Assets	67	54
Reversal of Icelandic bank impairment	(1,363)	0
HRA self financing payment	31,241	0
Revenue Expenditure Funded from Capital Under Statute	1,199	1,031
<i>Sources of financing</i>		
Capital receipts	(760)	(442)
Government Grants and other contributions	(1,462)	(1,017)
Direct revenue contributions	(2,295)	(1,425)
Minimum Revenue Provision	(1,906)	(2,702)
Major Repairs Reserve	(2,325)	(3,435)
Closing Capital Financing Requirement	83,188	83,276
<i>Explanation of movements in year</i>		
Increase in underlying need to borrow (supported by government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by government financial assistance)	32,369	88
Increase/(decrease) in Capital Financing Requirement	32,369	88

37 LEASES

Finance Leases

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

	31/03/12	31/03/13
	£000	£000
Operational Land and buildings	6,908	4,908
Finance lease liability re-assessment	2,475	(230)
Lancaster Indoor market impairment	(6,016)	0
Vehicles, Plant, Furniture & Equipment	1,100	997
Total	4,467	5,675
Finance lease liabilities (net present value of minimum lease payments):	31/03/12	31/03/13
	£000	£000
■ Current	416	347
■ Non-current	5,489	5,324
Finance costs payable in future years	28,752	28,895
Minimum lease payments	34,657	34,566

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

	Minimum lease payments		Finance cost	
	31/03/12	31/03/13	31/03/12	31/03/13
	£000	£000	£000	£000
Not later than 1 year	416	347	461	471
Later than 1 year and not later than 5 years	595	437	1,692	1,711
Later than 5 years	4,894	4,887	26,599	26,713
Minimum lease payments	5,905	5,671	28,752	28,895

The minimum lease payments include rents that are contingent following rent reviews. In 2012/13 £113K contingent rents were payable by the Authority (2011/12 £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	
	31/03/2012	31/03/2013
	£000	£000
Not later than 1 year	721	622
Later than 1 year and not later than 5 years	1,501	1,117
Later than 5 years	3,780	3,586
Minimum lease payments	6,002	5,325

38 IMPAIRMENT LOSSES

During 2012/13 the Authority has recognised impairment losses of £4.3M in relation to fixed asset valuations. These relate to revaluation and non enhancing capital expenditure on the Council Housing stock (£3.191M) as well as downward revaluations of General Fund investment properties (£1.1M).

39 TERMINATION BENEFITS

The Authority approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2012/13, incurring liabilities of £120K (£348K in 2011/12) in respect of redundancy costs. This was paid to 6 officers from 3 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 reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2011/12	2012/13
Comprehensive Income and Expenditure Statement	£000	£000
<i>Cost of services:</i>		
Current service cost	2,466	2,557
Employer contributions	(3,247)	(3,138)
Past Service cost	0	0
Settlements and curtailments	189	155
<i>Financing & Investment Income & Expenditure</i>		
Interest costs	7,867	7,521
Expected return on scheme assets	(7,024)	(6,092)
Total Post Employment Benefit Charged to Provision of Services	251	1,003
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
Actuarial gains and losses	10,372	8,746
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	10,693	9,749

Movement in Reserves Statement

Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(321)	(1,003)
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	(10,372)	(8,746)
Net charge in relation to pension adjustments	0	0
Actual amount charged against Funds for pensions in the year - employers contributions	2,814	2,729

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Opening balance	(140,834)	(151,096)	(3,659)	(3,667)
Current service cost	(2,466)	(2,557)	0	0
Interest costs	(7,673)	(7,348)	(194)	(173)
Contributions by scheme participants	(887)	(847)	0	0
Actuarial gains and (losses)	(5,032)	(18,628)	(82)	(282)
Benefits paid	5,985	5,695	268	280
Past service costs			0	0
Curtailments	(189)	(155)	0	0
Closing balance	(151,096)	(174,936)	(3,667)	(3,842)

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2011/12	2012/13
	£000	£000
Opening balance	108,505	108,152
Expected rate of return	7,024	6,092
Actuarial gains and (losses)	(5,258)	10,164
Employer contributions	3,247	3,138
Contributions by scheme participants	887	847
Benefits paid	(6,253)	(5,975)
Settlements	0	0
Curtailments	0	0
Closing balance	108,152	122,418

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

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

The actual return on scheme assets in the year was £6.092M (2011/12 £7.024M).

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(138,363)	(117,345)	(160,210)	(144,493)	(154,763)	(178,778)
Present value of assets	96,846	76,435	100,467	108,505	108,152	122,418
Surplus/(deficit) in the scheme	(41,517)	(40,910)	(59,743)	(35,988)	(46,611)	(56,360)

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £178.778M has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £56.360M. 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 (i.e. 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.

	2011/12	2012/13
	%	%
Return on assets (%):		
Equity investments	7.0	7.0
Bonds	3.9	3.6
Other	5.1	4.3
Longevity at 65 for current pensioners (yrs):		
Men	21.7	22.1
Women	24.3	24.8
Longevity at 65 for future pensioners:		
Men	23.1	23.9
Women	25.9	26.7
Rate of inflation (%)	2.5	2.4
Rate of increase in salaries (%)	4.5	4.4
Rate of increase in pensions (%)	2.5	2.4
Rate of discounting for scheme liabilities (%)	4.9	4.2
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	
	2011/12	2012/13
	%	%
Equity investments	58.0	62.0
Debt instruments	20.0	25.1
Other assets	22.0	12.9
	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%	%
Differences between the expected and actual return on assets	13.40	34.30	20.10	2.40	4.90	8.30
Experience gains and losses on liabilities	5.70	0.00	0.00	9.80	0.00	0.00

41 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2013:

Luneside East Regeneration Scheme – In assembling the land for this project, the Council used compulsory purchase powers (CPO). Following a Lands Tribunal decision relating to one significant compensation case, the Council has appealed and is currently awaiting the outcome of the Court of Appeal decision, which will determine whether the Council is liable for associated costs as well as its own. The Council has some financial provision available in connection with its own costs, but at this stage any further potential liability arising cannot be measured with any certainty.

The Council has also accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes and in particular concerning 'Business Space' created. Given that the Council transferred Phase 1 land to its development partner (CTP Securities Limited) on 2 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 2013.

