LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside
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APPENDIX A

# Statement of Accounts

# 2011/12

## For the year ended 31 March 2012

## Contents

**Page No.**

## 1 Introduction

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

The purpose of this foreword is to provide an overall summary of the Council's financial position for 2011/12 and assist in the interpretation of the accounting statements.

## 2 Revenue Position

### 2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for 2011/12. It shows the actual variances for each service area but excludes any notional charges that are required for the formal financial statements, as these can distort the position in terms of understanding where actual spending and income variances have occurred.

| | 2011/12 | | | Variance from |
|---|---|---|---|---|
| | Original Budget | Revised Budget | Actual | Revised Budget |
| **Expenditure:** | £000 | £000 | £000 | £000 |
| Community Engagement | 4,712 | 4,674 | 4,340 | (334) |
| Environmental Services | 5,099 | 4,497 | 4,472 | (25) |
| Financial Services | 2,701 | 2,052 | 2,338 | 286 |
| Governance | 1,637 | 1,479 | 1,466 | (13) |
| Health & Housing | 2,484 | 2,306 | 2,245 | (61) |
| Office of the Chief Executive | 329 | 306 | 373 | 67 |
| Property Services | (270) | 530 | 427 | (103) |
| Regeneration & Policy | 2,344 | 1,999 | 1,859 | (140) |
| Corporate Accounts | 2,671 | 4,378 | 4,043 | (335) |
| **Net Cost of General Fund Services** | **21,707** | **22,221** | **21,563** | **(658)** |
| Interest Payable & Similar Charges | 1,476 | 1,447 | 1,518 | 71 |
| Parish Precepts | 537 | 537 | 537 | 0 |
| Contribution from General Fund Balance | (1,261) | (1,653) | (1,001) | 652 |
| **NET REVENUE EXPENDITURE** | **22,459** | **22,552** | **22,617** | **65** |
| **Funded by:** | | | | |
| General Government Grants | (441) | (534) | (599) | (65) |
| Revenue Support Grant | (3,100) | (3,100) | (3,100) | 0 |
| National Non Domestic Rates | (10,028) | (10,028) | (10,028) | 0 |
| Council Tax | (8,890) | (8,890) | (8,890) | 0 |
| **TOTAL FUNDING** | **(22,459)** | **(22,552)** | **(22,617)** | **(65)** |

## 2.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing (see section 2.3 below). The General Fund Revenue Budget for 2011/12 (including parish precepts) was originally approved by Council on 03 March 2011 at £22.018M, representing net revenue expenditure of £22.459M less general government grants of £441K. It assumed that balances would be just over £1.3M at 31 March 2012, though these were increased by a further £659K following the 2010/11 outturn.

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

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

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

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

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

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

## 2.3 Housing Revenue Account (HRA)

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

As at 31 March 2012 the working balance on the Housing Revenue Account amounted to £1.205M. As a result of net underspendings during the year, balances increased by £502K when compared with the Revised Budget position, before considering any requests to carry forward budgets into 2012/13. The main variances relate to efficiency savings on planned repairs and maintenance contracts (£70K); lower demand for works on planned repairs and maintenance (£134K) an unforeseeable savings (£72K) from a reduced interest charge and a reduced contribution (£79K) to the bad debt provision due to a fall in arrears. Current Council Policy is to maintain unallocated housing balances at no less than £350K.

## 3 Capital Position

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

**Summary of Capital Expenditure and its Financing**

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

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

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

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

## 4 Pension Liabilities

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

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

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

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

## 5 Changes in Accounting Policies

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

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

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

## 6 Conclusion

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

## THE CORE FINANCIAL STATEMENTS

**Movement in Reserves Statement**

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

**Comprehensive Income and Expenditure Statement**

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

**Balance Sheet**

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

**Cash Flow Statement**

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

## THE SUPPLEMENTARY FINANCIAL STATEMENTS

**Housing Revenue Account Income and Expenditure Account**

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

**Collection Fund**

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

**Group Accounts**

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

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

**Bequests, Endowments and Trust Funds**

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

# Auditor's Opinion

# Statement of Responsibilities for the Statement of Accounts

## 1 The Authority's Responsibilities

The authority is required to:

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

## 2 The Head of Financial Services' Responsibilities

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

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

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

The Head of Financial Services has also:

