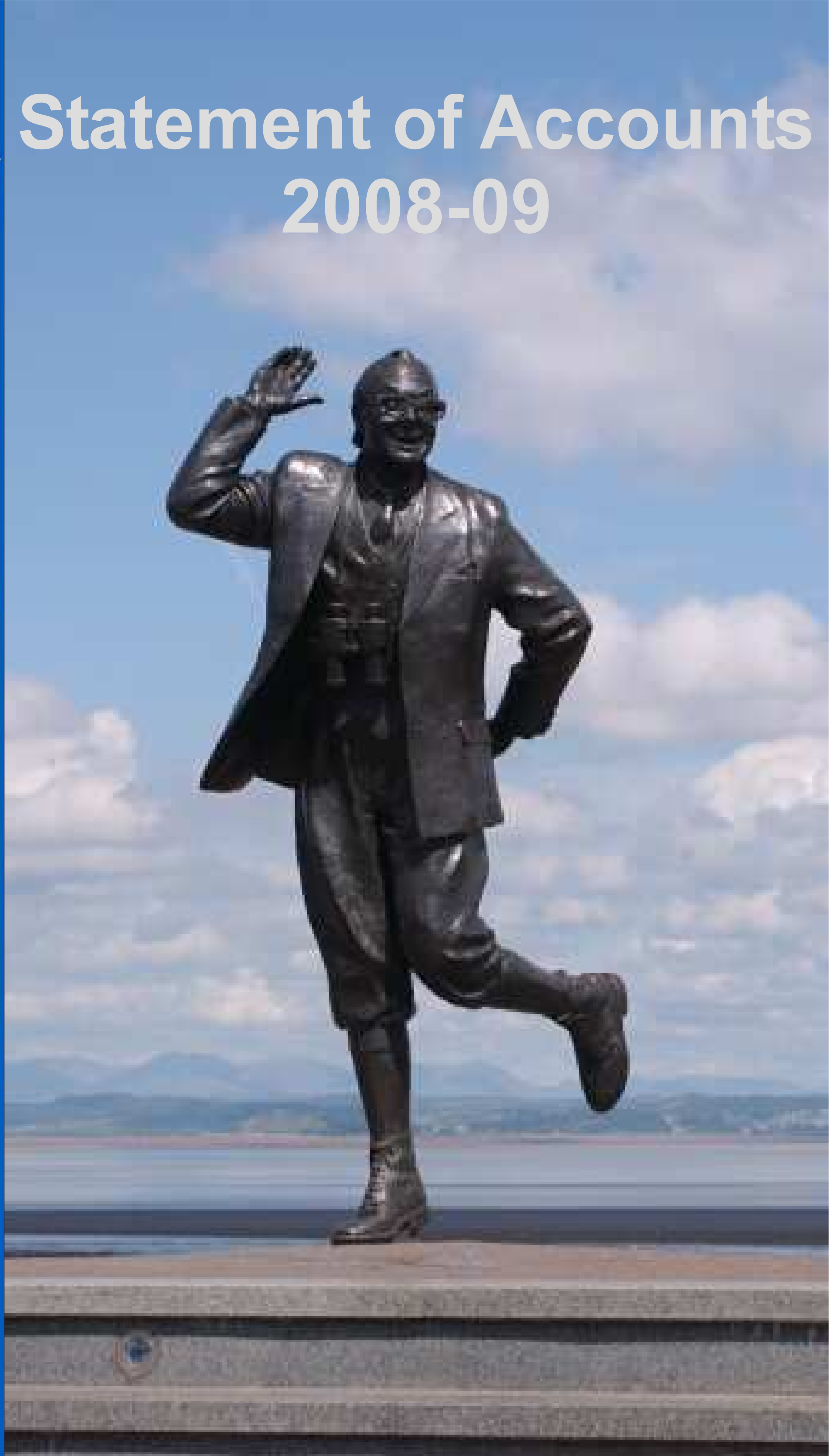
Statement of Accounts 2008-09

LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside



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EXPLANATORY FOREWORD

1 INTRODUCTION

This document sets out the City Council's annual accounts for the financial year ended 31 March 2009. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting: A Statement of Recommended Practice (SORP), 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 2008/09 and assist in the interpretation of the accounting statements.

2 REVENUE POSITION

2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for the financial year 2008/09.

		2008/09		Variance from
Expenditure	Original Budget £'000	Revised Budget £'000	Actual £'000	Revised Budget £'000
Central Services to the Public	1,653	1,735	2,499	764
Cultural, Environmental and Planning Services	17,711	17,938	18,160	222
Highways, Roads & Transport Services	967	1,634	1,551	(83)
Housing Services	2,729	2,070	3,601	1,531
Corporate & Democratic Core	2,976	2,942	4,297	1,355
Non Distributed Costs	396	644	529	(115)
Net Cost of General Fund Services	**26,432**	**26,963**	**30,637**	**3,674**
Corporate Income & Expenditure	(3,287)	(2,617)	(6,465)	(3,848)
Interest Payable & Similar Charges	1,632	1,632	1,597	(35)
Parish Precepts	285	285	285	0
Contribution to/(from) General Fund Reserve	(888)	(1,697)	(1,488)	209
NET REVENUE EXPENDITURE	**24,174**	**24,566**	**24,566**	**0**
Funded by :				
General Government Grants	(678)	(1,070)	(1,070)	0
Revenue Support Grant	(1,897)	(1,897)	(1,897)	0
National Non Domestic Rates	(13,626)	(13,626)	(13,626)	0
Council Tax	(7,973)	(7,973)	(7,973)	0
TOTAL FUNDING	**(24,174)**	**(24,566)**	**(24,566)**	**0**

2.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of local authority housing (see section 2.3 below). The General Fund Revenue Budget for 2008/09 was originally approved by Council on 27 February 2008 at £23.496M (after allowing for general grants of £678,000 and including £284,700 for precept payments to parishes) and assumed that balances would be £1.544M by 31 March 2009, though these were increased by a further £219,000 following the 2007/08 outturn.

At outturn for 2008/09 there has been a net underspending of £209,000 against the Revised Budget (or £600,000 against the Original Budget). The main savings relate to reduced Concessionary Travel costs, City Contract (Direct) Services functions, and staffing costs across a number of activities. There are some adverse variances in other areas, however, such as Salt Ayre Sports Centre operations and Investment Interest.

As a result of all these changes General Fund unallocated balances stand at £1.4M as at 31 March 2009, which is still in excess of the basic minimum £1M level. This is before consideration of any requests by Services to carry forward budgets; if any are approved this will effectively reduce available amounts. It is also highlighted that of the £1.4M, use of approximately £191K has already been built into the Council's revenue budget forecasts for 2009/10, as set out in its Medium Term Financial Strategy (MTFS).

During 2008/09 there were crises in a number of international financial markets, linked to the global economic downturn. This included the Icelandic banking sector, which effectively collapsed in October 2008 and at that time the Council had £6M invested with such institutions; these monies are now subject to recovery processes with the respective Administrators. In line with accounting practice and guidance, the 2008/09 accounts (i.e. the Income and Expenditure Account) show an investment loss currently estimated at around £1.6M. This represents the current estimate of total potential losses associated with these investments, in terms of principal and interest, but it assumes that interest at the original investment rates (of around 6%) would be receivable until all monies recoverable have been received. Effectively, around £0.4M of this loss has been provided for in 2008/09 (with some additional amounts in future years). In line with Government Regulations issued in December 2008, the remaining £1.2M of potential loss as at 31 March 2009 has been deferred and no specific provision has been made within the 2008/09 accounts. Other reserves have been increased by £800K, however. This, together with unbudgeted interest receivable in future years, will give the Council scope to address its investment position and/or other potential liabilities in 2009/10. There is the need though to keep estimated losses under regular review – as they could change significantly.

2.3 Housing Revenue Account (HRA)

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

As at 31 March 2009 the working balance on the Housing Revenue Account amounted to £494,000, giving a reduction of £223,000 from the position at the start of the year (and as originally budgeted). This still represents an improvement of £144,000 when compared with the Revised Budget, but this is before considering any requests to carry forward budgets into 2009/10. The main area of underspending relates to planned maintenance and the impact of this on the current year's maintenance programme is being assessed. Current Council Policy is to maintain unallocated housing balances at £350,000.

3 CAPITAL POSITION

In 2008/09 the City Council spent £13.551M on capital schemes. An analysis of the expenditure and funding is shown on the following page.

The Council's revised Capital Programme for 2008/09 was £15.246M but due to delays in starting a number of schemes, around £2.5M will need to be rolled forward into 2009/10.

The capital programme is 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 2009, the Council held £800K in capital receipts and around £7.2M in reserves, to help support future years' capital investment plans.

Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£'000	Capital Financing	£'000
Council Housing	3,034	Grants & Contributions	6,123
City Council (Direct) Services	363	Reserves	3,531
Health & Strategic Housing	3,113	Unsupported Borrowing	1,804
Cultural Services	605	Capital Receipts	2,093
Planning	997		
Economic Development	4,949		
Information & Customer Services	266		
Property Services	222		
Corporate Strategy	2		
Total	**13,551**	**Total**	**13,551**

In 2008/09 the net cost of financing external borrowing (e.g. interest charges) was £2.442M, and the value of long term debt owed as at 31 March 2009 amounted to £39.2M, which is £5.585M less than the previous year due to some early repayment of debt. 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 £292M as at 31 March 2009.

4 PENSION LIABILITIES

In accordance with recent changes to accounting practice, the Council must show the present surplus or deficit position on its share of the Pension fund. For Lancaster, the net position as at 31 March 2009 showed a liability of £40.910M compared to a liability of £41.517M for the previous financial year. This represents a decrease in liability of £607K.

The 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., and clearly these may vary. 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 issues, for consideration by Government.

5 CHANGES TO ACCOUNTING POLICIES

There have been a number of minor changes to the accounting policies for 2008/09. Firstly, the de-minimis level at which capital assets are recognised on the balance sheet as fixed assets has been aligned with the capitalisation policy at £10,000. Secondly, deferred charges have now been reclassified as revenue expenditure funded from capital under statute and the expenditure recognised as grant payments in the relevant service area, as opposed to a capital charge as previously. Thirdly, the quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value.

All changes are to ensure the Council's accounts reflect current recommended accounting practice. In essence though these changes are mainly presentational; they have no direct impact on the Council's financial standing as at 31 March.

6 CONCLUSION

2008/09 has been a difficult financial year for the Council. In particular, the downturn in the global economy has affected the Council both in terms of its investments and investment interest generated from cash flows. On a more local level income receipts from some Council activities have also fallen, but savings have been generated in other areas. The Council's reported financial position has improved overall, with balances slightly higher than expected – but this should be considered in context of deferring the majority of currently estimated losses in connection with Icelandic investments. A more detailed report on the outturn position will be presented in due course to Cabinet and the Budget and Performance Panel. This scrutiny of the 2008/09 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2009/10 corporate financial monitoring processes.

Statement of Accounting Policies

1 General

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year end of 31 March 2009. The accounts of the authority have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* (SORP) 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 Statement of Recommended Practice to local authorities.

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.

2 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:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- 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 stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 income 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. Provision has been made for doubtful debts, and known uncollectable debts have been written off during the year.

3 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by the making of a payment, but where the timing of the payment is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the Provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

4 RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on either the General Fund Balance or on the Housing Revenue Account Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance or the HRA Balance statement so that there is no net charge against either the Council Tax or the Housing Rents for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and these do not represent usable resources for the Council. Examples of these reserves are the revaluation reserve, financial instruments adjustment account, pension reserve and capital adjustment account.