Property Searches – A group of Property Search companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not been issued as at 31 March 2013. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council and it is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

42 CONTINGENT ASSETS

The following material contingent asset existed as at 31 March 2013:

Luneside East Regeneration Scheme – The Council has submitted an application for costs in connection with a Court of Appeal hearing regarding the above claim; but any economic benefits are contingent on the outcome of the Appeal 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 2012/13 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the authority are as detailed in the following table:

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

Notes:

- 1 & 2: The Upper and Middle Limits apply to appropriately rated banks and building societies.
 3: The Other Institutions limit applies to other local authorities and supranational institutions (i.e. ECB).
 4: Sterling, constant net asset value funds only.
 5: The DMADF facility is direct with the UK government, it is extremely low risk and hence the higher limit.
 6: UK investments are defined as those listed under UK banks or building societies in the 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 £18.49M 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 £18.49M, there was no evidence at 31 March 2013 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 31/03/13	Historical experience of default	Exposure at 31/03/13	Exposure at 31/03/12
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	7,965	0.00%	0	0
AA rated counterparties	9,300	0.03%	3	0
A rated counterparties	0	0.08%	0	5
Trade debtors	2,718	Bad debt provision	568	436
Total	19,983		571	441

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 £1.774M of the £2.718M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/12	31/03/13
	£000	£000
Current, < 28 Days	919	944
28-59 Days	294	156
60-91 Days	78	103
92-183 Days	168	187
184-364 Days	281	343
365+ Days	727	985
Total	2,467	2,718

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.

	31/03/12	31/03/13
	£000	£000
Less than one year	1,041	1,041
One to two years	1,041	1,041
Three to five years	3,124	3,124
Six to ten years	5,207	5,207
11 to 20 years	10,414	10,414
21 to 30 years	10,414	9,373
More than 30 years	39,215	39,215
Total	70,456	69,415

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 2012/13.

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 29 investments during the year within the DMO Deposit Account and had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.497%, an increase of 1% on interest rates during 2012/13 would have had the following marginal effect:

	Actual	+1%
	£000	£000
New or variable investments:		
Call accounts	122	245
Total	122	245

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 £122K vs. £120K in the prior year, not including the notional interest on Icelandic investments).

THE HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

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

2011/12 £000		NOTES	2012/13 £000	£000
	Expenditure			
3,671	Repairs and maintenance		4,153	
3,011	Supervision and management		2,951	
95	Rent, rates, taxes and other charges		140	
2,242	Negative HRA Subsidy payable	7	148	
8,460	Depreciation and impairment of non-current assets	4&5	4,397	
12	Debt management costs		1	
31,241	HRA Self Financing Settlement Payment		0	
104	Movement in the allowance for bad debts	9	113	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	10	0	
48,836	Total Expenditure		11,903	
	Income			
(12,506)	Dwelling rents		(13,459)	
(199)	Non-dwelling rents		(208)	
(1,627)	Charges for services and facilities		(1,675)	
(8)	Contributions towards expenditure		(8)	
(170)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(123)	
(14,510)	Total Income		(15,473)	
34,326	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement			(3,570)
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
34,326	Net Cost for HRA Services			(3,570)
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement			
(158)	Gain or Loss on sale of HRA non-current assets			(59)
698	Interest payable and similar charges			2,104
(54)	Interest and investment income			(67)
58	Pension interest cost and expected return on pension assets	8		168
(10)	Capital grants and contributions receivable			(14)
	Self Financing Debt Repayment			1,041
34,860	(Surplus) or deficit for the year on HRA Services			(397)

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.

2011/12 £000		2012/13 £000
(452)	Balance on the HRA at the end of the previous year	(1,205)
34,860	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(397)
183	Adjustments between accounting basis and funding basis under statute	1,066
35,043	Net (increase) or decrease before transfers to or from reserves	669
(35,796)	Transfers to or (from) reserves	(240)
(753)	(Increase) or decrease in year on the HRA	429
(1,205)	Balance on the HRA at the end of the year	(776)

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

As at 31 March 2013 the Council held the following number of dwellings:

	2011/12	2012/13
Bedsits	96	96
1 Bedroom		
Houses & Bungalows	657	658
Flats & Maisonettes	531	531
2 Bedroom		
Houses & Bungalows	496	497
Flats & Maisonettes	680	680
3 Bedroom		
Houses & Bungalows	1,248	1,238
Flats & Maisonettes	8	8
4 or more bedroomed dwellings	87	88
TOTAL DWELLINGS	3,803	3,796

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

	Value as at 01/04/2012 £000	Value as at 31/03/2013 £000
Operational Assets:		
Council Dwellings	104,216	104,753
Other land and buildings	82	83
	104,298	104,836
Non-operational Assets	1,427	1,454
TOTAL	105,725	106,290

Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the first year of which has now updated all values to 01 April 2010. This has resulted in an increase in asset values of £565K 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. Non-dwelling assets were also revalued as at 01 April 2010.

The vacant possession value of dwellings held on 01 April 2012 was £304.729M. The difference between this and the EUV-SH valuation of £106.655M (i.e. the update figure after the full valuation exercise effective as of 01 April 2012 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:

	2011/12	2012/13
	£000	£000
Opening Balance 01 April	6,581	6,683
Transfer from General Reserves	102	0
Transfer to Investment Reserves	0	(6,683)
Transfer to HRA – Depreciation	2,343	1,701
Transfer to HRA - Depreciation Adjustment	(18)	(18)
Transfer to HRA - Additional Capital Financing	0	1,752
Capital Expenditure		
- Land	0	0
- Houses	(2,325)	(3,435)
- Other property.	0	0
Closing Balance 31 March	6,683	0

3 CAPITAL EXPENDITURE

Capital expenditure of £3,591M was incurred during the year, of which £3,573M was on works and improvements to dwellings, £18K on Non Operational Assets and £0.8K on intangible assets. This was financed as follows:

Capital Expenditure	2011/12	2012/13
	£000	£000
Borrowing	0	0
Usable Capital Receipts	76	80
Revenue Contributions	1,035	0
Earmarked Reserves	128	63
Majors Repairs Reserve	2,325	3,435
Grants and Contributions	10	13
Total Capital Financing	3,574	3,591

Capital receipts totalling £282K were received during the year from the following sources:

Capital Receipts	2011/12	2012/13
	£000	£000
Sale of dwellings	288	280
Sale of land	0	0
Repayment of Principal on Mortgages	3	2
Repayment of Right to Buy discounts	0	0
Total Capital Receipts	291	282

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:

Depreciation	2011/12	2012/13
	£000	£000
Council Dwellings	2,325	1,683
Other land and buildings	2	2
Non-operational Assets	16	16
Deferred Charges on Intangible Assets	21	22
Government Grants deferred write down	0	0
TOTAL	2,364	1,723

5 IMPAIRMENT CHARGES

An impairment charge of £3.191M in respect of Council Dwellings was made to the HRA for the financial year 2012/13. This was as a result of downward market valuations to the Council Housing Dwellings stock. £2.664M 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 fifth year charge of £3K in respect of software purchased for the Task Total Repairs system, which is an upgrade of the contractor system, a fourth year charge of £4K in respect of the Testing and Implementation of Task Total Solution by Northgate, a third year charge of £5K for the initial purchase of the Central Control Equipment from Abritas and a further £9K charge for the second year for the remaining Central Control Equipment from Abritas. The assets are to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

7 HOUSING REVENUE ACCOUNT SUBSIDY

The total Negative Housing Subsidy payable for the year 2012/13 was £148K (£2.253M for 2011/12), and represented an adjustment to the 2011/12 final subsidy claim. Subsidy arrangements ceased from the 01 April 2012 with the introduction of the new self-financing regime.

Housing Revenue Account Subsidy	2011/12	2012/13
	£000	£000
Management Allowance	2,108	0
Maintenance Allowance	3,970	0
Major Repairs Allowance	2,325	0
Admissible Allowances	0	0
Anti-Social Behaviour Allowance	0	0
Charges for Capital	1,729	148
Rent Rebates	0	0
Notional Rent	(12,385)	0
Interest on Receipts	0	0
Government Grants	0	0
Rental Constraint Allowance	0	0
Total Housing Subsidy	(2,253)	148

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 2013 amounted to £437K (£374K for 2011/12). An amount of £477K (£435K for 2011/12) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The increase in provision this year is mainly relating to rechargeable repairs £73K which is offset against a reduction in other debts amounting to £31K resulting in a net increase of £42K. 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

	2011/12 £000	2012/13 £000
Adjustments between accounting basis and funding basis under statute		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	159	161
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.	158	59
HRA share of contributions to or from the Pension Reserve.	25	783
Capital Expenditure funded by the Housing Revenue Account	1,163	63
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.	(1,322)	0
	183	1,066
Transfers to or (from) reserves		
Transfer to/(from) Major Repairs Reserve	102	(4,931)
Transfer to/(from) Housing Repairs Account	0	0
Transfer to/(from) Earmarked Reserves	108	8,239
Transfer to/(from) Revaluation Reserves	1,322	0
Transfer to/(from) the Capital Adjustment Account	(37,328)	(3,548)
	(35,796)	(240)

Collection Fund

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

2011/12 £000	INCOME	NOTES	2012/13 £000
	Council Tax		
(56,064)	Income from Council Tax	1	(56,494)
	Transfers from General Fund:		
(10,521)	Council Tax Benefits		(10,374)
	Business Rates		
(39,292)	Income from Business Ratepayers	2	(43,413)
	Contributions		
(97)	From Provisions for Council Tax Amounts Written Off		(143)
(105,974)	TOTAL INCOME		(110,424)
	EXPENDITURE		
	Precepts and Demands		
48,156	Lancashire County Council		48,211
8,891	Lancaster City Council (including parish precepts)		8,905
6,355	Lancashire Police Authority		6,522
2,766	Lancashire Fire Authority		2,768
	Business Rates		
39,060	Payment to National Pool		43,179
232	Cost of Collection Allowance		233
	Council Tax Bad and Doubtful Debts		
97	Write-offs		143
649	Contribution to Provision for Non-Collection		92
	Contribution towards previous year's estimated Collection Fund surplus		
0	Council Tax		72
106,206	TOTAL EXPENDITURE		110,125
	FUND BALANCE		
232	(Surplus)/deficit for year		(299)
0	(Surplus)/deficit as at 01 April (Brought forward)		0
(232)	(Surplus)/deficit distributed in year		299
0	(Surplus)/Deficit as at 31 March (Carried forward)		0

NOTES TO THE COLLECTION FUND

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

1 COUNCIL TAX

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

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2012/13 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	20,238	11,219
Band B	14,803	10,328
Band C	11,034	8,873
Band D	5,883	5,471
Band E	3,625	4,199
Band F	1,823	2,510
Band G	793	1,256
Band H	43	83
Total	58,242	43,939
<i>Collection Rate</i>		99%
Council Tax Base		43,500

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 45.8p per £ for 2012/13 (43.3p for 2011/12). For local businesses with a rateable value of less than £18,000, a discount of 0.8p was allowed giving a rate of 45p per £. The rateable value at 31 March 2013 was £163,943,367 (£163,182,716 for 2011/12). 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 2012/13, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £11,593,000.

3 MAJOR PRECEPTORS

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

Major Preceptors	£000
Lancashire County Council	48,264
Lancashire Police Authority	6,529
Lancashire Fire Authority	2,772
Lancaster City Council	8,914
	66,479

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 2013 the Council was responsible for 12 of these Trust Funds, the balances of which are shown in the tables below.

It should be noted that during 2012/13 the council transferred 7 dormant charity funds to the Community Foundation for Lancashire (CFL). Many had archaic objectives which could no longer be realised. Once the relevant funds had been transferred to the CFL, the original charities were wound up in accordance with guidelines from the Charity Commission. The CFL intend to bring the money back into circulation by finding contemporary uses which reflect the funds' original aims and the Council's current priorities.

Revenue Accounts	Balance b/f 01/04/12 £	Income £	Transfers Out £	Expenditure £	Balance c/f 31/03/13 £
Bequests and Endowments					
(a) Council sole trustee					
Ashton Memorial	0	0	0	0	0
Williamson Park	0	0	0	0	0
Other	(5,034)	(4,307)	1,499	3,825	(4,017)
(b) Council not sole trustee	(9,808)	(81)	6,880	900	(2,109)
School etc. Prize Funds					
(a) Council sole trustee	(20,832)	(433)	18,090	0	(3,175)
(b) Council not sole trustee	0				0
TOTAL	(35,674)	(4,821)	26,469	4,725	(9,301)

	2011/12 £	2012/13 £
Bequests and Endowments		
(a) Council sole trustee		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	1,962	0
Revenue	0	0
Cash and Debtors	51,072	51,928
(b) Council not sole trustee		
Capital	0	0
Revenue	1,000	646
Cash and Debtors	10,965	2,463
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	737	3,175
Cash and Debtors	21,799	0
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	0	0
TOTAL	87,535	58,211

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

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

Income & Expenditure Account	2011/12	2012/13
	£	£
Income		
Interest	(4,250)	(4,821)
Capital	0	0
	(4,250)	(4,821)
Expenditure		
Ashton Memorial	1,094	1,086
William Smith Festival	217	206
Whalley Playground	659	658
Lune Bank Gardens	13	11
Williamson Park	1,865	1,862
War Memorial Fund	2	2
Crook of Lune	0	0
William Briggs	0	900
Transfers Out	0	26,469
	3,850	31,194
Excess (Income)/Expenditure	(400)	26,373
Balance Sheet	2011/12	2012/13
	£	£
Assets		
Investments	3,699	3,821
Debtors	1,167	2,021
Bank	82,669	52,369
	87,535	58,211
Represented by:		
Reserves as at 31st March	87,935	31,838
Income in year	(400)	26,373
	87,535	58,211

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.