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

## 3 Head of Financial Services' Certificate

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

Nadine Muschamp, CPFA
Head of Financial Services

Date : 29 June 2012

# Movement in Reserves Statement

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

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

**Summary of restatement changes**

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

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

# Comprehensive Income and Expenditure Statement

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

The CIES has two sections:

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

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

# Balance Sheet

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

- Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and

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

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

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

# 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.

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

# Notes to the Accounts

The notes to the accounts have three significant roles :

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

A list of the notes provided is as follows:

## 1 ACCOUNTING POLICIES

### 1.1 General

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

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

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

### 1.2 Impact of future Changes to Accounting Policies

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

### 1.3 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.4 Acquisitions and Discontinued Operations

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

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

## 1.5 Cash and Cash Equivalents

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

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

## 1.6 Exceptional Items

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

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

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

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

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

## 1.8 Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

- Amortisation of intangible fixed assets attributable to the service.

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

## 1.9 Employee Benefits

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

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

**Termination Benefits**

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

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

**The Local Government Pension Scheme**

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

- The liabilities of the Lancashire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.5%.

- The assets of Lancashire pension fund attributable to the Council are included in the Balance Sheet at their fair value:

  - **quoted securities** – current price bid
  - **unquoted securities** – professional estimate
  - **unitised securities** – current bid price
  - **property** – market value

- The change in the net pensions liability is analysed into seven components:

  - **current service cost** – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

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

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

## 1.10 Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

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

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

## 1.11 Financial Instruments

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

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

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

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

**Financial Assets**

Financial assets are classified into two types:

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

**Loans and Receivables**

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will to be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

**Available-for-Sale Assets**

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

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

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

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

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

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

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

### 1.12 Foreign Currency Translation

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

### 1.13 Government Grants and Contributions

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

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

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

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

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

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

### 1.14 Heritage Assets

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

### 1.15 Intangible Assets

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

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

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

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

### 1.16 Inventories and Long term Contracts

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

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

### 1.17 Investment Property

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

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

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

### 1.18 Leases

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

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

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

**The Council as Lessee**

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down for lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

**The Authority as Lessor**

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premium received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

### 1.19 Overheads and Support Services

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

- **Corporate and Democratic Core** – costs relating to the Council's status as a multi-functional, democratic organisation

- **Non Distributed Costs** – the cost of discretionary benefits awarded to employers retiring early and impairment losses chargeable on Assets Held for Sale.

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

### 1.20 Property, Plant and Equipment

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

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

**Measurement**
Assets are initially measured at cost, comprising:

- the purchase price

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated on the following basis:

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

**Contingent Liabilities**

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

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

**Contingent Assets**

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

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

### 1.22 Reserves

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

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

### 1.23 Revenue Expenditure Funded from Capital under Statute

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

### 1.24 Value Added Tax (VAT)

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

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

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

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

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

## 5 EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

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

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

### 2010/11 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 | (4,190) | (34,141) | | | | | 38,331 |
| Revaluation losses on Property Plant and Equipment | | | | | | | |
| Movements in the market value of Investment Properties | 4,719 | 205 | | | | | (4,924) |
| Amortisation of intangible assets | (151) | (12) | | | | | 163 |
| Capital grants and contributions applied | 3,314 | | | | | | (3,314) |
| Movement in the Donated Assets Account | | | | | | | |
| Revenue expenditure funded from capital under statute | (2,419) | | | | | | 2,419 |
| Reversal of Icelandic bank impairment | 222 | | | | | | (222) |
| HRA self financing payment | | | | | | | |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (858) | (98) | | | | | 956 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | | |
| Statutory provision for the financing of capital investment | 2,120 | | | | | | (2,120) |
| Capital expenditure charged against the General Fund and HRA balance | 459 | 1,823 | | | | | (2,282) |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 373 | | | | | (373) | |
| Application of grants to capital financing transferred to the Capital Adjustment Accounts | | | | | | | |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 481 | 208 | (689) | | | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | 719 | | | | (719) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | | | | |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (158) | | 158 | | | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | (7) | | | | 7 |
| **Adjustment primarily involving the Major Repairs Reserve:** | | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | 2,307 | | (2,307) | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | (2,825) | | 2,593 | 173 | | 59 |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | 158 | | | | | (158) |
| **Adjustments primarily involving the Pension Reserve:** | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 20,191 | 549 | | | | | (20,740) |
| Employer's pension contributions and direct payments to pensioners payable in the year | 2,561 | 397 | | | | | (2,958) |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 8 | | | | | | (8) |
| **Adjustments relating to revaluation reserve amounts recognised in other comprehensive income and expenditure** | (3,280) | | | | | | 3,280 |
| **Adjustments relating to other comprehensive income and expenditure** | 31 | | (31) | | | | |
| **Appropriations to/from earmarked reserves** | (666) | 123 | | | 543 | | |
| **Adjustments to employee absences account** | (13) | (8) | | | | | 21 |
| **Total Adjustments** | 22,744 | (31,314) | 150 | 286 | 716 | (373) | 7,791 |
| **Total adjustment to Comprehensive Income and Expenditure** | **(8,570)** | | | | | | |