5 GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited at the foot of the Income and Expenditure Account after Net Operating Expenditure.

6 RETIREMENT BENEFITS

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by Lancashire County Council.

The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

The Local Government Pension Scheme (LGPS)

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the LGPS 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 projected earnings for current employees.

Under the 2008 SORP the Council has adopted an amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value.

The assets of the LGPS pension fund attributable to the council are included in the Balance Sheet at their fair value of:

- **quoted securities** – bid price
- **unquoted securities** – professional estimate
- **unitised securities** – average of the bid and offer rates
- **property** – market value.

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

- **current service cost** – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- **past service cost** – the increase in liabilities arising from current year decisions where their effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account
- **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 Net Operating Expenditure in the Income and Expenditure Account
- **gains/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 to the Net Cost of Services in the Income and Expenditure Account 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 Statement of Total Recognised Gains and Losses
- **contributions paid to the LGPS pension fund** – cash paid as employers' contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the Fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. 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.

7 VALUE ADDED TAX (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

8 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 the CIPFA *Best Value Accounting Code of Practice 2008* (BVACOP). The total absorption costing principle is used – the full cost 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 employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

9 INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised where it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over 5 years, representing the economic life of the investment and the pattern of consumption of benefits.

The categories of revaluation, disposals and impairment have limited applicability in the context of Intangible Assets. Insofar as they may be relevant, they will be applied in a manner consistent with that for Tangible Assets, as outlined under 11 below.

10 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council. Such expenditure is charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Statement of Movement on General Fund Balance.

11 TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

11.1 Recognition

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

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

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

Capital expenditure incurred on fixed assets, which does not materially add to the value of the assets concerned, is charged through the Income and Expenditure Account to the Capital Adjustment Account, as an impairment loss.

11.2 Measurement

De minimis levels were revised in 2008/09 and set at £10,000 in line with the capitalisation threshold.

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

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

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

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

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

11.3 Revaluations

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

11.4 Impairments

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

11.5 Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Amounts 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 Usable 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 Statement of Movement on the General Fund Balance.

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

Any revaluation gains held within the Revaluation Reserve are generally written off to the Capital Adjustment Account, on asset disposal.

11.6 Depreciation

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

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

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

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

Generally 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 their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

12 CHARGES TO REVENUE FOR FIXED ASSETS

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

13 LEASES

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

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

14 FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all of the Council's current borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (subject to a maximum of 10 years in respect of discounts). The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

15 FINANCIAL ASSETS

Financial assets are classified into two main types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

In addition, certain financial assets should be held at fair value through profit and loss and accounted for in line with FRS 26: Financial Instruments Recognition and Measurement.

15.1 Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement. Fair value accounting applies only to the limited number of current loans which were originally arranged under forward agreements.

Should an asset be identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset will be written down and a charge made to the Income and Expenditure Account.

Should any gains and losses arise on the de-recognition of the asset, these will be credited/debited to the Income and Expenditure Account.

15.2 Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL).

Should an asset be identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset will be written down and a charge made to the Income and Expenditure Account.

Should any gains and losses arise on the de-recognition of the asset, these will be credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

16 STOCKS AND WORK IN PROGRESS

Goods and materials chargeable to revenue, which have not been consumed by the end of the year, have been carried forward to be charged in the accounting period in which they are consumed. Statement of Standard Accounting Practice (SSAP) 9 requires that stocks should be shown at the lower of cost or net realisable value. Stocks held in stores are shown in the accounts at their latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of their net realisable value. Other stocks are shown at cost price.

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

17 CAPITAL RECEIPTS

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

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

18 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

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

Extraordinary items should be disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the Authority and should be explained fully in a note to the accounting statements.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and should be accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from fundamental errors should be accounted for by restating the comparative figures for the preceding period in the statement of account and notes and adjusting the opening balance or reserves for the cumulative effect. The cumulative effect of the any such adjustments should also be noted within the accounts at the foot of the Statement of Total Recognised Gains and Losses of the current period. The effect of prior period adjustments on the outturn for the preceding period should be disclosed where practicable.

19 POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

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

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

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

20 FOREIGN CURRENCY TRANSLATION

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

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

21 CONTINGENT ASSETS

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

22 CONTINGENT LIABILITIES

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

SUMMARY OF FINANCIAL STATEMENTS

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

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

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

THE CORE FINANCIAL STATEMENTS

Income and Expenditure Account
This reports the costs for the year of the major functions for which the Council is responsible and compares that cost with the finance provided from Council Tax, redistributed Non Domestic Rates and General Grants from Central Government. It provides a performance statement for the Council applying the standard accounting practices applicable in the UK. However, because there are some specific requirements that apply only to local authorities, the surplus or deficit shown does not have a direct impact on the Council Tax.

Statement of Movement on the General Fund Balance
This takes as its starting point the surplus or deficit on the Income and Expenditure Account. It then takes into account the specific statutory and other items that apply to local authorities, to produce the overall impact on the General Fund, and so on the Council Tax.

Statement of Total Recognised Gains and Losses
Not all of the Council's gains and losses will be recognised in the Income and Expenditure Account, for example gains which result from revaluations of fixed assets. This statement includes these items and so illustrates the overall financial gain or loss for the year. The bottom line on this statement will be equal to the change in 'Total Equity' as shown in the Balance Sheet.

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 the operations, and summarises information on fixed assets held. (It excludes Trust Funds).

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.

Statement of Movement on the Housing Revenue Account Balance
This serves the same purpose, for the Housing Revenue Account, as the equivalent statement above does for the Council as a whole. It brings into account specific statutory and other items, and produces a figure which shows the overall impact of the year's activities on council house rents.

Collection Fund

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

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.

KPMG

Independent auditors' report to the Members of Lancaster City Council

Opinion on the accounting statements

We have audited the accounting statements and related notes of Lancaster City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Lancaster City Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Lancaster City Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lancaster City Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Financial Services and auditors

The Head of Financial Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Kevin Wharton
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
Statutory Auditor
St James' Square
Manchester
M2 6DS
29 September 2009

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Lancaster City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, except that it did not put adequate arrangements in place for planning, organising and developing its workforce effectively to support the achievement of its strategic priorities.

Kevin Wharton
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
Statutory Auditor
St James' Square
Manchester
M2 6DS
29 September 2009

Certificate of completion for Lancaster City Council for the audit year 2008/09

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kevin Wharton
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
Statutory Auditor
St James' Square
Manchester
M2 6DS

12 May 2010

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES

1 THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Financial Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts, with the Chairman of the appropriate Committee signing and dating the statement accordingly.

2 AUDIT COMMITTEE CHAIRMAN'S CERTIFICATE

I certify that the Statement of Accounts for the financial year 2008/09 was approved by the Audit Committee at its meeting held on 30 June 2009, prior to the audit being completed.

30/6/09

Cllr Janice Hanson

3 THE HEAD OF FINANCIAL SERVICES' RESPONSIBILITIES

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

In preparing this statement of accounts, the Head of Financial Services has:

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

The Head of Financial Services has also:

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

4 HEAD OF FINANCIAL SERVICES' CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the authority as at 31 March 2009 and the income and expenditure for the year then ended.

Nadine Muschamp, CPFA
Head of Financial Services

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, Lancaster City Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

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

This statement explains how Lancaster City Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 (as amended) in relation to the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2009 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

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

- The Council reviews its vision for the local area annually in the context of the Local Strategic Partnership's *Sustainable Community Strategy* and through direct consultation with the community. The Council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The Council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- Performance is actively managed by the executive through the Performance Management Group and quarterly Performance Review Team meetings and is subject to review and challenge by the Overview & Scrutiny function via the Budget & Performance Panel.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, the Overview and Scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.

- The Council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.

- The Council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are maintained through the *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy.*

- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.

- The Council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. The financial management and scheme of delegation of the Council is conducted in accordance with rules set out in the *Financial Regulations and Procedures* within the *Constitution.* Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.

- The Council's Audit Committee is established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.

- The Head of Legal and Human Resources Services is the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.

- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the Council as a whole. The Council publishes a *Forward Plan* containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.

- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer.

- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.

- The *Code of Corporate Governance* sets out the Council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.

- The Council's *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the Council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.

- The Council's Internal Audit service operates to the standards set out in the *'CIPFA Code of Practice for Internal Audit in Local Government 2006'* and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.

REVIEW OF EFFECTIVENESS

Lancaster City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit'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 effectiveness of the systems of internal control and governance:

- The Audit Committee and the Head of Legal and HR Services, 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. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The Council's Standards Committee, chaired by one of four independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred for investigation by its Assessment Sub-Committees.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and agrees 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.
- During 2008/09 the Audit Commission undertook, at the Council's request, a review of its Comprehensive Performance Assessment (CPA). This resulted in the Council being assessed as 'Good' (the second highest rating) compared with 'Fair' when the previous assessment was made in 2004. Notwithstanding this improvement, the review identified further areas for improvement which are to be addressed through the implementation of the Corporate/Service Business Plans.
- In March 2009 the Audit Commission, in its *Annual Audit and Inspection Letter*, reported that the Council had made good overall progress in delivering its priorities and that services were improving at a faster rate than other councils. The Council's auditors, KPMG concluded that the Council had adequate arrangements in place for securing value for money. The auditor's views drew on their assessments of the Council's "Direction of Travel" and "Use of Resources", in which they judged the Council to be "consistently above minimum requirements – performing well".
- In its *Audit and Inspection Letter*, the Audit Commission advised the Council on areas where action was needed, including its efficiency programme; effective partnership working in health initiatives; managing levels of sickness absence; and improving public satisfaction levels. These have been taken into account in developing the Council's improvement plans.

SIGNIFICANT GOVERNANCE ISSUES

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 and no significant control weaknesses have been brought to the Council's attention.

That said, as a result of the Icelandic Banking collapse during 2008/09 the Council has £6M of investments at risk; more detailed information is included within the Statement of Accounts. National reviews of the situation, including governance aspects, have been undertaken by the Audit Commission and by Government Select Committees. This process is still underway to an extent; many recommendations have been made for various parties to take forward, but it is not yet clear what specific actions the Council will need to take in connection with any new regulations and/or guidance arising. For the interim, however, further controls were adopted by the Council in March 2009, as part of approving its 2009/10 treasury strategy.

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

Whilst the Council has received praise from the Audit Commission and other external inspectors and peers it is recognised that more needs to be done in order to address any significant issues affecting the Council and to ensure continuous improvement of governance controls, and to that end the Council will:

- ***Improve decision making*** by undertaking a further review of executive portfolios and Democratic Renewal and by reviewing and further developing the Council's performance management arrangements.
- ***Continue to improve the Value for Money****; the Council* and its key partnerships provide, through a review of the *Value for Money Strategy* and the implementation of a *Corporate Improvement and Efficiency Plan*.
- ***Continue to strengthen delivery of customer-focussed services*** by continuing the programme of service integration into the Council's Customer Service Centres and by continuing to improve how the Council undertakes consultation and community engagement, thereby contributing to more focussed business planning and allocation of resources.
- ***Continue to develop the effectiveness of partnership working*** by rolling out a programme reviewing and evaluating the governance arrangements of the Council's key partnerships.
- ***Improve the measurement and monitoring of the environmental impact*** of the Council's policies, plans and decisions.
- ***Strengthen the capacity to deliver and improve services*** through the implementation of a *Workforce Planning and Development Strategy* and improving the Council's programme management arrangements.
- ***Implement any changes required to the Council's Treasury Management framework,*** *in responding to any new regulations and guidance that are issued following the Icelandic banking collapse.*

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.