AUDIT COMMITTEE**Review of Governance and the
Annual Governance Statement 2012/13
18 September 2013****Report of the Chief Executive****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Annual Governance Statement for the 2012/13 financial year.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2012/13 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

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

Accounts & Audit Regulations

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

2.0 Report

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE¹ during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (the current version was approved by Audit Committee on 19th September 2012) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

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

3.0 Proposal Details

Review of Compliance with the Code of Governance

- 3.1 A review has been undertaken of the Council's position and performance against the Code of Governance approved in September 2012. The results of the evaluation exercise are demonstrated in the Overview Chart and the Evaluation Summary which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.
- 3.2 The Code of Corporate Governance consists of a set of seventy-eight elements within the following six core principles, which underpin a council's system of governance:
1. **Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area**
 2. **Members and officers working together to achieve a common purpose with clearly defined functions and roles**
 3. **Promoting the values of the authority and demonstrating the values of good governance through 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 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 This year, individual "assurance statements" have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas. This contrasts with previous years when assurance statements were sought from the then Service Heads. 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 Following the last review and update in September 2012, the Code of Governance is now comprised of seventy-eight elements (the previous version contained sixty-seven). This makes direct comparison with previous years difficult, but the overall position is that there have not been any dramatic changes in the evaluation, with gradual improvements in a number of areas.
- 3.9 The number of factors in which there remains a perceived shortfall in performance is 9 – the same as in the 2011/12 review. There is no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position and any plans to improve arrangements during 2012/13 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 audited financial accounts (i.e. 30 September 2013) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the Governance Framework
 3. The Governance Framework
 4. Review of Effectiveness
 5. Significant Governance Issues

Signatories to the Statement

- 3.12 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

4.0 Details of Consultation

- 4.1 As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

5.0 Options and Options Analysis (including risk assessment)

5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

6.0 Conclusion

6.1 The draft Annual Governance Statement and the results of the review reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2013/14.

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

There are no legal implications arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounts and Audit (England) Regulations 2011

Contact Officer: Derek Whiteway

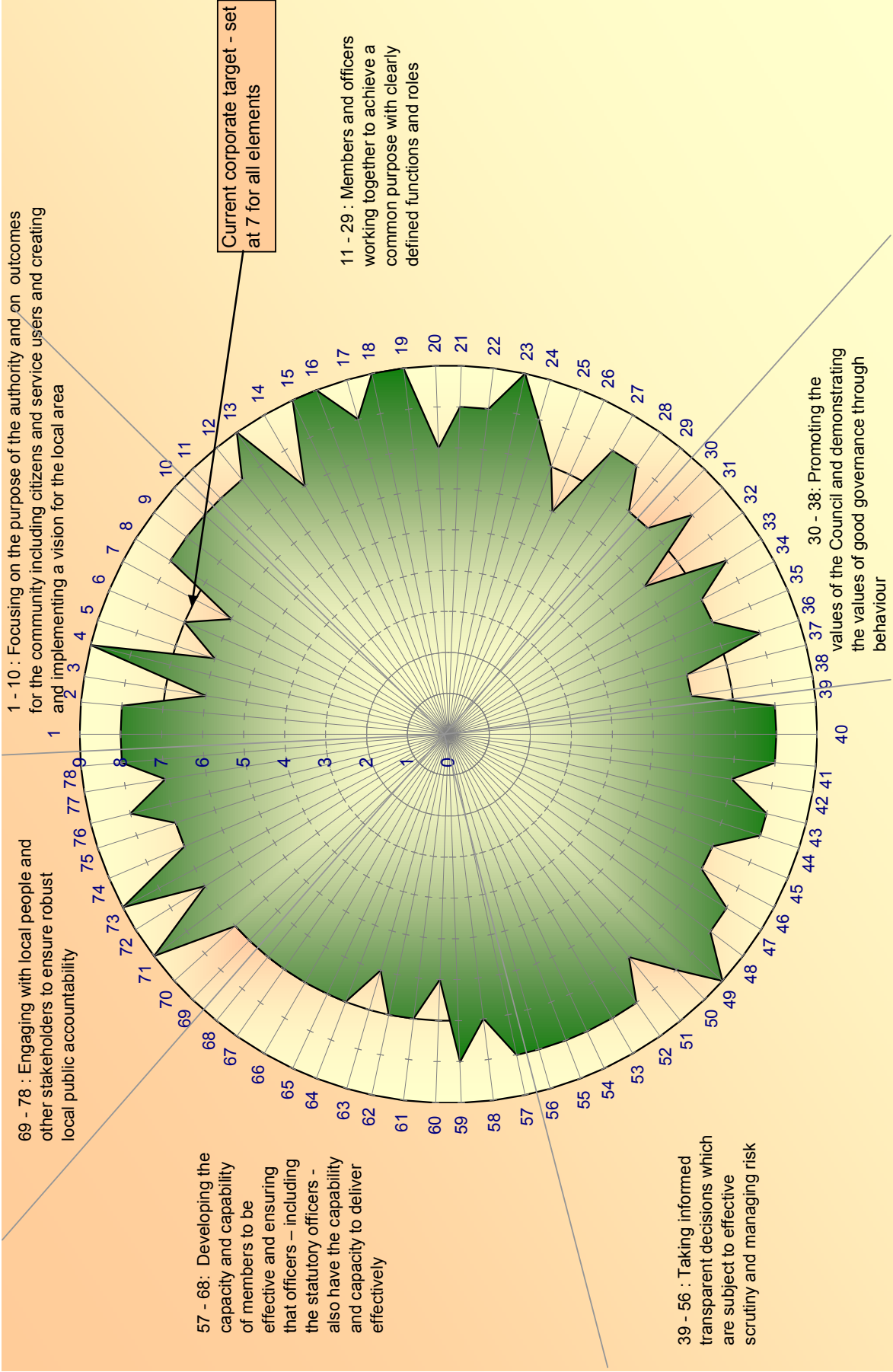
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Ref: aud/cttee/audit/2013/130918/ags