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

| | 2011/12 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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) | (17,841) | (6,094) | | | | | 23,935 |
| Revaluation losses on Property Plant and Equipment | | | | | | | |
| Movements in the market value of Investment Properties | 685 | 21 | | | | | (706) |
| Amortisation of intangible assets | (137) | (21) | | | | | 158 |
| Capital grants and contributions applied | 1,228 | 10 | | | | | (1,238) |
| Movement in the Donated Assets Account | | | | | | | 0 |
| Revenue expenditure funded from capital under statute | (1,198) | | | | | | 1,198 |
| Reversal of Icelandic bank impairment | 1,364 | | | | | | (1,364) |
| HRA self financing payment | | (31,241) | | | | | 31,241 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (737) | (130) | | | | | 867 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | | 0 |
| Statutory provision for the financing of capital investment | 1,906 | | | | | | (1,906) |
| Capital expenditure charged against the General Fund and HRA balance | 1,132 | 1,144 | | | | | (2,276) |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | | 0 |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 45 | | | | | (45) | |
| Application of grants to capital financing transferred to the Capital Adjustment Accounts | | | | | | 223 | (223) |
| **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 | 891 | 289 | (1,180) | | | | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | 760 | | | | (760) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | | | | | | | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (214) | | 214 | | | | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | (2) | | | | 2 |
| **Adjustment primarily involving the Major Repairs Reserve:** | | | | | | | 0 |
| Reversal of Major Repairs Allowance credited to the HRA | | 2,427 | | (2,427) | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | | (2,325) | | 2,325 | | | |
| **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 | | 159 | | | | | (159) |
| **Adjustments primarily involving the Pension Reserve:** | | | | | | | 0 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (8,014) | 191 | | | | | 7,823 |
| Employer's pension contributions and direct payments to pensioners payable in the year | (2,619) | (195) | | | | | 2,814 |
| **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 | (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) | | 0 |
| **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)** | | | | | | |

## 7 TRANSFERS TO/FROM EARMARKED RESERVES

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

| | Balance at 1 April 2010 | Transfers Out | Transfers in | Balance at 31 March 2011 | Transfers Out | Transfers in | Balance at 31 March 2012 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **General Fund:** | | | | | | | |
| Revenue Support | **800** | (800) | 0 | **0** | 0 | 0 | **0** |
| Municipal Buildings | **0** | 0 | 300 | **300** | (86) | 250 | **464** |
| Open Spaces Commuted Sums | **216** | (61) | 37 | **192** | (59) | 71 | **204** |
| Other Commuted Sums | **1,155** | (237) | 435 | **1,353** | (280) | 562 | **1,635** |
| Restructuring | **674** | (705) | 697 | **666** | (505) | 425 | **586** |
| Renewals | **179** | (188) | 119 | **110** | (29) | 509 | **590** |
| Capital Support | **507** | (584) | 615 | **538** | (253) | 720 | **1,005** |
| Job Evaluation | **611** | (272) | 0 | **339** | (285) | 0 | **54** |
| Project Implementation | **89** | (89) | 0 | **0** | 0 | 0 | **0** |
| Planning Delivery Grant | **90** | (57) | 14 | **47** | (21) | 0 | **26** |
| Concessionary Travel | **100** | (30) | 0 | **70** | (70) | 0 | **0** |
| Performance Reward Grant | **239** | (15) | 85 | **309** | (119) | 34 | **224** |
| Market Reserve | **0** | 0 | 140 | **140** | (22) | 530 | **648** |
| Impairment Reserve | **1,363** | 0 | 0 | **1,363** | (1,363) | 0 | **0** |
| Invest to Save Reserve | **0** | 0 | 0 | **0** | (207) | 1,436 | **1,229** |
| Welfare Reforms Reserve | **0** | 0 | 0 | **0** | 0 | 200 | **200** |
| Other Reserves £100K and under | **457** | (176) | 105 | **386** | (184) | 108 | **310** |
| **Total** | **6,480** | **(3,214)** | **2,547** | **5,813** | **(3,483)** | **4,845** | **7,175** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **HRA:** | | | | | | | |
| Hsg Mgt System Replacement | **314** | (24) | 57 | **347** | (47) | 57 | **357** |
| Flats Planned Maintenance | **818** | (10) | 136 | **944** | (83) | 136 | **997** |
| Central Control Equipment | **73** | 0 | 10 | **83** | 0 | 5 | **88** |
| Fixed Lifeline Equipment | **124** | (95) | 15 | **44** | (13) | 15 | **46** |
| Sheltered Housing Reserves | **696** | (107) | 137 | **726** | (3) | 34 | **757** |
| Other Reserves £100K and under | **262** | (166) | 70 | **166** | (103) | 110 | **173** |
| **Total** | **2,287** | **(402)** | **425** | **2,310** | **(249)** | **357** | **2,418** |