S Langhorn
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)

CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

The Income and Expenditure Account shows the Council's actual financial performance, measured in terms of the resources consumed and generated over the financial year. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being as follows;

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment to the Government of a share of housing capital receipts counts as a loss in the Income and Expenditure Account, but is met from the monies from the capital receipts themselves, rather than from Council Tax.
- Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than when future benefits are earned (for more detail see Note 36).

2007/08		2008/09			
		EXP	INC	NET	Notes
£'000		£'000	£'000	£'000	
1,631	Central Services to the Public	12,378	(9,879)	2,499	
14,582	Cultural, Environmental and Planning Services	37,737	(19,577)	18,160	
868	Highways, Roads and Transport Services	5,086	(3,535)	1,551	
(3,394)	Local Authority Housing (HRA)	15,966	(18,314)	(2,348)	
2,550	Other Housing Services	35,753	(32,152)	3,601	
2,861	Corporate and Democratic Core	5,190	(893)	4,297	
1,726	Non Distributed Costs	729	(200)	529	
20,824	Net Cost of Services	112,839	(84,550)	28,289	
0	(Gains) or Loss on Disposal of Fixed Assets	502	(502)	0	
271	Precepts of Local Precepting Authorities			284	
(536)	Surplus or Deficit of Trading Undertakings or Other Operations, including Dividends from Companies	7,877	(5,669)	2,208	*2*
3,630	Interest Payable & Similar Charges			2,443	*28*
1,520	Amounts Payable into the Housing Capital Receipts Pool			110	
0	Investment losses			1,632	*25.1*
(50)	Unattached Capital Receipts			0	
(1,139)	Interest & Investment Income			(1,144)	*28*
283	Pensions Interest Cost & Expected Return on Pensions Assets			1,977	*36*
0	Extraordinary Items			0	
24,803	Net Operating Expenditure			35,799	
(7,648)	Demand on the Collection Fund			(7,973)	
(3,240)	General Government Grants			(2,967)	*8*
(12,786)	Distribution from Non-Domestic Rate Pool			(13,626)	
1,129	**(Surplus) / Deficit for the Year**			**11,233**	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31 MARCH 2009

The Income and Expenditure account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise precepts on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to the pension fund and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2007/08 £'000		**2008/09** £'000	
	OVERALL MOVEMENT ON THE GENERAL FUND BALANCE		NOTES
1,129	(Surplus) / Deficit for year on the Income & Expenditure Account	11,233	
(1,002)	Net additional amount required by Statute & Non-Statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(9,745)	***13***
127	**Net (Increase) / Decrease in General Fund Balance**	**1,488**	
(3,015)	**General Fund Balance brought forward**	(2,888)	
(2,888)	**General Fund Balance carried forward**	**(1,400)**	

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES FOR THE YEAR ENDED 31 MARCH 2009

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2007/08		**2008/09**
£'000		£'000
1,129	(Surplus) / Deficit for Year on the Income & Expenditure Account	11,233
(9,083)	(Surplus) / Deficit for Year Arising on Revaluation of Fixed Assets	(19,140)
12,753	Actuarial (Gains) & Losses on Pension Fund Assets & Liabilities	(2,634)
613	Any Other Gains or Losses required to be included in the STRGL	38
5,412	**TOTAL RECOGNISED (GAINS) & LOSSES FOR THE YEAR**	**(10,503)**

BALANCE SHEET AS AT 31 MARCH 2009

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

2007/08			2008/09	NOTES
£'000			£'000	
678	**Intangible Assets**		474	*22*
	Tangible Fixed Assets			*14*
	Operational Assets :			
153,065		Council Dwellings	160,152	
49,363		Other Land & Buildings	47,994	
5,022		Vehicles, Plant & Equipment	4,675	
32,503		Infrastructure	33,808	
7,182		Community Assets	8,055	
	Non Operational Assets :			
10,987		Investment Properties	20,603	
3,284		Assets Under Construction	338	
15,490		Surplus assets, held for disposal	15,573	
277,574	**TOTAL FIXED ASSETS**		**291,672**	
1,004	Long Term Investments		0	
43	Long Term Debtors		29	
278,621	**TOTAL LONG TERM ASSETS**		**291,701**	
	Current Assets			
331		Stocks & Work in Progress	353	*24*
19,396		Debtors (Net of Bad Debt Provision)	15,301	*25*
10,265		Investments	12,588	*29.6*
	Current Liabilities			
0		Short Term Borrowing	(8,504)	*29.5*
(13,145)		Creditors	(9,708)	*26*
(1,948)		Bank Overdraft	(1,858)	
293,520	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**299,873**	
(44,800)	Long Term Borrowing		(39,215)	*29.5*
(223)	Deferred Liabilities		(223)	
(51,896)	Government Grants & Contributions Deferred		(53,995)	
(698)	Provisions		(641)	*31*
(41,517)	Liability related to defined benefit pension scheme		(40,910)	*36*
154,386	**TOTAL ASSETS LESS LIABILITIES**		**164,889**	
176,161	Capital Adjustment Account		170,294	
3,923	Revaluation Reserve		21,527	
(975)	Financial Instruments Adjustment Account		(2,027)	
1,364	Usable Capital Receipts Reserve		809	
40	Deferred Credits		26	
(41,517)	Pension Reserve		(40,910)	*32*
5,827	Major Repairs Reserve		6,724	
5,969	Earmarked Reserves		6,621	
2,888	Fund Balances :	General Fund	1,400	
717		Housing Revenue Account	494	
(11)		Collection Fund	(69)	
154,386	**TOTAL EQUITY**		**164,889**	

CASH FLOW STATEMENT AS AT 31 MARCH 2009

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

	NOTES	2007/08		2008/09	
		£'000	£'000	£'000	£'000
Revenue Activities					
Cash Outflows					
Cash paid to and on behalf of employees		(23,626)		(24,502)	
Other operating cash payments	★	(41,661)		(42,811)	
Housing Benefit paid out		(27,914)		(29,959)	
Non-Domestic Rates payments to National Pool		(35,891)		(31,695)	
Precepts paid		(53,236)		(54,938)	
Payments to Capital Receipts Pool		(1,716)		(94)	
TOTAL PAYMENTS			(184,044)		(183,999)
Cash inflows					
Rents (after rebates)		2,606		2,585	
Council Tax receipts		61,558		63,968	
NNDR receipts		34,851		32,799	
NNDR receipts from National Pool		12,786		13,626	
Revenue Support Grant	*37.1*	2,146		1,897	
DWP grants for benefits	*37.1*	34,141		35,959	
Other government grants	*37.1*	2,527		2,687	
Cash received for goods and services		27,207		29,749	
Other operating cash receipts / payments	★	12,093	189,915	6,181	189,451
NET CASH INFLOW FROM REVENUE ACTIVITY	*37*		**5,871**		**5,452**
Returns on Investments and Servicing of Finance					
Cash outflows : Interest paid		(2,488)		(2,443)	
Cash inflows : Interest received		688	(1,800)	1,144	(1,299)
Capital Activities	★				
Cash outflows : Purchase of fixed assets		(11,649)		(10,197)	
TOTAL PAYMENTS		(11,649)		(10,197)	
Cash inflows : Sale of fixed assets		1,236		1,538	
Capital grants received		8,034		2,995	
Other capital cash receipts		996		1,005	
TOTAL RECEIPTS		10,266		5,538	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(1,383)		(4,659)
NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING	*37.4*		**2,688**		**(506)**
Management of Liquid Resources					
Net (increase) / decrease in short term deposits			(765)		6,181
Financing					
Cash outflows					
Repayments of amounts borrowed			0		(5,585)
Cash inflows					
New Loans Raised			0		0
NET CASH INFLOW/OUTFLOW(-)			**(765)**		**596**
NET INCREASE/(DECREASE) IN CASH			**1,923**		**90**

★ Note that some of the 2007/08 figures have been restated for comparative purposes as a result of the change in classification of Deferred Charges to Expenditure Funded from Capital Under Statute.

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

1 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There have been no material exceptional items, extraordinary items or prior year adjustments within the accounts, which required restatement of comparative figures for the previous year. Adjustments have been made in year regarding asset valuations, but these have been incorporated into the authority's rolling revaluation programme: see note 21 for more details.

2 TRADING SERVICES

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

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

For 2008/09, of the former DSO activities, trading accounts for Repairs and Maintenance and Highways Contractor were still operated. Any surplus/deficits in respect of Repairs and Maintenance are attributable to the Housing Revenue Account, and Highways are attributable to the General Fund. Following a review of the working arrangements under the Lancashire Highways Partnership (LHP), with effect from 01 July 2006 the City Council was retained as a preferred contractor for the LHP, with the exception of street lighting works.

	Income £'000	Expenditure £'000	2008/09 (Surplus) / Deficit £'000	2007/08 (Surplus) / Deficit £'000
General highway and sewer work	(1,207)	1,025	(182)	(205)
Other maintenance work	(1,688)	1,688	0	(4)
Trade refuse collection	(848)	715	(133)	(136)
Markets	(794)	1,455	661	284
Commercial Properties / Industrial Units	(1,132)	2,994	1,862	(475)
Total (Surplus) / Deficit on Trading Undertakings	**(5,669)**	**7,877**	**2,208**	**(536)**

It should be noted that the deficit on Commercial Properties is due to two properties being subject to impairment (a reduction in value) following a revaluation review. The total value of the impairment is £2.3M and in line with proper accounting practices is shown against the relevant service area, however this does not impact on the overall outturn of the Council as it is reversed out in the Statement of Movement on General Fund Balance.

3 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 empowers a local authority to make contributions to charities operating in the UK and to not for profit making bodies providing public services in the UK. The Council's expenditure under this power was £47,626, mainly on donations to voluntary bodies working in the local area (£51,094 in 2007/08). The table below breaks down this expenditure.

Analysis	2007/08 £	2008/09 £
Victim Support	4,600	5,000
Council for Voluntary Service	23,100	18,300
Lancaster DISC	5,700	6,000
Relate	6,400	6,800
Twinning	4,000	4,100
Miscellaneous Grants	7,294	7,426
Total	**51,094**	**47,626**

4 Publicity Expenditure

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

Section 5 Local Government Act 1986	2007/08 £'000	2008/09 £'000
Promotions and Publicity	192	252
Recruitment Advertising	53	26
Other Advertising	29	22
TOTAL	**274**	**300**

5 Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Lancaster City Council sets charges for work carried out in relation to building regulations, with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit for 2008/09, divided between chargeable and non-chargeable activities.

2008/09	Chargeable £'000	Non-Chargeable £'000	Total Building Control £'000
Expenditure			
Employee Expenses	317	78	395
Transport	22	5	27
Supplies & Services	5	1	6
Central & Support Recharges	145	14	159
TOTAL EXPENDITURE	**489**	**98**	**587**
Income			
Building Regulation Charges	(304)		(304)
Miscellaneous Income	(33)		(33)
TOTAL INCOME	**(337)**	**0**	**(337)**
(Surplus)/Deficit for Year	**152**	**98**	**250**

Comparatives for previous year			
Expenditure	534	102	636
Income	(403)	--	(403)
(Surplus)/Deficit for Year	**131**	**102**	**233**

6 AGENCY SERVICE

On 01 July 2003 the Council entered into the Lancashire Highways Partnership (LHP) which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Council (Direct) Services (CC(D)S) are involved as a sub-contractor. The only area of work falling outside the single works contract is Highways Grounds Maintenance, which is carried out by CC(D)S and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £131,586, of which £98,000 was reimbursed by LCES and £33,586 was the contribution made by Lancaster City Council General Fund to provide a higher level of service in this area to its ratepayers.