Annual Governance Review 2012/13 – Evaluation Results

Appendix A



Annual Governance Review 2012/13 – Evaluation Summary

Elements where the evaluation falls below the target level of 7 are highlighted in yellow

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
1	Developing and promoting the authority's purpose and vision	8	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	8	
3	Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners	6	Whilst current arrangements appear to work well, there is the potential, as the Council and partners seek to manage more and more pressing resource issues, for lack of clarity regarding expectations and contributions. This may be an area where independent review (e.g. by internal audit) could provide greater assurance. There is also the opportunity to streamline arrangements.
4	Publishing annual accounts on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
5	Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.	6	The Council engages with and gathers information from citizens in various ways at both the corporate and service level. It is recognised that the quality of measures varies and, in continuing to develop the Performance Management Framework, work is ongoing to refine and improve measures and the consequent quality of performance data. (See also element number 26)
6	Putting in place effective arrangements to identify and deal with failure in service delivery	7	

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
7	Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance delivery.	6	The Corporate Plan sets out Value for Money as one of the Council's four corporate values includes a number of references to "Managing our Resources" as well as specific performance measures that relate to VFM. An extensive corporate programme of service reviews is in progress which will scrutinise and challenge VFM and performance delivery.
8	Ensuring that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	8	
9	Ensuring that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	8	
10	Ensuring compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code	8	

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

No	Element	Score	Comments/Conclusions
11	Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice	8	
12	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	8	
13	Ensuring that the CFO reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.	9	

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

No	Element	Score	Comments/Conclusions
14	Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required	7	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	9	
16	Ensuring that the authority's governance arrangements allow the CFO direct access to the CEO and to other leadership team members	9	
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	8	
18	Making the Head of Resources (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	9	
19	Appointing a professionally qualified CFO whose core responsibilities include those set out in the Statement on the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority	9	
20	Ensuring that the CFO : <ul style="list-style-type: none"> ▪ 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 ▪ has a line of professional accountability for finance staff throughout the organisation 	7	
21	Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance	8	
22	Ensuring that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role	8	

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

No	Element	Score	Comments/Conclusions
23	Making the Head of Governance (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	9	
24	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
25	Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members.	7	
26	Ensuring that effective mechanisms exist to monitor service delivery	6	The approach to monitoring service delivery varies across the council, with different arrangements in place for service level performance monitoring. The quality and appropriateness of performance measures are also variable and work is ongoing to refine, rationalise and/or improve measures and the consequent quality, relevance and use of performance data.
27	Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	8	
28	Establishing a medium term business and financial planning process to deliver strategic objectives including: <ul style="list-style-type: none"> ▪ A medium term financial strategy to ensure sustainable finances ▪ A robust annual budget process that ensures financial balance ▪ A monitoring process that enables this to be delivered And ensure that these are subject to regular review to confirm the continuing relevance of assumptions used	8	

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

No	Element	Score	Comments/Conclusions
29	<p>When working in partnership, ensuring that:</p> <ul style="list-style-type: none"> ▪ 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. 	7	

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

No	Element	Score	Comments/Conclusions
30	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
31	Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated	8	
32	Having protocols in place to ensure that standards for joint working between members and staff and between the Council (members/officers), its partners and the community are defined and communicated	6	Protocols are in place internally. As regards joint working externally, the existence and effectiveness of standards is unclear. See also element number 3.
33	Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice	8	
34	Developing and maintaining shared values including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	7	

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

No	Element	Score	Comments/Conclusions
35	Having arrangements in place to ensure that systems and processes, including those for financial administration, financial control and protection of the authority's resources and assets, are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	7	
36	Maintaining an effective standards committee	8	
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	6	Challenges continue to be posed by there being no overall political control of the Council and by the continued period of austerity.
38	In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged	6	See element numbers 3 and 32.

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

No	Element	Score	Comments/Conclusions
39	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	8	
40	Ensuring an effective internal audit function is resourced and maintained	8	
41	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	8	
42	Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice	7	
43	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
44	Ensuring that the authority's governance arrangements allow the CFO direct access to the audit committee and external audit	8	
45	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	7	

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

No	Element	Score	Comments/Conclusions
46	Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)	7	
47	Ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority	8	
48	Ensuring the authority's governance arrangements allow the CFO to bring influence to bear on all material decisions	8	
49	Ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance	9	
50	Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately	8	
51	Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs	7	
52	Ensuring the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports	8	
53	Ensuring the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorization and approval processes	8	
54	Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access	8	
55	Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra vires doctrine but also striving to utilise available powers to the full benefit of its communities	8	
56	Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes	8	

Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively

No	Element	Score	Comments/Conclusions
57	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	8	
58	Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council	7	
59	Ensuring the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non financial areas of their role	8	
60	Reviewing the scope of the CFO's other management responsibilities to ensure financial matters are not compromised	6	The Chief Officer (Resources) has taken on responsibility for Revs & Bens Shared Service, ICT and Property Shared Service. Whilst current arrangements have not given rise to any specific concerns, it must be appreciated that, at certain times, when financial matters must take priority, This may have an impact on the officer's other responsibilities.
61	Providing the finance function with the resources, expertise and systems necessary to perform its role effectively	7	
62	Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively	7	
63	Embedding financial competencies in person specifications and appraisals	6	The development of financial competencies, alongside other managerial competencies, is being taken forward as part of the management development programme.
64	Ensuring that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities	7	
65	Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	7	
66	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	7	

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
67	Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council	7	
68	Ensuring that effective Member development and employee development strategies and actions are in place	7	

Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability

No	Element	Score	Comments/Conclusions
69	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
70	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
71	Producing an annual report on the activity of the scrutiny function	9	
72	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place	7	
73	Holding meetings in public unless there are good reasons for confidentiality	9	
74	Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	7	
75	Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result	7	
76	Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	8	

Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability

No	Element	Score	Comments/Conclusions
77	Ensuring that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	7	
78	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