## 8 OTHER OPERATING EXPENDITURE

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

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

## 10 TAXATION AND NON SPECIFIC GRANT INCOME

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

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

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

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

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

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

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

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

The significant assumptions applied in estimating the fair values are:

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

| | **Council Dwellings** | **Other Land and Buildings** | **Heritage assets** | **Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Adjustments to fair value by year: | | | | |
| 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** |
| 31 March 2008 | 4,145 | 4,249 | 0 | **8,394** |
| **Net valuation over 5 year cycle** | **(49,179)** | **(3,665)** | **7,926** | **(44,918)** |

## 12 HERITAGE ASSETS

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

| | **2010/11 Restated £000** | **2011/12 £000** |
|---|---|---|
| **Opening Balance** | | |
| Civic Regalia and other donated items | 610 | 610 |
| Museum Collections | 7,131 | 7,131 |
| Public Art Works | 168 | 168 |
| Art Collection | 17 | 17 |
| | **7,927** | **7,927** |
| **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 | 610 | 610 |
| Museum Collections | 7,131 | 7,131 |
| Public Art Works | 168 | 168 |
| Art Collection | 17 | 17 |
| | **7,927** | **7,927** |

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 it's development policy although these have been below de-minimis for recognition as non current assets in recent years.

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

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

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

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

The effects of the restatement are as follows:

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

**Effect on Opening Balance Sheet 01 April 2010**

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

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

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

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

**Effect on Balance Sheet 31 March 2011**

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

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

## 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.

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

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.

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

## 14 INTANGIBLE ASSETS

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

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

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

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

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

## 15 FINANCIAL INSTRUMENTS

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

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

### Income, Expense, Gains and Losses

| | 2010/11 | | | | | 2011/12 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Liabilities measured at amortised cost £000 | Financial Assets:Loans and receivables £000 | Financial Assets:Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | **Total £000** | Financial Liabilities measured at amortised cost £000 | Financial Assets:Loans and receivables £000 | Financial Assets:Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | **Total £000** |
| Interest payable | 2,656 | 0 | 0 | 0 | **2,656** | 2,715 | 0 | 0 | 0 | **2,715** |
| Losses on derecognition | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | **0** |
| Reductions in fair value | 0 | 0 | 0 | 0 | **0** | 0 | 6 | 0 | 0 | **6** |
| Impairment losses | 0 | (222) | 0 | 0 | **(222)** | 0 | (1,364) | 0 | 0 | **(1,364)** |
| **Total expense in Surplus or Deficit on the Provision of Services** | **2,656** | **(222)** | **0** | **0** | **2,434** | **2,715** | **(1,358)** | **0** | **0** | **1,357** |
| Interest income | 0 | (99) | 0 | 0 | **(99)** | 0 | (120) | **(7)** | **0** | **(127)** |
| Interest income accrued on impaired financial assets | 0 | (172) | 0 | 0 | **(172)** | 0 | (174) | 0 | 0 | **(174)** |
| Increases in fair value | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | **0** |
| Gains and derecognition | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | **0** |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **(271)** | **0** | **0** | **(271)** | **0** | **(294)** | **(7)** | **0** | **(301)** |
| 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** | **2,656** | **(493)** | **0** | **0** | **2,163** | **2,715** | **(1,652)** | **(7)** | **0** | **1,056** |