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

7 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970

Under the Act the Council is empowered to provide goods and services to other public bodies. The authority provided grounds maintenance, cleansing, trade refuse and other minor services for Lancashire County Council and various schools to the value of £223,027 during 2008/09. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Income and Expenditure Account.

8 GENERAL GOVERNMENT GRANTS

The Council receives grants from the Government which are not directly attributable to specific service delivery. A breakdown of these grants is provided below.

Grant	2008/09 £
Revenue Support Grant	1,896,848
Area Based Grant	725,971
Local Authority Business Growth Incentive Grant	344,417
Total For All Members	**2,967,236**

9 MEMBERS ALLOWANCES

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

Type of Allowance	2007/08 £	2008/09 £
Basic Allowance	185,147	192,623
Special Responsibility Allowance	86,901	95,833
Carer Allowance	1,768	850
Total For All Members	**273,816**	**289,306**

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

10 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Thirteen officers of the Council received in excess of this amount during 2008/09. The slight differences to the previous year's accounts relate to inflation, sick pay and a reduction in election expenses.

Remuneration Band	No. of Employees 2007/08	2008/09
£50,000 - £59,999	12	11
£60,000 - £69,999	0	2
£70,000 - £79,999	2	3
£80,000 - £89,999	0	0
£90,000 - £99,999	0	0
£100,000 +	1	1

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

11 Related Party Transactions

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

1 Transactions with Central Government have been disclosed within both the Income and Expenditure Account and the Cash Flow Statement, as well as in other notes to the accounts.

2 Transactions with the Lancashire Pensions Fund have been disclosed within the Statement of Accounting Policies and the notes to the Income and Expenditure Account Balance Sheet.

3 Transactions with associated companies have been disclosed within the notes to the Balance Sheet.

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

12 Audit Costs

In 2008/09 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2007/08 £	2008/09 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	26,697	9,260
Fees payable to the Audit Commission in respect of statutory inspection	13,360	14,495
Fees payable to the Audit Commission for the certification of grant claims and returns	35,457	0
Fees payable to KPMG the certification of grant claims and returns	0	42,265
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	111,000	124,000
	186,514	**190,020**

13 Reconciling Items for the Statement of Movement in General Fund Balance

This note provides a break down of the amounts apart from the outturn on the Income and Expenditure Account required by statute or non-statutory proper practices to be debited or credited to the General Fund for the year.

	2007/08 £	2008/09 £
Amounts included in the income and expenditure account but required by Statute to be excluded when determining the Movement on the General Fund Balance for the year		
Amortisation of intangible fixed assets	(317)	(279)
Depreciation and impairment of fixed assets	(3,102)	(10,338)
Government Grants Deferred amortisation	4,026	4,024
Revenue expenditure funded from Capital under Statute	(3,407)	(4,056)
Net gain on sale of fixed assets	0	0
Unattached Capital Receipts	50	0
Differences between amounts debited / (credited) to the Income and Expenditure account and amounts payable / (receivable) to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(132)	(1,201)
Net changes made for retirement benefits in accordance with FRS17	(964)	(1,765)
	(3,846)	**(13,615)**
Amounts not included in the income and expenditure account but required by Statute to be included when determining the Movement on the General Fund Balance for the year		
Staturtory provision for repayment of debt	1,099	1,084
Capital expenditure charged to the General Fund Balance	542	560
Transfer from Usable Capital Receipts equal to amount payable to Housing Capital Receipts Pool	(1,519)	(110)
	122	**1,534**
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Housing Revenue Account Balance	1,508	1,256
Voluntary Revenue Provision for repayment of debt	491	458
Net transfer to / (from) earmarked reserves	723	622
	2,722	**2,336**
Net additional amount required to be (credited)/debited to the General Fund Balance for the year	**(1,002)**	**(9,745)**

14 Movement on Fixed Assets

Movements in fixed assets during the year were as follows:

	Council dwellings £'000	Other land and buildings £'000	Vehicles plant and equipment £'000	Infrastructure assets £'000	Community assets £'000	Non-Operational properties £'000	TOTAL £'000
Gross book value as at 01 April 2008	**173,361**	**54,390**	**6,755**	**37,811**	**7,182**	**30,637**	**310,136**
Additions	2,938	1,044	468	2,809	873	4,234	12,366
Disposals	(92)					(1,530)	(1,622)
Revaluations / Adjstmts	8,647	4,979				7,707	21,333
Impairment	(2,193)	(6,411)				(555)	(9,159)
Transfers	55	43				(3,044)	(2,946)
Gross book value as at 31 March 2009	**182,716**	**54,045**	**7,223**	**40,620**	**8,055**	**37,449**	**330,108**
Depreciation as at 01 April 2008	**(20,296)**	**(5,027)**	**(1,733)**	**(5,308)**	**0**	**(876)**	**(33,240)**
Depreciation for year (on reducing balance basis)	(2,278)	(1,018)	(815)	(1,504)		(71)	(5,686)
Depreciation Adjustmts						0	0
Depreciation on assets sold / transferred	10	(6)				12	16
Balance as at 31 March 2009	**(22,564)**	**(6,051)**	**(2,548)**	**(6,812)**	**0**	**(935)**	**(38,910)**
Net book value as at 31 March 2009	**160,152**	**47,994**	**4,675**	**33,808**	**8,055**	**36,514**	**291,198**

It should be noted that adjustments have been made to both Gross Book Values and Depreciation to reflect revaluations originally undertaken in previous years.

15 Capital Expenditure and Financing

Capital expenditure incurred during the year was £13.551M. The following table sets out how this was funded.

2008/09	£'000
Opening Capital Financing Requirement	**45,595**
Capital Investment	
Intangible Assets	75
Operational Assets	5,186
Non Operational Assets	4,234
Revenue Exp funded from Capital Under Statute	4,056
Sources of Finance	
Capital Receipts	(2,093)
Government Grants, Contributions and Deferred	(6,123)
Other Revenue Provision	(5,073)
Closing Capital Financing Requirement	**45,857**
Explanation of Movements in Year	
Increase in underlying need to borrow (supported by Government financial assistance)	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	(262)
Increase in Capital Financing Requirement	**(262)**

16 Capital Commitments

As at 31 March 2009 the Council was contractually committed to capital works, which amounted to approximately £4.540M, details of which are shown in the following table.

Capital Projects	£
Council Housing Interior Refurbishments	455,000
Council Housing Exterior Refurbishments	339,000
Env Improvements/Games Area & Walkway	86,000
Lunesdie East	250,000
Lancaster Science Park	2,518,000
River & Sea Defence Works	892,000

17 Major Fixed Assets

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

	Number as 31/03/2008	Number as 31/03/2009
COUNCIL DWELLINGS	3,814	3,812
OPERATIONAL BUILDINGS		
Town Halls	2	2
Other Offices	8	8
Sports Centres with Pool	1	1
Depots	3	3
Surfaced Car Parks	16	16
Multi-Storey Car Parks	2	2
Cemeteries	7	7
Public Conveniences	9	9
OPERATIONAL EQUIPMENT		
Vehicles	29	29
Heavy Plant	13	13
COMMUNITY ASSETS		
Community Centres	1	1
Parks	15	15
Playing Fields	6	6
NON OPERATIONAL ASSETS		
Commercial/Investment Properties	58	57

18 Leasing and Other Long Term Commitments

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

Leased Assets – Rentals (excluding staff car leases)	
	Operating Leases £000
Total rentals paid in 2008/09	717
Outstanding undischarged leasing obligations:	
< 1yr	510
1 - 2 years	954
2 - 5 years	788
5 + years	191

At 31 March 2009, 38 cars were leased for staff. The total cost in 2008/09 was £171,179 and after contributions by staff of £13,089, it resulted in a charge to the Authority of £158,090.

19 Finance Leases

The Council had one finance lease in respect of a car park, which is subject to a peppercorn rent, however no charge has been levied in the current or previous years, and none are anticipated in future years. Details relating to the asset are shown as follows:

St.Nicholas Arcade Car Park:	**£'000**
Gross Book Value (31/03/08)	3,595
Accumulated Depreciation	(87)
Net Book Value (31/03/09)	**3,508**
Annual depreciation charge	14

20 Private Finance Initiative (PFI)

The PFI is a mechanism by which private sector investment is used to assist in the delivery of public services, normally for large schemes such as new schools, etc. The Council has not entered into any PFI arrangements and therefore there are no PFI related assets as at 31 March 2009.

21 Fixed Asset Valuation

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

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

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

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

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infrastructure	Investment Properties	Non-Operational	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Valued at Historical Cost	--	--	--	--	--	--	**0**
Valued at Current Value							**0**
1999/2000	--	(1,496)	--	--	(127)	--	**(1,623)**
2000/2001	--	2,438	--	--	369	--	**2,807**
2001/2002	(61,723)	135	--	--	277	--	**(61,311)**
2002/2003	14,146	(2)	(3)	--	--	--	**14,141**
2003/2004	31,635	2,376	--	--	--	798	**34,809**
2004/2005	42,786	818	--	--	--	2,499	**46,103**
2005/2006	(7,469)	11,218	--	126		112	**3,987**
2006/2007	--	--	--	--	3,363	488	**3,851**
2007/2008	4,145	4,249	(1,259)	(185)	--	379	**7,329**
2008/2009	6,485	4,979	--	--	5,736	671	**17,871**
TOTAL CHANGE	**30,005**	**24,715**	**(1,262)**	**(59)**	**9,618**	**4,947**	**67,964**

22 Intangible Assets

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

Software Licences	31 March 08 £'000	31 March 09 £'000
Opening Balance	485	678
Amounts written off to Income and Expenditure Account		
Expenditure during the year	511	75
Written off to revenue in year	(317)	(279)
Closing Balance	**679**	**474**

Software Licences are held for the Salt Ayre Computerised Booking System, Local Land and Property Gazetteer, Housing Rents and Repairs System, Cash Receipting System, National Non Domestic Rating System, Asset Management System, PC based software and Customer Relationship Management System together with the software associated with Implementing Electronic Government. The cost is being written off over the five year life of the licences.

23 Net Assets Employed

This summary gives details of the net assets employed during the year analysed over the Council's major accounts, namely General Fund and Housing Revenue Account.

	31 March 08 £'000	31 March 09 £'000
General Fund	8,170	10,551
Housing Revenue Account	146,206	154,278
	154,376	**164,829**
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	10	60
	154,386	**164,889**

24 Stocks and Work in Progress

At 31 March 2009 the City Council held stocks and work in progress to the value of £328,000 (£304,000 for 2007/08), after allowing for the provision of £25,000 for obsolescence / reductions in value, and excluding internal work in progress of £178,000.

25 Analysis of Debtors

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2009), there are outstanding monies owed to the Council in respect of the 2008/09 financial year which at that date were yet to be received as cash. The amount in the Balance Sheet therefore, represents amounts owed **to** the Council, which had not been received at 31 March 2009.

The Council makes provision for outstanding monies which it anticipates will not be recovered. The amount in the Balance Sheet is net of such provisions. The Debtors balance as at 31 March 2009 is analysed as follows.