Internal Audit – Review of Characteristics of Effectiveness

Appendix B

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
IA operates in accordance with "proper practices" as defined in professional codes of practice.	<p>The IA section has operated to the CIPFA Code of Practice for Internal Audit (2006) up until 31st March 2013.</p> <p>Changes required in connection with new Public Sector Internal Audit Standards were reported to Audit Committee in June 2013 and work is ongoing to demonstrate full compliance.</p> <p>A benchmarking exercise amongst Lancashire district councils is focusing on arrangements in relation to the new standards.</p>	<p>Review the outcomes from an ongoing benchmarking exercise.</p> <p>Report to Audit Committee on outcomes from reviews of compliance with standards.</p> <p>Arrangements for future 5-yearly external reviews of compliance.</p>
IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.	<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>	
IA understands its position in relation to the organisation's other sources of assurance and plans its work accordingly.	<p>Internal audit identifies other sources of assurance and takes these into account when preparing the internal audit plan.</p>	
IA understands the whole organisation, its needs and objectives.	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives.</p> <p>Individual audit assignments identify risks to the achievement of those objectives.</p>	

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>IA can be seen as a catalyst for change at the heart of the organisation.</p>	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and efficiency/value for money. Individual assignments may be catalyst for change, for example recent reviews of working time arrangements.</p>	<p>Continue to liaise and consult with Management Team on the options for IA to provide a corporate role. Contribute to the corporate programme of service reviews</p>
<p>IA adds value and assists the organisation in achieving its objectives.</p>	<p>Demonstrated through individual audit assignments and also corporate work.</p>	<p>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>

Internal Audit – Review of Characteristics of Effectiveness

Appendix B

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.</p>	<p>Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and engaging managers in developing actions to manage risks, thereby encouraging ownership of the control environment amongst managers.</p>	<p>Develop greater liaison with and shared understanding with service managers</p>
<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.</p>	<p>Resource issues are addressed in the audit planning process. Ongoing consideration is given to alternative sources of audit resource, including areas requiring specialist skills.</p>	

LANCASTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2012/13 (DRAFT)

SCOPE OF RESPONSIBILITY

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

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

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2013 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 portfolio performance review meetings.
- Review and challenge of performance through the overview and scrutiny function and particularly via the Budget & Performance Panel.
- The council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the overview and scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Whistleblowing Policy* and the council's *Comments, Compliments and Complaints Policy*.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council's key priorities and objectives. Rules for financial management and the scheme of delegation of the council are set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The council's Audit Committee is charged with overseeing and, independently of the Executive and overview and scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- The Chief Officer (Governance) is the council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of councillors and co-opted Members.
- The Cabinet is responsible for taking key decisions in line with the council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The council publishes a *Forward Plan* containing details of key decisions made on behalf of the council by Cabinet and by senior officers under their delegated powers.

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

REVIEW OF EFFECTIVENESS

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

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

- The council's Audit Committee and the Monitoring Officer have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)
- The council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly portfolio performance review meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council promotes and maintains high standards of conduct by its elected members in accordance with the adopted Code of Conduct and the requirements of the Localism Act 2011. The Standards Committee has a role to provide assistance and advice to the council in this respect, and to deal with complaints of breach of the Code of Conduct.

- The senior management structure has continued to develop and aspects of the council's constitution, such as the scheme of delegation, have been updated to a degree to reflect this. A phased approach is being taken to completing the necessary updates and it is not considered that this situation presents any new governance issues.
- The diverse political makeup of the council, set in the context of the council's current democratic model (Cabinet and Scrutiny) can inhibit achieving consensus in the decision making process. Managing these pressures and maintaining efficiency in decision-making will become increasingly important as the period of austerity and raised budgetary pressures continues.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan
- Internal Audit operates in accordance with the CIPFA statement on "the role of the head of internal audit in public service organisations" (2010) and is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and 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 2012 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's financial statements for 2011/12. They also provided an unqualified conclusion on the council's arrangements for securing value for money and reported that they were "...satisfied that the authority was dealing with the current financial pressures in an effective manner". The external auditors made no high priority recommendations as a result of their 2011/12 audit work.
- Following the audit of the 2012/13 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30th September 2013.
- 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's overriding challenge continues to be that of ensuring that the council and its partners can identify and meet the needs of the district's citizens, whilst responding to current and future financial constraints. It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance in a period of significant organisational change, and continuous review will be necessary in key areas including:

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

- **Information management and governance arrangements;** to ensure that the council's arrangements for collecting, storing, using and sharing information are robust and enable the most efficient and effective use of that information;
- **Democratic structures and cultural aspects of governance;** ongoing challenges are posed by having a "no overall control" council and increased pressures from the continued period of austerity. Together these factors present a need to ensure that democratic processes remain appropriate, efficient and effective and that all elected members, officers, and partners are able to operate positively in an environment of mutual trust and respect whilst fostering a healthy culture of challenge and confident decision making.

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

E Blamire
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Chief Officer (Governance)
Monitoring Officer

N Muschamp
Chief Officer (Resources)
Section 151 Officer

AUDIT COMMITTEE

**Local Government Ombudsman –
Annual Review 2012/13
18 September 2013**

Chief Officer (Governance)

PURPOSE OF REPORT

To enable the Committee to consider the Local Government Ombudsman’s (LGO) Annual Review letter for the year ending 31 March 2013.

This report is public

RECOMMENDATIONS

(1) That the Ombudsman’s Annual Review letter for 2012/13 be noted

1.1 Background

The Local Government Ombudsmen in England provide an accessible and responsive complaints service directly to members of the public. The Ombudsman helps to make sure that local public services are accountable to people that use them by ensuring that local authorities put things right when they go wrong.

1.2 Key Issues in 2012/2013

The LGO’s annual review letter for 2012/13 is appended to this report for Members’ information. Members will note that, this year, only the total number of cases has been provided. However, the annual letter next year will provide more detailed statistics.

1.3 Complaints against Lancaster City Council

The letter to the Council appended to this report indicates that the Ombudsman received 9 complaints against the Council in 2012/13. The figure does not include enquiries received or any matters referred prematurely. Members will note that this was less than the average of 10 complaints received against District/Borough Councils.

For Members’ information, of the 9 complaints; 4 were about planning issues. The other complaints related to Health and Housing, Environmental and Revenue Services. Four of the nine cases received were investigated. There was no evidence of maladministration in three of these while there was a local settlement agreed in one case. Table 1 gives comparative outcomes for the last three years.