### Fair Values of Assets and Liabilities

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

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

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

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

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

## 16 INVENTORIES

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

## 17 DEBTORS

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

## 18 CASH AND CASH EQUIVALENTS

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | £000 | £000 |
| Bank current account | 858 | (277) |
| | **858** | **(277)** |

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

## 19 ASSETS HELD FOR SALE

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

## 20 CREDITORS

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

## 21 PROVISIONS

| | REVENUE | | CAPITAL | |
|---|---|---|---|---|
| | **Insurance** | **Williamson Park** | **General Fund Clawback** | **Total** |
| | £000 | £000 | £000 | **£000** |
| **Balance at 1 April 2011** | **330** | **100** | **57** | **487** |
| Additional provisions made | 264 | 0 | 0 | **264** |
| Amounts used | (141) | (100) | 0 | **(241)** |
| **Balance at 31 March 2012** | **453** | **0** | **57** | **510** |

The closing balance on the insurance provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims. Towards the end of the financial year the Council was notified that it would be liable to meet the cost of claims dating back to 1992 which were administered under the former Municipal Mutual Insurance company. As such an additional contribution of £155K was made into the provision.

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

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

## 22 USABLE RESERVES

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

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

## 23 UNUSABLE RESERVES

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

**Revaluation Reserve**

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

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

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

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

**Capital Adjustment Account**

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

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

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

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

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

**Financial Instruments Adjustment Account (FIAA)**

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

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

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, and changing assumptions and investment returns on any resources set aside to meet such costs. However, statutory arrangements require pensions to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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

**Collection Fund Adjustment Account**

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

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

**Accumulated Absences Account**

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

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

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

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

| | 2010/11 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Interest received | (98) | (115) |
| Interest paid | 2,656 | 1,608 |

## 25 CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

## 26 CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

## 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 2011/12** | *Community Engagement* | *Corporate Accounts* | *Environmental Services* | *Financial Services* | *Governance* | *Health and Housing* | *Information Services* | *Office of Chief Executive* | *Property Services* | *Regeneration & Policy* | **TOTAL** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| Customer Fees & Charges | (2,138) | (22,017) | (2,694) | (6,448) | (578) | (14,783) | 0 | 0 | (4,328) | (618) | **(53,604)** |
| 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)** | **(22,639)** | **(4,098)** | **(68,180)** | **(695)** | **(17,886)** | **0** | **0** | **(4,416)** | **(1,558)** | **(122,470)** |
| 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 | 17 | 4,475 | 0 | 0 | 2,600 | 483 | **13,560** |
| Transport | 106 | 0 | 1,841 | 30 | 39 | 191 | 0 | 4 | 11 | 60 | **2,282** |
| Supplies & Services | 2,895 | 780 | 3,099 | 8,088 | 872 | 37,669 | 0 | 3 | 824 | 1,242 | **55,472** |
| **Total expenditure** | **7,316** | **780** | **16,651** | **11,211** | **2,211** | **45,355** | **0** | **360** | **4,376** | **3,803** | **92,063** |
| **Net expenditure** | **4,318** | **(21,859)** | **12,553** | **(56,969)** | **1,516** | **27,469** | **0** | **360** | **(40)** | **2,245** | **(30,407)** |

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

**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.

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

**Reconciliation of Subjective Analysis**

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

| 2011/12 | Service Analysis | Services included in Analysis but not NCS | **Net Cost of Services** | Corporate amounts | **Total** |
|---|---|---|---|---|---|
| | £000 | £000 | **£000** | £000 | **£000** |
| Customer Fees and Charges | (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** |