DEBTORS	2007/08 £000	2008/09 £000
Government Departments	7,768	8,483
Other Local Authories	557	566
Commercial Ratepayers	445	579
Council Taxpayers	4,811	5,174
Housing Rents	367	363
Sundry Debtors and Accruals	8,351	3,328
Provision for Bad Debts	(2,903)	(3,192)
TOTAL	**19,396**	**15,301**

26 Analysis of Creditors

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2009), there are outstanding monies owed by the Council in respect of the 2008/09 financial year which at that date were yet to be paid. The amount in the Balance Sheet therefore, represents amounts owed **by** the Council, which had not yet been paid as at 31 March 2009. The Creditors balance as at 31 March 2009 is analysed as follows.

CREDITORS	2007/08 £000	2008/09 £000
Government Departments	(4,269)	(1,789)
Other Local Authorities	(849)	(2,544)
Commerical Ratepayers	(150)	(259)
Council Taxpayers	(623)	(653)
Housing Rents	(152)	(115)
Sundry Creditors and Accruals	(7,102)	(4,348)
TOTAL	**(13,145)**	**(9,708)**

27 Financial Liabilities and Assets

With effect from the financial year 2007/08, the Council is required to make certain adjustments to the Balance Sheet values of Financial Liabilities (i.e. the Council's borrowings) and Financial Assets (i.e. the Council's Investments), where these are necessary to reflect the 'Fair Value' of the item. In addition, during 2008/09 the Council had investments placed with Icelandic banks that are subject to special accounting treatments as laid down in the Local Authority Accounting Panel bulletins (LAAP) 78, 79 and 82. These bulletins are freely available via the Chartered Institute of Public Finance and Accountancy (CIPFA) website. The adjustments applied are summarised in the table below.

	Long term		Short term	
	2007/08	2008/09	2007/08	2008/09
Financial Liabilities	£000	£000	£000	£000
At Amortised Cost	44,800	39,215	0	8,504
At Fair Value through Income & Expenditure Account	0	0	0	0
	44,800	**39,215**	**0**	**8,504**
Financial Assets				
Loans and Receivables	**1,005**	**0**	**10,265**	**12,588**
Breakdown :				
Nominal Value of Investments	1,001	0	10,130	13,300
Net gains on assets held at fair value, through 'Profit & Loss' (at balance sheet date)	4	0	0	0
Net gains on assets held at fair value, through 'Profit & Loss' (at settlement date)	0	0	(1)	0
Impairment of Icelandic investments	0	0	0	(1,632)
Interest accrued for Icelandic investments	0	0	0	431
Other investments interest accrued	0	0	136	489
TOTAL	**1,005**	**0**	**10,265**	**12,588**

28 Gain and Loss on Financial Assets and Liabilities

There have been no gains or losses recognised in the accounts in relation to fair value adjustments in 2008/09. All deals have either been fixed interest or instant access variable rate where no gain or loss would be applicable.

The total interest payable in 2008/09 was £2.443M; the total interest earned was £1.144M although this includes £340K of interest credited on impaired investments under the Local Authority Accounting Panel (LAAP) bulletins 78, 79 and 82. In addition, under these LAAP bulletins the Council is required to impair the value of its Icelandic investments by £1.632M, although the full impact of this on the General Fund has been deferred, by application of the Regulations contained within LAAP 79.

29 Fair Value of Financial Liabilities and Assets Carried at Amortised Cost

Where required by the SORP, Financial Assets and Liabilities are shown at Fair Value, but in many instances they are shown at amortised cost, i.e. the nominal amount of the loan or investment. The table below illustrates what the impact on the Balance Sheet would be, were all such items to be shown at Fair Value.

	Carrying Value	Fair Value
	£'000	£'000
Financial Liabilities		
Amounts carried at Amortised Cost	47,719	60,518
Amounts carried at Fair Value	0	0
	47,719	**60,518**

The Fair Value is greater than the Carrying Value, because the majority of the Council's loans are at fixed interest rates which are greater than the current rates used by the lender to calculate any premium or discount applicable on early repayment. This increases the amount that the Council would have to pay if the lender requested, or agreed to, repayment at the Balance Sheet date.

	Carrying Value	Fair Value
	£'000	£'000
Financial Assets		
Amounts carried at Amortised Cost	12,588	12,588
	12,588	**12,588**

Where an investment matures in less than 12 months from the Balance Sheet date, the Carrying Amount is assumed to approximate to Fair Value. At 31 March 2009, the Council had no investments that fell into this category and so the carrying value is assumed to be a good estimate of fair value.

29.1 Risk and Icelandic Bank Disclosures for Financial Instruments

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

29.2 OVERALL PROCEDURES FOR MANAGING RISK

The key policy document in relation to risk management for financial instruments is the Annual Treasury Management Strategy. The strategy covering 2008/09 was approved by Council at its meeting on 27 February 2008 and is freely available on the Council's internet site.

The procedures for risk management are set out through a legal framework under the Local Government Act 2003 and the associated Regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting the Council's overall borrowing; its maximum and minimum exposures to fixed and variable rates; its maximum and minimum for exposures on the maturity structure of its debt and its maximum annual exposures to investments maturing beyond a year;
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These policies are implemented by the Accountancy Section under the scrutiny of the S151 officer. The Council maintains 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 through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

29.3 CREDIT RISK

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

The aim is to minimise this risk through the Annual Investment Strategy, which requires, amongst other constraints, that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria in the approved Annual Investment Strategy.

The following analysis summarises the Council's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2007 on investments out to 5 years.

	31 March 09	Historical experience of default	Exposure
	£000 (a)	% (b)	£000 (a * c)
AAA rated counterparties	0	0.00%	0
AA rated counterparties	1,492	0.06%	1
A rated counterparties	6,297	0.65%	41
Icelandic investments	6,431	25.30%	1,632
Trade debtors	2,085	17.1%	358
Total	**16,305**		**2,032**

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

The Council does not generally allow credit for its trade debtors, such that £1.7M of the £2.1M balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 08	31 March 09
	£'000	£'000
Current, < 28 Days	1,507	911
28-59 Days	139	139
60-91 Days	80	111
92-183 Days	120	163
184-364 Days	129	152
365+ Days	779	609
Total	**2,754**	**2,085**

29.4 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.

29.5 Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31 March 08	31 March 09
	£'000	£'000
Less than one year	0	(8,504)
More than fifteen years	(44,800)	(39,215)
Total	**(44,800)**	**(47,719)**

The maturity analysis of financial assets is as follows:

	31 March 08	31 March 09
	£'000	£'000
Less than one year	10,265	12,588
Between one and two years	1,005	0
Total	**11,270**	**12,588**

29.6 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 term loans were taken out during 2008/09 but the Council did take on short term borrowings during the year. Although these were at fixed rates, had the prevailing rates been higher, these would have been more expensive.

The Council's investments held within instant access Call accounts are affected by movements in interest rates and there has been a sharp decline in investment returns. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have reduced sharply on the prior year. The Council also placed a number of fixed term investments during the year but had the prevailing rates been higher, it would have seen a corresponding increase in income. Sensitivity to an increase of 1% on interest rates during 2008/09 would have had the following effect:

	Actual	+1%
	£'000	£'000
New borrowings	(6)	(13)
New or variable investments		
Fixed term	714	815
Call accounts	257	320
Total	**965**	**1,122**

This highlights that most of the Council's borrowings were insensitive to interest rate changes during 2008/09. The investments placed and the instant access accounts were sensitive to interest rates and the 2009/10 budget process has taken into account the reduced investment income as a result of the current economic climate.

29.7 ICELANDIC BANKS

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. A summary of the transactions, given the amounts the Council has invested, is presented at the bottom of this section.

The Council had £6M deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

Bank	Rate	Principal	Start date	End date	Value at 31/03/09
		£000			£000
Landsbanki Islands	6.25%	1,000	16/05/2007	15/05/2009	902
Glitnir	5.76%	3,000	14/01/2008	14/01/2009	2,977
Kaupthing, Singer & Friedlander	6.00%	2,000	16/05/2008	15/05/2009	920
Total		**6,000**			**4,799**

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers. However, the Local Authority Accounting Panel (LAAP) bulletin number 82 gave estimates of the timing and amount of cash payments in relation to deposit with these banks.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits. The value of the investments has been impaired based on the information detailed below and the accounting treatment as set out in LAAP 78, 79 and 82. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

29.8 KAUPTHING SINGER AND FRIEDLANDER LTD

The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be a minimum of 50p in the £ but no timescale is indicated. The administrator indicated that the estimate could be lower or higher if significant issues arose; the 50p in the £ stated is therefore the best estimate within a range of possible amounts. The first dividend payment of 10p in the £ minimum is due in the summer of 2009. The authority has decided to recognise an impairment based on it recovering 50p in the £ up to October 2012 (the date when the High Court has permitted the administration to be extended to).

In calculating the impairment the Council has therefore made the assumption that the remaining 40% recovery will be split evenly between December 2009, December 2010, December 2011 and October 2012.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 7 October 2008.

29.9 LANDSBANKI

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100 % could be achieved, and the authority has taken a mid point position and assumed recovery at 95% by 2012. The Council has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and KS&F as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

29.10 GLITNIR BANK HF

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.

- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The Council has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 in the future. The impairment therefore reflects only the loss of interest to the Council until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the Council has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £1.632M, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits, in order to recognise the anticipated loss of interest to the Council until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

29.11 IMPACT OF REGULATIONS ON FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Council has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £1.201M has been transferred to the Financial Instruments Adjustment Account. The balance of £431K relates to interest which has been borne in full by the General Fund.

Bank	Impairment charge reversed to the FIAA	Interest credits reversed to FIAA.	Net Dr to the FIAA
	£000	£000	£000
Landsbanki Islands	215	(117)	98
Glitnir	232	(209)	23
Kaupthing, Singer & Friedlander	1,185	(105)	1,080
Total	**1,632**	**(431)**	**1,201**
Interest not received but credited in:			
2007/08		(91)	
2008/09		(340)	

The net position on the Financial Instruments Adjustment Account should be nil over the life of the impaired asset assuming that the projected cash flows are correct.

Discussions are ongoing with the Government to amend Regulations to allow councils to charge the relevant proportion of the impairment loss, including lost interest, to the Housing Revenue Account.

30 INTEREST IN COMPANIES

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

Lancaster City has relevant interests in the following companies:

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

For each of the above named companies Councillors have been nominated during 2008/09 as representatives of the Council, to act to some extent as liaison between the outside body and the Council. Where the appointment is to act as a Director or Trustee of a Board the Councillor has a duty to act in the interests of the company however, and not merely in accordance with Council policy. This is further evidenced by the fact that Councillors are bound by the Member's Code of Conduct and are required to register their personal interest in any body to which they are appointed by the Council. Where this interest may be prejudicial (when Council is debating grants to the organisation concerned for example) the Councillor is not allowed to participate in any debate or subsequent voting process.

Although Williamson Park is wholly controlled by Lancaster City Council by virtue of its right to nominate five of its Councillors as Directors of the company, none of the Council's interests in any of the above Companies are considered material when the tests as set out in the Code of Practice are applied with the aggregate financial liability totalling £26 (upper limit being £100,000). Consequently no Group Accounts are required to be prepared for the 2008/09 financial year.

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

30.1 WILLIAMSON PARK LTD

The Company is limited by guarantee and is wholly controlled by the Council by virtue of its right to nominate five of its Councillors as Directors. The City Councillors nominated during 2008/09 were E Blamire, S Burns, J Pritchard, T Johnson and J Whitelegg. The Council's Corporate Director (Finance & Performance) R Muckle undertook the role of Company Secretary.