Year	2010/2011	2011/2012	2012/2013
Received by the Advice Team	28	30	Not reported
Forwarded to the Investigation Team	16	16	9
Investigated	14	11	4
Minor or no injustice/maladministration	13	5	5
Local Settlement (or similar remedy)	1	4	1

Table1. Summary of Ombudsman Complaint outcomes

2.0 Proposal Details

This report is for noting.

3.0 Consultation

3.1 There has been no consultation

4.0 Options and Options Analysis (including risk assessment)

4.1 There are no options as the report is for noting.

CONCLUSION OF IMPACT ASSESSMENT

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

None arising directly from this report.

LEGAL IMPLICATIONS

There are no direct legal implications

FINANCIAL IMPLICATIONS

There are no direct financial implications.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None

Information Services:

None

Property:

None

Open Spaces:

None

SECTION 151 OFFICER'S COMMENTS

The 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 Review Letter 2012/13

Contact Officer: R. Kotonya

Telephone: 01524 58 2192

E-mail: rkotonya@lancaster.gov.uk

Ref:

16 July 2013

By email

Mr Mark Cullinan
Chief Executive
Lancaster City Council

Dear Mr Cullinan

Annual Review Letter

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2013. This year we have only presented the total number of complaints received and will not be providing the more detailed information that we have offered in previous years.

The reason for this is that we changed our business processes during the course of 2012/13 and therefore would not be able to provide you with a consistent set of data for the entire year.

In 2012/13 we received 9 complaints about your local authority. This compares to the following average number (recognising considerable population variations between authorities of a similar type):

District/Borough Councils-	10 complaints
Unitary Authorities-	36 complaints
Metropolitan Councils-	49 complaints
County Councils-	54 complaints
London Boroughs-	79 complaints

Future development of annual review letters

We remain committed to sharing information about your council's performance and will be providing more detailed information in next year's letters. We want to ensure that the data we provide is relevant and helps local authorities to continuously improve the way they handle complaints from the public and have today launched a consultation on the future format of our annual letters.

I encourage you to respond and highlight how you think our data can best support local accountability and service improvements. The consultation can be found by going to www.surveymonkey.com/s/annualletters

LGO governance arrangements

As part of the work to prepare LGO for the challenges of the future we have refreshed our governance arrangements and have a new executive team structure made up of Heather Lees, the Commission Operating Officer, and our two Executive Directors Nigel Ellis and Michael King. The Executive team are responsible for the day to day management of LGO.

The Oaks No 2
Westwood Way
Westwood Business Park
Coventry
CV4 8JB

T: 024 7682 0000
F: 024 7682 0001
W: www.lgo.org.uk

Helpline: 0300 061 0614

Since November 2012 Anne Seex, my fellow Local Government Ombudsman, has been on sick leave. We have quickly adapted to working with a single Ombudsman and we have formally taken the view that this is the appropriate structure with which to operate in the future. Our sponsor department is conducting a review to enable us to develop our future governance arrangements. Our delegations have been amended so that investigators are able to make decisions on my behalf on all local authority and adult social care complaints in England.

Publishing decisions

Last year we wrote to explain that we would be publishing the final decision on all complaints on our website. We consider this to be an important step in increasing our transparency and accountability and we are the first public sector ombudsman to do this. Publication will apply to all complaints received after the 1 April 2013 with the first decisions appearing on our website over the coming weeks. I hope that your authority will also find this development to be useful and use the decisions on complaints about all local authorities as a tool to identify potential improvement to your own service.

Assessment Code

Earlier in the year we introduced an assessment code that helps us to determine the circumstances where we will investigate a complaint. We apply this code during our initial assessment of all new complaints. Details of the code can be found at:

www.lgo.org.uk/making-a-complaint/how-we-will-deal-with-your-complaint/assessment-code

Annual Report and Accounts

Today we have also published *Raising the Standards*, our Annual Report and Accounts for 2012/13. It details what we have done over the last 12 months to improve our own performance, to drive up standards in the complaints system and to improve the performance of public services. The report can be found on our website at www.lgo.org.uk

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

AUDIT COMMITTEE**Internal Audit Monitoring Report
18 September 2013****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2013/14 Internal Audit Plan, seek approval for proposed variations to the plan, and update Members on the results of recent audits.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the proposed revisions to the audit plan, as set out in the table in §1.2, are approved.
- (3) That the allocation of time to undertake work in support of the corporate programme of service reviews, as set out in §1.6, is approved.
- (4) That the results of recent audits (sections 2-3 of the report) are noted.

1.0 Audit Plan Monitoring to 27 August 2013

- 1.1 The 2013/14 Internal Audit Plan was approved by the Audit Committee at its meeting on 24 April 2013 with some minor adjustments approved at the meeting on 26 June 2013. This report is based on the monitoring position up to 27 August 2013 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position at that date was as shown in the following table.

1.2 Summary of monitoring position at 27 August 2013

Area of work	Resources (audit days)					
	Actuals to 27/08/13	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	29	1	30	100	70	60
Revenues & Benefits Shared Services	6	0	6	60	54	50
Core Management Arrangements	12	12	24	80	56	70
Risk Based Assurance Audits	123	18	141	130	(11)	190
Follow-Up Reviews	32	28	60	60	0	60
Sub-Total, Assurance	202	59	261	430	169	430
Consultancy Work						
Support Work	8	10	18	35	17	25
Ad-Hoc Advice	36	34	70	65	(5)	70
Sub-Total, Consultancy	44	44	88	100	12	95
Other Work						
Other Duties (Non-Audit)	1	9	10	15	5	10
Proposal re corporate service review work (see § 1.6)						25
Work for Other Bodies	2	23	25	25	0	25
Audit Management	20	30	50	50	0	50
Sub-Total, Other Work	23	62	85	90	5	110
Contingencies						
Investigations	9	2	11	30	19	30
General Contingency	0	0	0	40	40	40
Sub-Total, Contingencies	9	2	11	70	59	70
Total	278	167	445	690	245	705

- 1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 445 days compared with the current plan of 690 days, giving an uncommitted resource of 245 days. This includes both the general contingency of 40 days and contingency for investigation work of 30 days.
- 1.4 With non-availability levels (sickness absence, training, etc) having been low during the first part of the year a review indicates that 705 chargeable days should be achievable for the year, an increase of 15 on the current plan.
- 1.5 Within the Assurance Work section, proposals are made to reallocate resources to reflect an increased commitment to the Risk Based element of the programme. The total number of days planned on assurance work remains the same.