| 2010/11 Comparative Figures | Service Analysis | Services included in Analysis but not NCS | **Net Cost of Services** | Corporate amounts | **Total** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| Customer Fees and Charges | (56,538) | 34,569 | **(21,969)** | 0 | **(21,969)** |
| Government Grants | (51,538) | 1,153 | **(50,385)** | 0 | **(50,385)** |
| Interest | (12,219) | 11,980 | **(239)** | 0 | **(239)** |
| Other Grants and Contributions | (6,572) | 45 | **(6,527)** | 0 | **(6,527)** |
| Recharges | 0 | (8,422) | **(8,422)** | 0 | **(8,422)** |
| Capital Financing Income | 0 | (2,394) | **(2,394)** | 0 | **(2,394)** |
| Taxation & Non Specific Grant Inc | 0 | 0 | **0** | (27,172) | **(27,172)** |
| **Total Income** | **(126,867)** | **36,931** | **(89,936)** | **(27,172)** | **(117,108)** |
| | | | | | |
| Employee expenses | 39,274 | (33,514) | **5,760** | 0 | **5,760** |
| Premises | 10,239 | (1,758) | **8,481** | 0 | **8,481** |
| Transport | 2,535 | (767) | **1,768** | 0 | **1,768** |
| Supplies & Services | 26,464 | (8,064) | **18,400** | 0 | **18,400** |
| Other Operating Expenditure | 0 | 0 | **0** | 952 | **952** |
| Financing & Investment Inc & Exp | 0 | 0 | **0** | (2,215) | **(2,215)** |
| Transfer Payments | 0 | 49,395 | **49,395** | 0 | **49,395** |
| Support Services | 0 | 13,700 | **13,700** | 0 | **13,700** |
| Capital Charges | 0 | 40,546 | **40,546** | 160 | **40,706** |
| **Total expenditure** | **78,512** | **59,538** | **138,050** | **(1,103)** | **136,947** |
| **Surplus or Deficit on the Provision of Services** | **(48,355)** | **96,469** | **48,114** | **(28,275)** | **19,839** |

## 28 ACQUIRED AND DISCONTINUED OPERATIONS

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

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

## 29 TRADING OPERATIONS

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

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

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

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

## 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.

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

## 31 MEMBERS ALLOWANCES

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

| | **2010/11** | **2011/12** |
|---|---|---|
| | £000 | £000 |
| Basic Allowances | 197 | 197 |
| Special Responsibility Allowances | 83 | 75 |
| Expenses | 4 | 5 |
| **Total** | **284** | **277** |

## 32 OFFICERS REMUNERATION

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

| **2011/12** | *Salary, Fees and allowances* £000 | *Expenses & Benefits in Kind* £000 | *Redundancy Payments* £000 | ***Total Remuneration (excluding pension contributions)*** £000 | *Employer Pension contribution* £000 | ***Total Remuneration (including pension contributions)*** £000 |
|---|---|---|---|---|---|---|
| Chief Executive | 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 | **63** | 13 | **76** |
| Head of Health & Housing | 62 | 1 | 0 | **63** | 13 | **76** |
| Head of Property Services ★ | 55 | 1 | 65 | **121** | 11 | **132** |
| Head of Regeneration & Policy | 62 | 1 | 0 | **63** | 13 | **76** |

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

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

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

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

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

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

## 33 EXTERNAL AUDIT COSTS

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

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

## 34 GRANT INCOME

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

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

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

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

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

## 35 RELATED PARTIES

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

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

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

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

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

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

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

## 36 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

## 37 LEASES

**Finance Leases**

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

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

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

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

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

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

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

**Operating Leases**

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

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

### 38 IMPAIRMENT LOSSES

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

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

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

### 39 TERMINATION BENEFITS

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

### 40 DEFINED BENEFIT PENSION SCHEMES

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

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

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

| | Local Government Pension Scheme | |
|---|---|---|
| | 2010/11 | 2011/12 |
| Comprehensive Income and Expenditure Statement | £000 | £000 |
| *Cost of services:* | | |
| Current service cost | 3,020 | 2,466 |
| Employer contributions | (3,885) | (3,247) |
| Past Service cost | (8,727) | 0 |
| Settlements and curtailments | 342 | 189 |
| *Financing & Investment Income & Expenditure* | | |
| Interest costs | 8,920 | 7,867 |
| Expected return on scheme assets | (6,422) | (7,024) |
| *Total Post Employment Benefit Charged to Provision of Services* | **(6,752)** | **251** |
| *Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement* | 57 | 70 |
| Actuarial gains and losses | (16,946) | 10,372 |
| *Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement* | **(23,641)** | **10,693** |
| ***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 | 6,695 | (321) |
| Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure | 16,946 | (10,372) |
| **Net charge in relation to pension adjustments** | **0** | **0** |
| Actual amount charged against Funds for pensions in the year - employers contributions | 3,545 | 2,814 |