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

The Company's previous financial accounting period ended on 31 January, however it has submitted a draft 2008/09 statement based on a 14 month financial accounting period to coincide with the Council's year end of 31 March. Consequently the information below differs slightly from the other financial information in this summary. This anomaly will no longer exist from 2009/10 onwards. The City Council provided revenue grant support of £222,200 to the Company during the Council's 2008/09 financial year (2007/08 £4,842 capital and £165,900 revenue of which £24,650 relates to the company's first two months of its extended 2008/09 financial year, i.e. February and March 2008).

	31 Jan 08 £	31 Mar 09 £
Net assets	35,299	15,708
Profit/(Loss) before taxation	(71,317)	(16,353)
Profit/(Loss) after taxation	(71,317)	(16,353)

30.2 DUKES PLAYHOUSE LTD

The Company is limited by guarantee with no share capital. It is also a registered charity. Although the Council has nominated four of its City Councillors as trustees of the company there is no ultimate controlling party. The City Councillors nominated during 2008/09 were J Ashworth, J Blakely, J Fletcher and M Thomas.

The principal activity and objective of the charity is to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community.

The City Council provided grant support totalling £165,300 to the Company during the 2008/09 financial year for its core activities (2007/08 £162,300). This included the provision of grant in lieu of rent free Council accommodation to the value of £13,500 (2007/08 £13,500). In addition, the Council also provided grant totalling £260,383 in its role as Accountable Body for North West Development Agency funding for capital conversion of the 'round' theatre. The Youth Arts Centre occupies a former church which is also owned by the Council. The Company maintains the building and pays an annual rent of £8,000 to the Council in respect of this (2007/08 £8,000).

Audited figures were provided for 2007/08, however these have now been re-stated as per the draft 2008/09 statement provided by the company. The reason for this is that the company has reclassified the capital grants from deferred capital grants into restricted funds in line with latest guidance and the SORP.

	31 March 08 £	31 March 09 £
Net Assets	487,870	560,758
Profit/(Loss) before taxation Profit/(Loss) after taxation	213,743	72,888

30.3 HEYSHAM MOSSGATE (COMMUNITY FACILITIES) COMPANY LTD

The Company is limited by guarantee without share capital. Although the Council nominates one of its Councillors and also one of its Corporate Directors (Finance & Performance) as members of the company there is no ultimate controlling party. The City Councillor nominated during 2008/09 was M Greenall. The Council's Corporate Director (Finance & Performance) R Muckle also undertook the role of Company Secretary.

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 2007/08 figures were provided on a provisional basis last year, now audited the figures have been restated for 2007/08. Draft figures have been provided for 2008/09.

	31 March 08 £	31 March 09 £
Net Assets	1,762,342	1,792,770
Profit/(Loss) before taxation	966,554	113,344
Profit/(Loss) after taxation	963,494	89,274

30.4 STOREY CREATIVE INDUSTRIES CENTRE

The Company is limited by guarantee and commenced trading on 25 September 2007. Although the Council nominates one of its Councillors as a Member of the company there is no ultimate controlling party. The City Councillor nominated during 2008/09 was A Bryning.

The principal activity of the company is the operation of the Storey Creative Industries Centre on a non-profit making basis. The company is satisfied that it is entitled to exemption from the provisions of the Companies Act 1985 relating to the audit of its financial statements. Consequently 2007/08 has been signed off by its Directors instead of being independently audited. Draft figures have been submitted for 2008/09.

The City Council provided revenue grant support of £85,426 during the 2008/09 financial year (2007/08 £40,222).

	31 March 08 £	31 March 09 £
Net Assets	916	667
Profit/(Loss) before taxation	1,018	(249)
Profit/(Loss) after taxation	815	(249)

31 PROVISIONS

	Balance 01/04/08 £'000	Expenditure £'000	Transfers £'000	Income £'000	Balance 31/03/09 £'000
Revenue					
Insurance	246	(442)	100	385	289
Vehicle Replacements	95	0	0	0	95
Equal Pay	300	0	(200)	0	100
Williamson Park	0	0	100	0	100
Capital					
General Fund Clawback	57	0	0	0	57
TOTAL	**698**	**(442)**	**0**	**385**	**641**

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. At the end of 2008/09 there was a total of 248 claims outstanding with an estimated value of £556K, of which it is anticipated that approximately half will fall on the Council. As a result the provision has been set at £289K.

The vehicle provision was created in 2005/06 to cover future shortfalls in funding associated with timing differences when vehicles require replacement. The exact impact on the budget at the time of replacement is difficult to predict as it is dependent upon the procurement method used.

The Job Evaluation Provision was established in 2007/08 to cover the cost of anticipated Equal Pay claims. The process of settling these claims is still on-going, however indications are that they will not be as high as originally anticipated and the provision has therefore been reduced accordingly.

The capital Clawback provision is in respect of outstanding liabilities, where the Council has sold land originally financed by Derelict Land Grant. It is anticipated that the balance on this provision will be paid to English Partnerships in the near future.

A new provision totalling £100K has been created during 2008/09 to cover accumulated losses for the Williamson Park Ltd. As the company is wholly controlled by the City Council, provision must be made for any potential losses arising.

32 RESERVES

The Council keeps a number of Reserves on the Balance Sheet. Some of these are required to be held for statutory reasons, some are needed to comply with proper accounting practice, while others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance at 1 April 2008 £'000	Net Movement in Year £'000	Balance at 31 March 2009 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	3,923	17,604	21,527	Store of gains on revalution of fixed assets not yet realised through sales	See (a) below
Capital Adjustment Account	176,161	(5,867)	170,294	Store of capital resources set aside to meet past expenditure	See (b) below
Financial Instruments Adjustment Account	(975)	(1,052)	(2,027)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	See (c) below
Usable Capital Receipts	1,364	(555)	809	The balance of proceeds from fixed assets sales that remains available to finance future capital expenditure	See (d) below
Deferred Credits	40	(14)	26	Balance of income due in future years, as a result of granting mortgages	Included in various other accounts
Pensions Reserve	(41,517)	607	(40,910)	Balance of pensions liability	See Note 36 below
Major Repairs Reserve	5,827	897	6,724	Resources available for capital investment in the Council's housing stock	See Note 2 to Housing Revenue Account statements below
Earmarked Reserves	5,969	652	6,621	Amounts set aside to meet specific future spending plans	See (e) below
General Fund Balance	2,888	(1,488)	1,400	Resources available to meet the Council's future general running costs	See Statement of Movement in General Fund Balance above
Housing Revenue Account Balance	717	(223)	494	Resources available to meet the future general running costs of the Council's housing stock	See Housing Revenue Account Statement of Movement in Balance below
Collection Fund Balance	(11)	(58)	(69)	Amount of Council Tax collected over and above the demands made by the Council and precepting authorities	See Collection Fund Income & Expenditure Account below
TOTAL	**154,386**	**10,503**	**164,889**		

(a) Revaluation Reserve	£'000
Balance at 1 April 2008	**(3,923)**
(Gains)/losses on revaluation of Fixed Assets	(19,140)
Depreciation adjustment for revalued assets	171
Amounts written off in respect of disposals	1,365
Balance at 31 March 2009	**(21,527)**

(b) Capital Adjustment Account	
Balance at 1 April 2008	(176,161)
Usable Capital Receipts applied	(2,093)
Capital expenditure financed from revenue	(2,150)
Capital expenditure financed from MRR	(1,380)
Depreciation	5,686
Net Write Down of Govt Grants Deferred	(993)
Amortisation of Intangible Assets	279
Impairment adjustments	6,966
Depreciation adjustment for revalued assets	(171)
Disposals & Fixed Asset changes	240
Net Deferred Charges	1,025
Minimum Revenue Provision	(1,084)
Additional voluntary provision for debt repayment	(458)
Balance at 31 March 2009	**(170,294)**

(c) Financial Instruments Adjustment Account	
Balance at 1 April 2008	**975**
Premia/Discounts written back	(158)
Gain/Loss on Assets held at fair value through profit & loss	9
Impairment of Icelandic investments	1,632
Interest realiting to Icelandic investments	(431)
Balance at 31 March 2009	**2,027**

(d) Usable Capital Receipts	
Balance at 1 April 2008	**(1,364)**
Amounts receivable in year	(1,538)
Amounts applied to finance new capital investment in year	2,093
Balance at 31 March 2009	**(809)**

(e) Earmarked Reserves	Balance at 01 April 2008 £'000	Net Movement in Year £'000	Balance at 31 March 2009 £'000
Restructuring Reserve	0	(943)	(943)
Capital Support	(1,232)	1	(1,231)
Job Evaluation Reserve	(718)	65	(653)
Flats Planned Maintenance	(627)	(86)	(713)
Open Spaces Commuted Sum	(276)	13	(263)
Planning Delivery Grant Reserve	(262)	87	(175)
Renewals Reserve	(253)	55	(198)
Welfare Planned Maintenance	(243)	(17)	(260)
Concessionary Travel	(224)	224	0
Project Implementation Reserve	(224)	27	(197)
Welfare Equipment	(219)	(16)	(235)
Integrated Hsg Mgt Sys Replacement Reserve	(187)	(40)	(227)
Fixed Lifeline Equipment	(173)	63	(110)
Access To Services Reserve	(151)	12	(139)
Other Commuted Sums	(118)	(417)	(535)
Central Control Equipment	(118)	(10)	(128)
Welfare Support Grant Maintenance	(101)	(13)	(114)
Insurance Reserve	(100)	100	0
Business Continuity Reserve	(100)	50	(50)
Dispersed Lifeline Equipment	(86)	86	0
Other Reserves (less than £75,000)	(557)	107	(450)
Total	**(5,969)**	**(652)**	**(6,621)**

33 Contingent Assets and Liabilities

In summary, contingent assets and liabilities are where obligations or economic benefits are possible, but either it is not likely or certain (and outside the Council's control) as to whether they will occur, or their values cannot be estimated with any certainty. As such, they should not be accrued within the accounting statements, but they should be disclosed by way of notes.

The following material contingent assets existed as at 31 March 2009:

VAT on Cultural Activities

In March 2009 the Council submitted claims to recover VAT on various sporting, cultural and coaching services provided between 1977/78 and 1996/97. The total net value is estimated at around £600K but this is subject to review by Her Majesty's Revenue and Customs and it could change significantly. It is anticipated, however, that the outcome of the claims will be known during 2009/10.

The following material contingent liabilities existed as at 31 March 2009:

Luneside East Regeneration Scheme

In assembling land for this project, the Council used compulsory purchase powers and two significant compensation claims are still outstanding. The timing and likely settlement values are uncertain, although it is possible that settlement may be achieved during 2009/10. The Council has some financial provision available in connection with these claims, but at this stage any potential liabilities arising cannot be measured with any certainty.

The Council has also accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes. Given the commitment of partners to progress this scheme, however, and the specific market conditions giving rise to the current position, it is probable that a positive outcome will be forthcoming, thereby avoiding any material liabilities falling on the Council as at 31 March 2009.

34 AUTHORISATION OF ACCOUNTS FOR ISSUE

The Accounts were authorised for issue by The Head of Financial Services (the Council's Chief Financial Officer, or 's151' Officer) on 22 June 2009.

35 POST BALANCE SHEET EVENTS

Events arising after 31 March have been reflected in the accounts where they give additional support to conditions that existed at that date, but only where the originating event took place prior to the year end and the amounts involved are material.