- 1.6 Members' attention is drawn to the proposal for work during the second half of the year in support of the corporate programme of service reviews. The proposal at this stage relates specifically to the Internal Audit Manager's involvement in a planned review of council-wide arrangements for processing payroll. At this point, it is proposed to allocate 25 days to be used for this, and other reviews. This can be met from the anticipated increase in chargeable days mentioned above and other minor reductions in Support Work and other Non-Audit Duties. These changes would not therefore have any impact on the main programmes of planned audit activity. Members are specifically asked to approve this variation to the plan.
- 1.7 Other than the proposals set out above, no other significant pressures have been identified within the plan and there are no proposals at this stage to utilise any of the general contingency.

2.0 Results of Internal Audit Work to 27 August 2013

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 26 June 2013. Summary reports have been issued to Members for consideration and are also posted on the Council's Intranet.
- 2.2 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
13/0875	Visitor Information Centres	01/07/13	Substantial	✓
13/0888	Licensing Income	15/07/13	Substantial	✓
13/0891	Creditors 2013/14	14/08/13	Substantial	✓
13/0877	Property Related Service Contracts	20/08/13	Limited	⚠
Follow up Reviews				
12/0838	Payroll Systems Replacement	09/08/13	Substantial	✓

3.0 Matters Arising from Audit Reviews

- 3.1 The key conclusions and action points in relation to those reports where a "Limited" or "Minimal" assurance opinion has been given are:

3.2 13/0877 Property Related Service Contracts - (Limited)

- The management of corporate property related service contracts is to be centralised with a view to providing a more co-ordinated approach.
- Arrangements are to be formalised to ensure that property related responsibilities are clearly defined in relation to each of the council's buildings.
- Policies, procedures, guidance and training requirements are to be reviewed and revised.
- A corporate automated system is to be developed to monitor compliance with statutory regulations and/or health and safety requirements.
- A review is to be carried out with a view to standardising the approach to procuring service contracts and maximising economies of scale.

An action plan has been developed, setting out measures to address the issues arising from the audit. Progress will be reviewed and reported to the Audit Committee in line with normal follow-up arrangements.

4.0 Details of Consultation

4.1 Management Team continues to be consulted in developing the plan.

5.0 Options and Options Analysis (including risk assessment)

5.1 The options available to the Committee are either to approve the proposed changes to the plan or to propose an alternative course of action.

6.0 Conclusion

6.1 There are no unmanageable pressures within the audit plan at present. Some realignment of plan allocations is required to reflect a greater proportion of audit time being spent on the risk-based element of the assurance programme. The programme of audits for the rest of the year continues to be developed in consultation with senior management.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Plan 2013/14</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/130918IAMon</p>

Internal Audit Annual Plan 2013/14 - Monitoring to 27 August 2013

Appendix A

Work Allocations		Actuals to 27/08/13	Remaining	Committed	Approved Plan (26/06/13)	Variance	Status at 27/08/13
Job No	Title						
1. ASSURANCE WORK							
LCC Core Financial Systems							
12/0861	Debt Management - Council Housing	10	0	10			✓
12/0889	Debtors 2013/14	7	1	8			⚠
12/0891	Creditors 2013/14	12	0	12			✓
Sub-total - Core Financial Systems		29	1	30	100	70	
Revenues Shared Service - Financial Systems							
12/0862	Housing & Council Tax Benefits 2012/13 (Lancaster)	4	0	4			✓
12/0863	Housing & Council Tax Benefits 2012/13 (Preston)	1	0	1			✓
12/0867	Council Tax 2013/13 (Preston)	1	0	1			✓
Sub-total - Revenues Shared Services		6	0	6	60	54	
Core Management Arrangements							
12/0846	National Fraud Initiative 2012/13	2	3	5			⚠
12/0868	Risk Management	5	1	6			⚠
12/0871	HR Systems Replacement - ResourceLink Aurora	0	6	6			⚠
12/0879	Annual Governance Review 2012/13	5	2	7			⚠
Sub-total - Core Management Arrangements		12	12	24	80	56	
Risk Based Assurance Work Programme							
12/0874	Fees & Charges - Salt Ayre Sports Centre	20	2	22			⚠
12/0875	Fees & Charges - Visitor Information Centres	8	0	8			✓
12/0877	Corporate Property Service Contracts	15	0	15			✓
12/0878	Affordable Warmth	3	0	3			✓
13/0883	Working Time Arrangements	29	1	30			⚠
13/0885	Fees & Charges - Environmental Health	9	3	12			⚠
13/0886	Fees & Charges - Planning & Building Control	14	1	15			⚠
13/0887	Heritage Assets	6	9	15			⚠
13/0888	Fees & Charges - Licensing	13	0	13			✓
13/0890	Fees & Charges - Private Housing & Cemeteries	6	2	8			⚠
Sub-total - Risk Based Assurance Work		123	18	141	130	-11	
Follow-Up Reviews		32	32	64	60	-4	∞
SUB-TOTAL - ASSURANCE WORK		202	63	265	430	165	
2. CONSULTANCY WORK							
Support Work (projects and other)							
12/0509	RIPA Monitoring and Central Register	2	2	4			∞
12/0807	Information Management Group	0	2	2			∞
12/0870	Information Security and PSN Code of Connection	1	3	4			⚠
12/0876	Financial Regulations Review	5	3	8			⚠
Sub-total - Support Work		8	10	18	35	17	
Ad-Hoc Advice		36	33	69	65	-4	∞
SUB-TOTAL - CONSULTANCY WORK		44	43	87	100	13	
3. OTHER							
12/0392	Deputy s151 Officer Duties	1	9	10	15	5	∞
	Audit Work for Other Bodies - LDNPA	2	23	25	25	0	⚠
SUB-TOTAL - OTHER		3	9	35	40	5	
4. AUDIT MANAGEMENT							
12/0172	Committee Work	7	11	18			∞
12/0189	Audit Planning & Monitoring	13	19	32			∞
SUB-TOTAL - AUDIT MANAGEMENT		20	30	50	50	0	
5. CONTINGENCIES							
Investigations		9	2	11	30	19	
General Contingency		0	0	0	40	40	
SUB-TOTAL - CONTINGENCIES		9	2	11	70	59	
TOTALS		278	147	448	690	242	

Key: ✓ Completed ⚠ In Progress ? Not Yet Started ∞ Continuous or Multi-Year Activity

CFwd Carried Forward to 2014/15 Plan

✗ Abandoned