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

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

Reconciliation of fair value of the scheme assets:

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

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

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

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

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

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

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

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

**Basis for Estimating Assets and Liabilities**

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

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

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

| | Local Government Pension Scheme | |
|---|---|---|
| | 2010/11 | 2011/12 |
| | % | % |
| Equity investments | 64.0 | 58.0 |
| Debt instruments | 21.0 | 20.0 |
| Other assets | 15.0 | 22.0 |
| | **100.0** | **100.0** |

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

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

## 41 CONTINGENT LIABILITIES

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

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

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

## 42 CONTINGENT ASSETS

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

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

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

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

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

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

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

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

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

| | Minimum across all three ratings | | | | |
|---|---|---|---|---|---|
| | Fitch | Moody's | Standard & Poors | Money Limit[7] | Time Limit[8] |
| 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 £13.85M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Authority's deposits, but for the £13.85M, there was no evidence at 31 March 2012 that this was likely to materialise.

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

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

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

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

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

**Liquidity Risk**

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

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

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

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

**Market Risk**

*Interest Rate Risk*

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

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

| | Actual<br>£000 | +1%<br>£000 |
|---|---|---|
| **New or variable investments:** | | |
| Call accounts | 120 | 190 |
| **Total** | **120** | **190** |

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

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

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

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

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

| 2010/11 £000 | | NOTES | 2011/12 £000 | £000 |
|---|---|---|---|---|
| | **Expenditure** | | | |
| 3,792 | Repairs and maintenance | | 3,671 | |
| 3,198 | Supervision and management | | 3,011 | |
| 128 | Rent, rates, taxes and other charges | | 95 | |
| 1,749 | Negative HRA Subsidy payable | *7* | 2,242 | |
| 36,519 | Depreciation and impairment of non-current assets | *4&5* | 8,460 | |
| 1 | Debt management costs | | 12 | |
| 0 | HRA Self Financing Settlement Payment | | 31,241 | |
| 315 | Movement in the allowance for bad debts | | 104 | |
| 0 | Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP | *10* | 0 | |
| **45,702** | **Total Expenditure** | | | **48,836** |
| | **Income** | | | |
| (11,755) | Dwelling rents | | (12,506) | |
| (198) | Non-dwelling rents | | (199) | |
| (1,801) | Charges for services and facilities | | (1,627) | |
| (8) | Contributions towards expenditure | | (8) | |
| (170) | Sums Directed by the Secretary of State that are Income in accordance with UK GAAP | | (170) | |
| **(13,932)** | **Total Income** | | | **(14,510)** |
| **31,770** | **Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement** | | | **34,326** |
| **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** |
| **31,770** | **Net Cost for HRA Services** | | | **34,326** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement** | | | |
| (109) | Gain or Loss on sale of HRA non-current assets | | | (158) |
| 724 | Interest payable and similar charges | | | 698 |
| (236) | Interest and investment income | | | (54) |
| (836) | Pension interest cost and expected return on pension assets | *8* | | 58 |
| 0 | Capital grants and contributions receivable | | | (10) |
| **31,313** | **(Surplus) or deficit for the year on HRA Services** | | | **34,860** |

## MOVEMENT ON THE HRA STATEMENT

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

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

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

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

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

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

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

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

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

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

## 2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

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

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

## 3 CAPITAL EXPENDITURE

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

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

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

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

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:

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

## 5 IMPAIRMENT CHARGES

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

## 6 INTANGIBLE ASSETS

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

## 7 HOUSING REVENUE ACCOUNT SUBSIDSY

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

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

## 8 CONTRIBUTIONS TO/FROM PENSIONS RESERVE

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

## 9 RENT ARREARS

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

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

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

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

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

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

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

# 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.

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

| | Chargeable Dwellings | Band D Equivalents |
|---|---|---|
| Band A | 20,192 | 11,190 |
| Band B | 14,793 | 10,265 |
| Band C | 11,070 | 8,933 |
| Band D | 5,902 | 5,485 |
| Band E | 3,625 | 4,182 |
| Band F | 1,808 | 2,494 |
| Band G | 802 | 1,255 |
| Band H | 43 | 84 |
| **Total** | **58,235** | **43,889** |
| *Collection Rate* | | *99%* |
| **Council Tax Base** | | **43,450** |