Events arising after 31 March that relate to conditions that did not exist at that time should be disclosed by way of notes, if they are material. No such events have arisen.

36 PENSIONS

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

The Council participates in one principal pension 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.

Under the 2008 SORP the Council has adopted the amendment to FRS17 Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. The effect of this change is that the net opening liability as at 31/3/2008 has increased by £196K from £41,517K as per the prior year accounts to £41,713K. Current and prior year surpluses have been unaffected.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against the Council Tax is based on the cash payable in the year, so although the full cost of retirement benefits is contained out in the Income and Expenditure Account, this is partially offset by an adjustment within the Statement of Movement on the General Fund Balance. Changes in the actual employer contribution rates would lead to changes in the charges made against the General Fund.

The following transactions have been made in the Income and Expenditure Account during the 2008/09 year in accordance with FRS 17.

Net Cost of Services:	HRA £'000	GF £'000	Total £'000
Current Service Costs	(413)	(2,763)	(3,176)
Past Service & Curtailment (Gain)/Loss	0	(12)	(12)
Net Operating Expenditure			
Interest Costs	(1,096)	(7,333)	(8,429)
Expected return on Assets in the scheme	839	5,613	6,452
Employer's contributions payable to the scheme	408	2,730	3,138
Overall impact of FRS 17 transactions	**(262)**	**(1,765)**	**(2,027)**

This impact is balanced by contributions from the Pension Reserve and the Statement of Movement on the General Fund Balance and a contribution to the pension reserve in the corresponding statement for the Housing Revenue Account. The combined effect is as follows:

Statement of movement on general fund	2007/08	2008/09
Reversal of net charges made	964	**2,027**

In addition, there are actuarial gains and losses which impact on the value of the Balance Sheet but which do not go through the Income and Expenditure Account. These gains and losses are reflected in the Statement of Total Recognised Gains and Losses (STRGL) as follows:

STRGL entries	2007/08	2008/09
Actuarial gains and (losses)	(12,753)	**2,634**

As at 31 March 2009, the Council had the following overall assets and liabilities for pensions as disclosed in the Balance Sheet:

	2004/05 £'000	2005/06 £'000	2006/07* £'000	2007/08* £'000	2008/09 £'000
Present value of liabilities	(114,767)	(132,216)	(131,840)	(138,363)	(117,345)
Fair value of assets	79,784	99,185	104,037	96,846	76,435
Surplus/deficit	(34,983)	(33,031)	(27,803)	(41,517)	(40,910)
Experience gains and losses as %	%	%	%	%	%
Assets	4.7%	13.7%	0.7%	13.4%	34.3%
Liabilities	1.3%	1.9%	0.0%	5.7%	0.0%

The scheme's assets and liabilities can be further split out as follows:

		LGPS Liabilities		
	Total 2007/08 £000	Unfunded 2008/09 £000	Funded 2008/09 £000	Total 2008/09 £000
Opening balance	(131,840)	(5,067)	(133,296)	(138,363)
Current service cost	(2,650)		(3,176)	(3,176)
Interest cost	(7,083)	(301)	(8,128)	(8,429)
Contributions by scheme participants	(971)		(1,072)	(1,072)
Actuarial gains and losses	176	735	28,347	29,082
Benefits paid	4,982	254	4,371	4,625
Past service cost	(977)		(12)	(12)
Closing balance	**(138,363)**	**(4,379)**	**(112,966)**	**(117,345)**

	LGPS Assets			
	Total 2007/08 £000	Unfunded 2008/09 £000	Funded 2008/09 £000	Total 2008/09 £000
Opening balance	104,037		96,846	96,846
Expected rate of return	6,800		6,452	6,452
Actuarial gains and losses	(12,929)		(26,448)	(26,448)
Employer contributions	2,949	254	2,884	3,138
Contributions by scheme participants	971		1,072	1,072
Benefits paid	(4,982)	(254)	(4,371)	(4,625)
Closing balance	**96,846**	**0**	**76,435**	**76,435**

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The overall Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd., an independent firm of actuaries. The main assumptions used in their calculations are set out below, but it should be noted that as such, the position presented above represents an estimated snapshot position as at 31 March 2009, based on prevailing market and other economic conditions. Where relevant, assumptions were made for both the position at the beginning and end of the financial year, although the figures shown below represent the average assumptions applied for the year.

The figures quoted are based on the last full valuation of the Pension Fund. The deficit for accounting purposes also includes liabilities in respect of added years' enhancements for non-ill health early retirements, which are a charge directly on the Council's Income and Expenditure Account and not a charge to the Pension Fund.

The latest assessment took into account market movements up to 31 December 2008 and projected the likely position at 31 March 2009. It also took into account the funding methodology and assumptions considered appropriate, the length of any recovery plan and any smoothing mechanisms that might be adopted.

Local Government Pension Scheme		
Financial Assumptions	2007/08 %	2008/09 %
Rate of inflation	3.6	3.3
Rate of increase in salaries	5.4	5.1
Rate of increase in pensions	3.6	3.3
Rate of discounting scheme liabilities	6.1	7.1
Proportion of employees opting to take a	50.0	50.0
Demographic assumptions	Years	Years
Life expectancy of male current pensioner	86.1	86.2
Life expectancy of female current pensioner	89.0	89.0
Life expectancy of female future pensioner	90.0	90.0
Life expectancy of male future pensioner	87.2	87.2
Expected rate of return on assets	2007/08 %	2008/09 %
Equity investments	7.5	7.5
Government Bonds	4.6	4.0
Other Bonds	6.1	6.0
Property	6.5	6.5
Cash/Liquidity	5.3	0.5
Other assets	7.5	7.5

Split of assets between investment categories	2007/08 £'000	2007/08 %	2008/09 £'000	2008/09 %
Equity investments	60,238	62.2	46,778	61.2
Government Bonds	6,876	7.1	5,962	7.8
Other Bonds	14,527	15.0	9,402	12.3
Property	5,811	6.0	5,656	7.4
Cash/Liquidity	3,196	3.3	3,745	4.9
Other Assets	6,198	6.4	4,892	6.4
	96,846	**100**	**76,435**	**100**

Changes to the LGPS permit employees retiring on or after 06 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring will take advantage of this change to the pension scheme.

Overall, the movement in the net pension liability for the year to 31 March 2009 is as follows:

Movement in Surplus during 2008/09	£'000
Surplus / (Deficit) at Beginning of Year	**(41,517)**
Current Service Costs	(3,176)
Employer Contributions	3,138
Past Service Cost / Curtailment Cost	(12)
Net Interest / Return on Assets	(1,977)
Actuarial Gain or (Loss)	2,634
Surplus / (Deficit) at End of Year	**(40,910)**

37 NOTES RELATING TO THE CASH FLOW STATEMENT

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

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

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

	£'000	£'000
Income and Expenditure Account Surplus/(Deficit)		
General Fund		(11,233)
Housing Revenue Account		1,256
		(9,977)
Net additional amounts required by statute to be debited or credited to the accounts in the year		
General Fund	9,745	
Housing Revenue Account	(1,479)	8,266
		(1,711)
Collection Fund Surplus/(Deficit)		(58)
ADD		
Provision for Debt Redemption	1,542	
Write Down of Deferred Assets	(1,065)	
Revenue Exp financed from Capital	(1,083)	
Direct Revenue Financing of Capital Expenditure	3,531	
Contribution from/(to) Earmarked Provisions	(58)	
Contribution from/(to) Earmarked Reserves	1,549	4,416
Decrease/(Increase) in Debtors	4,202	
Decrease/(Increase) in Stocks	(22)	
Increase/(Decrease) in Creditors	(2,674)	1,506
External Interest Paid	2,443	
Interest Received	(1,144)	1,299
		5,452

37.1 GOVERNMENT GRANTS

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

Government grants in cash terms are outlined below.

	2007/08 £'000	2008/09 £'000
Revenue Support Grant	2,146	1,897
DWP Grants - Housing Benefits and Council Tax Council Tax Collection Council Tax Preparation Grant Benefit Fraud Grant	34,141	35,959
Benefit Administration Grant	1,179	1,139
NNDR Administration	212	216
Planning Delivery Grant	235	245
LABGI	163	344
50 Forward	205	113
Concessionary Travel	0	487
Neighbourhood Management	145	0
Other Grants	388	143
	38,814	**40,543**

37.2 Movement in Long Term Borrowing

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Public Works Loans Board	44,800	39,215	(5,585)

37.3 Movement in Other Current Assets and Liabilities

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Stocks and Work in Progress	331	353	(22)
Debtors	15,697	11,495	4,202
Creditors	(12,219)	(9,545)	(2,674)
TOTAL	**3,809**	**2,303**	**1,506**

37.4 Reconciliation of Net Cash Flow

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties. This movement in cash should be reflected in the increase or decrease in cash and cash equivalent between the 2007/08 and the 2008/09 Balance Sheets.

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

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Short Term Borrowing	0	(8,504)	(8,504)
Long Term Borrowing	(44,800)	(39,215)	5,585
Temporary Investments	10,265	12,588	2,323
Cash in Hand and at Bank	(1,948)	(1,858)	90
TOTAL	**(36,483)**	**(36,989)**	**(506)**

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

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

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

2007/08 £'000		2008/09 £'000	Notes
	Income		
(10,713)	Dwelling Rents	(11,001)	
(267)	Non-Dwelling Rents	(186)	
(1,677)	Charges for Services & Facilities	(1,868)	
(8)	Contributions Towards Expenditure	(8)	
(165)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	(165)	
(12,830)	**Total Income**	(13,228)	
	Expenditure		
3,406	Repairs & Maintenance	3,801	
3,038	Supervision & Management	3,222	
108	Rents, Rates, Taxes & Other Charges	97	
820	Negative Housing Revenue Account Subsidy Payable	1,361	*7*
91	Increase in Bad Debt Provision	265	
2,305	Depreciation & Impairments of Fixed Assets	2,315	*4 & 5*
1	Debt Management Costs	1	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0	*10*
9,769	**Total Expenditure**	**11,062**	
(3,061)	**Net Cost of HRA Services per Authority Income and Expenditure Account**	**(2,166)**	
	HRA share of the operating income and expenditure included in the whole authority accounts		
0	Gain or Loss on Sale of HRA Fixed Assets	(3)	
851	Interest Payable & Similar Charges	838	
1,002	Amortisation of Premiums & Discounts	0	
(336)	Interest & Investment Income	(182)	
36	Pensions Interest Costs & Expected Return on Pensions Assets	257	*8*
(1,508)	**(Surplus) or deficit for the year on HRA Services**	**(1,256)**	

STATEMENT OF MOVEMENT IN THE HOUSING REVENUE ACCOUNT BALANCE FOR THE YEAR ENDED 31 MARCH 2009

This statement takes the outturn on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit on the HRA Balance.

2007/08 £'000		2008/09 £'000	Notes
(1,508)	**(Surplus) / Deficit for Year on the HRA Income & Expenditure Account**	**(1,256)**	
1,549	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	1,479	*12*
41	**(Increase) or decrease in Housing Revenue Account Balance**	**223**	
(758)	Housing Revenue Account Balance brought forward	(717)	
(717)	**Housing Revenue Account Balance carried forward**	**(494)**	

NOTES TO THE HOUSING REVENUE ACCOUNT

1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2009 the Council held the following dwellings:

Bedsits		117
1 Bedroom	Houses & Bungalows	649
	Flats & Maisonettes	510
2 Bedroom	Houses & Bungalows	506
	Flats & Maisonettes	682
3 Bedroom	Houses & Bungalows	1,259
	Flats & Maisonettes	7
4 or more bedroomed dwellings		82
TOTAL ALL DWELLINGS		**3,812**

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

	Bal b/fwd 01/04/2008 £'000	Bal c/fwd 31/03/2009 £'000
Operational		
Council Dwellings	153,065	160,152
Other land and buildings	19	113
	153,084	**160,265**
Non-operational Assets	1,091	1,122
TOTAL	**154,175**	**161,387**

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 third year of which has now updated all values to 01 April 2005. The figures for 2008/09 incorporate the first annual rebasing exercise on the April 2005 revaluation and this has resulted in an increase in asset values of £8,698,809 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 £2,277,500, for 2008/09 has been used as a proxy for depreciation on dwellings. Non-dwelling assets were also revalued at 01 April 2005.

The vacant possession value of dwellings held on 01 April 2008 was £338,560,335. The difference between this and the EUV-SH valuation of £162,508,946 (i.e. the update figure after the 2008/09 rebasing exercise effective as of 01 April 2008 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:

Summary of Movements on Major Repairs Reserve 2008/09	£'000
Opening Balance 01 April	**5,827**
Transfer from General Reserves	0
Transfer to MRR – Depreciation	2,315
Transfer to HRA - Depreciation Adjustment	(38)
Capital Expenditure	
- Land	
- Houses	(1,380)
- Other property.	
Closing Balance 31 March	**6,724**

3 CAPITAL EXPENDITURE

Capital expenditure of £3,033,000 was incurred during the year, of which £2,938,000 was on works and improvements to dwellings, £78,000 on non dwellings and £17,000 on intangible assets. This was financed as follows:

	£'000
Borrowing	0
Usable Capital Receipts	46
Direct Revenue Financing	1,451
Earmarked Reserves	139
Majors Repairs Reserve	1,380
Grants and Contributions	17
Total Capital Financing	**3,033**

Capital Receipts totalling £163,000 were received during the year from the following sources:

	£'000
Sale of dwellings	128
Sale of land	21
Repayment of Principal on Mortgages	14
Repayment of Right to Buy discounts	0
Total Capital Receipts	**163**

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:

	£'000
Council Dwellings	2,277
Other land and buildings	1
Non-operational Assets	37
TOTAL	**2,315**

5 IMPAIRMENT CHARGES

There were no impairment charges for the financial year.

6 INTANGIBLE ASSETS

A charge of £3,000 was made during the year in respect of software purchased for Task Total Repairs which is an upgrade of the contractor system. The asset is to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

7 HOUSING REVENUE ACCOUNT SUBSIDY

The total Negative Housing Subsidy payable for the year 2008/09 was £1,345,000, the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £1,360,000. The additional payment of £16,000 is in respect of 2007/08 was due to a lower rental constraint allowance being applied at final determination, than originally estimated.

	£'000
Management Allowance	1,990
Maintenance Allowance	3,809
Major Repairs Allowance	2,277
Admissible Allowances	0
Anti-Social Behaviour Allowance	0
Charges for Capital	1,779
Rent Rebates	0
Notional Rent	(11,197)
Interest on Receipts	(3)
Government Grants	0
Rental Constraint Allowance	0
Total Housing Subsidy	**(1,345)**

8 CONTRIBUTION TO/FROM THE PENSION RESERVE

This is the fourth year in which the requirements of FRS17 have been applied to the Housing Revenue Account. As such, 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 2009 amounted to £362,000. An amount of £526,000 was held as provision for bad debts; this includes rent arrears and all other debts outstanding to the Housing Revenue Account. The significant increase in provision this year is directly attributable to increase in invoices raised in respect of rechargeable repairs and a new provision for current tenant court costs. 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 have been no exceptional items, extraordinary items or prior year adjustments within the Housing Revenue Account.

12 NOTES TO STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2007/08 £'000	2008/09 £'000
Additional amounts required by Statute & Non-Statutory Proper Practices to be taken into account in determining the movement in the HRA Balance		
Difference between Interest Payable and Similar Charges including Amortisation of Premiums & Discounts determined in accordance with the SORP & those determined in accordance with Statute	(843)	159
Difference between any other item of Income & Expenditure determined in accordance with the SORP and determined in accordance with Statutory HRA requirements	0	0
Gain or Loss on Sale of HRA Fixed Assets	0	0
Net charges made for retirement benefits in accordance with FRS17	3	(262)
Sums Directed by the Secretary of State to be debited or credited to the HRA that are not Income or Expenditure in accordance with UK GAAP	0	0
	(840)	(103)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
Transfer to/(from) Major Repairs Reserve	371	(38)
Transfer to/(from) Housing Repairs Account	0	0
Transfer to/(from) Earmarked Reserves	250	30
Capital Expenditure funded by the Housing Revenue Account	1,768	1,590
Voluntary set aside for debt repayment	0	0
	2,389	**1,582**
Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	**1,549**	**1,479**

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT 2008/09

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

2007/08 £'000	INCOME	See Note	2008/09 £'000
	Council Tax		
(52,033)	Income from Council Tax	*1*	(54,255)
	Transfers from General Fund:		
(8,681)	Council Tax Benefits		(9,038)
	Business Rates		
(33,650)	Income from Business Ratepayers	*2*	(30,346)
	Contributions		
(336)	From Provisions for Council Tax Amounts Written Off		(282)
(94,700)	**TOTAL INCOME**		**(93,921)**
	EXPENDITURE		
	Precepts and Demands		
45,298	Lancashire County Council		46,475
7,648	Lancaster City Council (including parish precepts)		7,973
5,451	Lancashire Police Authority		5,867
2,487	Lancashire Fire Authority		2,596
	Business Rates		
33,438	Payment to National Pool		30,135
212	Cost of Collection Allowance		211
	Council Tax Bad and Doubtful Debts		
336	Write-offs		282
437	Contribution to Provision for Non-Collection		440
95,307	**TOTAL EXPENDITURE**		**93,979**
	FUND BALANCE		
607	(Surplus)/deficit for year		58
(596)	(Surplus)/deficit as at 01 April (Brought forward)	*3*	11
11	**(Surplus)/Deficit as at 31 March (Carried forward)**	*4*	**69**

NOTES TO THE COLLECTION FUND ACCOUNT

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

1 COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimating 01 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lancashire County Council, Lancaster City Council and the Lancashire Police Authority for the forthcoming year and dividing this by the Council Tax base.

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2008/09 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,578	11,049
Band B	13,136	10,217
Band C	10,028	8,914
Band D	5,446	5,446
Band E	3,394	4,149
Band F	1,722	2,487
Band G	748	1,246
Band H	39	78
Total	**51,091**	**43,586**
Collection Rate		*99%*
Council Tax Base		**43,150**

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 46.2p per £ for 2008/09 (44.4p for 2007/08). For local businesses with a rateable value of less than £15,000, a discount of 0.4p was allowed giving a rate of 45.8p. The rateable value at 31 March 2009 was £80,614,155 (£87,977,782 for 2007/08). 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 2008/09, paid directly to the Income and Expenditure Account, amounted to £13.626M.

3 DISTRIBUTION OF COLLECTION FUND (SURPLUSES) OR DEFICITS

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

As at 01 April 2008 the Council Tax deficit was shown as £11,000, as this was a small balance no distributions were made during 2008/09.

4 CLOSING (SURPLUS) / DEFICIT BALANCES ON THE COLLECTION FUND

The movements in the Collection Fund during 2008/09 are summarised below.

	Residual Community Charge £'000	Council Tax £'000	TOTAL £'000
(Surplus)/Deficit 01/04/08	--	11	11
Distributions in Year	--	--	0
Net Transaction in Year	--	58	58
(Surplus)/Deficit 31/03/09	**0**	**69**	**69**

Of the £69,000 deficit as at 31 March 2009, £60,000 is attributable to other Local Authorities as follows:

	£'000
Lancashire County Council	51
Lancashire Police Authority	6
Lancashire Fire Authority	3

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 2009 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/08	Income	Expenditure	Balance c/f 31/03/09
	£	£	£	£
Bequests and Endowments				
(a) Council sole trustee				
Ashton Memorial	0	0	0	0
Williamson Park	0	0	0	0
Other	(4,987)	(4,589)	4,721	(4,855)
(b) Council not sole trustee	(9,095)	(504)	0	(9,599)
School etc. Prize Funds				
(a) Council sole trustee	(22,860)	(1,251)	0	(24,111)
(b) Council not sole trustee	(1,846)	(103)	0	(1,949)
TOTAL	**(38,788)**	**(6,447)**	**4,721**	**(40,514)**

	Fund Balances	Cash and Fund Investments
	£	£
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	51,015	50,883
(b) Council not sole trustee		
Capital	0	0
Revenue	2,045	1,000
Cash and Debtors	9,096	10,643
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	1,630	874
Cash and Debtors	23,726	25,734
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	2,204	2,307
TOTAL	**91,678**	**93,403**

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

The Council consolidates all the Bequests, Endowments and Trusts into one account, these can be found below.

Income & Expenditure Account	**2007/08 £**	**2008/09 £**
Income		
Interest	(9,842)	(6,447)
Capital		
	(9,842)	**(6,447)**
Expenditure		
Ashton Memorial	1,405	1,338
William Smith Festival	345	312
Whalley Playground	658	658
Lune Bank Gardens	123	99
Williamson Park	1,941	1,924
War Memorial Fund	20	16
Other	5	374
	4,497	**4,721**
Excess Income	**(5,345)**	**(1,726)**

Balance Sheet	**2007/08 £**	**2008/09 £**
Assets		
Investments	3,836	3,836
Debtors	1,923	2,023
Bank	85,919	87,544
	91,678	**93,403**
Represented by:		
Reserves as at 31st March	86,333	91,677
Income in year	5,345	1,726
	91,678	**93,403**

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

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

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

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

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

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

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

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

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:

Operational assets

- Council dwellings
- Other land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

Non-operational assets

- Investment properties
- Assets under construction
- Surplus assets, held for disposal

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

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

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 (normally 90% or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. however, where the present value of the minimum lease payments does not amount to 90% or more of the fair value of the leased asset, it should not be automatically assumed that the lease is not a finance lease. FRS 5 requires that the substance of the transaction be reflected and therefore the lease may still need to be classified as a finance lease.

Notwithstanding the fact that the lease meets the definition above, the presumption that an asset should be classified as a finance lease may in exceptional circumstances be rebutted if it can be clearly demonstrated that the lease in question does not transfer substantially all the risks and rewards of ownership (other than legal title) to the lessee.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

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.

Investment Properties
Interest in land and/or buildings:

(a) in respect of which construction work and development have been completed, and
(b) which is held for its investment potential, with any rental income being negotiated at arm's length.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

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.

Net Realisable value
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

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.

Operational Assets
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

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.

Revenue Expenditure Funded from Capital Under Statute
Prior to the 2008 SORP, authorities used deferred charges to recognise expenditure that regulations permitted to be funded from capital resources, but which did not satisfy the SORP's criteria to be classified as capital expenditure. Examples of deferred charges included work on property not owned by the authority and grants for economic development purposes (where the grant was spent on capital items). Deferred charges have now been reclassified as Revenue Expenditure Funded from Capital Under Statute and are shown as grant payments within the Income and Expenditure Account under the relevant Service area.

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

Stocks
The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

(a) goods or other assets purchased for resale
(b) consumable stores
(c) raw materials and components purchased for incorporation into products for sale
(d) products and services in intermediate stages of completion
(e) long-term contract balances, and
(f) finished goods.

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.