### 2 BUSINESS RATES

The City Council collects National Non-Domestic Rates (NNDR) for its area. NNDR is based on rateable values set by the Inland Revenue, multiplied by a Uniform Business Rate set by Central Government. For most businesses, this was set at 43.3p per £ for 2011/12 (41.4p for 2010/11). For local businesses with a rateable value of less than £18,000, a discount of 0.7p was allowed giving a rate of 40.7p per £. The rateable value at 31 March 2012 was £163,182,716 (£162,447,441 for 2010/11). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool (the NNDR pool) managed by Central Government. The Government redistributes the sums paid into the pool back to local authorities in proportion to population. Lancaster's share of the pool for 2011/12, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £10,028,000.

### 3 MAJOR PRECEPTORS

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

**Major Preceptors**

| | £000 |
|---|---|
| Lancashire County Council | 48,156 |
| Lancashire Police Authority | 6,355 |
| Lancashire Fire Authority | 2,766 |
| Lancaster City Council | 8,891 |
| | **66,168** |

# Bequests, Endowments and Trust Funds

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

At 31 March 2012 the Council was responsible for 19 of these Trust Funds, the balances of which are shown below.

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

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

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 | 2010/11 | 2011/12 |
|---|---|---|
| | £ | £ |
| **Income** | | |
| Interest | (4,528) | (4,250) |
| Capital | 0 | 0 |
| | **(4,528)** | **(4,250)** |
| | | |
| **Expenditure** | | |
| Ashton Memorial | 1,088 | 1,094 |
| William Smith Festival | 224 | 217 |
| Whalley Playground | 659 | 659 |
| Lune Bank Gardens | 11 | 13 |
| Williamson Park | 1,863 | 1,865 |
| War Memorial Fund | 2 | 2 |
| Crook of Lune | 500 | 0 |
| Transfers Out | 5,765 | 0 |
| | **10,112** | **3,850** |
| | | |
| **Excess (Income)/Expenditure** | **5,584** | **(400)** |

| Balance Sheet | 2010/11 | 2011/12 |
|---|---|---|
| | £ | £ |
| **Assets** | | |
| Investments | 3,699 | 3,699 |
| Debtors | 1,167 | 1,167 |
| Bank | 82,269 | 82,669 |
| | **87,135** | **87,535** |
| | | |
| **Represented by:** | | |
| Reserves as at 31st March | 81,550 | 87,935 |
| Income in year | 5,585 | (400) |
| | **87,135** | **87,535** |

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

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

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

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

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

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

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

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

# Glossary of Terms used in the Accounting Statements

**Accounting Policies**

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

- recognising
- selecting measurement bases for, and
- presenting

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

Accounting policies do not include estimation techniques.

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

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

**Actuarial Gains and Losses**
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
(b) the actuarial assumptions have changed.

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

**Class of Tangible Fixed Assets**
The classes of tangible fixed assets required to be included in the accounting statements are:

Property, plant and equipment
Investment property
Assets held for sale

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

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

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

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and

(b) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

**Contingent Liability**
A contingent liability is either:

(a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or

(b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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

**Current Service Cost (Pensions)**
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

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

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

(b) termination, or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Operating Leases**
A lease other than a finance lease.

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

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

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

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

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

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

Examples of related parties of an authority include:
(i) central government
(ii) local authorities and other bodies precepting or levying demands on the council tax

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

These lists are not intended to be comprehensive.

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

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

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

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

This list is not intended to be comprehensive.

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

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

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

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

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

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

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

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

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

**Vested Rights**
In relation to a defined benefit scheme, these are:

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

# LANCASTER CITY COUNCIL

# ANNUAL GOVERNANCE STATEMENT 2011/12 (DRAFT)

## SCOPE OF RESPONSIBILITY

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

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

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

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

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

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

## THE GOVERNANCE FRAMEWORK

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

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

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

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

**REVIEW OF EFFECTIVENESS**

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

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

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

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

**SIGNIFICANT GOVERNANCE ISSUES**

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

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

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

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

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

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

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

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

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

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