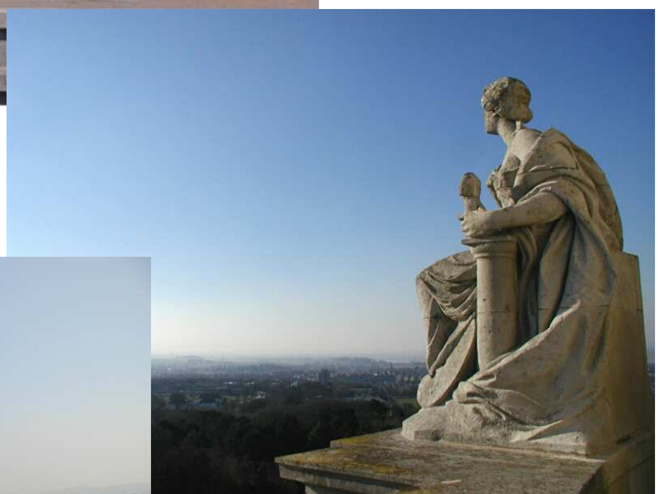
LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Statement of Accounts 2009/10



For the year ended 31 March 2010

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STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1 INTRODUCTION

This document sets out the City Council's annual accounts for the financial year ended 31 March 2010. 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 2009/10 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 2009/10:

	2009/10			
Expenditure	**Original Budget** £'000	**Revised Budget** £'000	**Actual** £'000	**Variance from Revised Budget** £'000
Central Services to the Public	1,651	1,548	1,315	(233)
Cultural, Environmental and Planning Services	17,440	17,259	16,338	(921)
Highways, Roads & Transport Services	1,596	1,870	1,451	(419)
Housing Services	1,878	2,000	1,832	(168)
Corporate & Democratic Core	2,674	2,526	2,314	(212)
Non Distributed Costs	323	771	784	13
Net Cost of General Fund Services	**25,562**	**25,974**	**24,034**	**(1,940)**
Corporate Income & Expenditure	(2,294)	(2,746)	(79)	2,667
Interest Payable & Similar Charges	1,381	2,352	1,435	(917)
Parish Precepts	515	515	515	0
Contribution to/(from) General Fund Reserve	(191)	(400)	(155)	245
NET REVENUE EXPENDITURE	**24,973**	**25,695**	**25,750**	**55**
Funded by :				
General Government Grants	(459)	(1,181)	(1,198)	(17)
Revenue Support Grant	(2,999)	(2,999)	(2,999)	0
National Non Domestic Rates	(12,995)	(12,995)	(12,995)	0
Council Tax	(8,520)	(8,520)	(8,558)	(38)
TOTAL FUNDING	**(24,973)**	**(25,695)**	**(25,750)**	**(55)**

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 2009/10 (including parish precepts) was originally approved by Council on 04 March 2009 at £24.514M, representing net revenue expenditure of £24.973M less general government grants of £459,000. It assumed that balances would be £1M at 31 March 2010, though these were increased by a further £48,000 following the 2008/09 outturn.

At outturn for 2009/10 there has been a net underspending of £245,000 against the Revised Budget (or £36,000 against the Original Budget), but this is after providing for £1.3M of additional contributions to reserves. The main savings relate to reduced concessionary travel costs, vehicle savings, additional fee income in a number of areas and general salary savings across all services. The bulk of such salary savings has arisen as a result of ongoing restructuring and other service efficiencies planned for full implementation in 2010/11.

As a result of the above changes, General Fund unallocated balances stand at £1.2M as at 31 March 2010, which is in excess of the 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. Also it should be noted that a £70,000 contribution to balances is currently budgeted for in 2010/11.

The overall prospects for Icelandic investment recovery are still heavily dependent upon the outcome of the litigation process currently ongoing in the Icelandic courts. During 2009/10 the Council received approval from Government to capitalise £2.1M of potential losses (or 'impairments') associated with the original £6M investments. Given the uncertainties, this approval has been applied and should such losses materialise, any capitalised amounts would not impact directly on the budget in one year, but would be spread over a period of 20 years. Furthermore an additional £1.4M has been set aside in an impairment reserve; this is £0.5M higher than the £0.9M impairment provided for in the Revised Budget. As a result, it means that the Council has set aside sufficient funding to cover all potential currently estimated losses, should the outcome of the Icelandic litigation prove unfavourable. If the outcome is favourable, however, the Council would have between £0.6M to £1.4M of reserves available for other purposes, as well as avoiding all or part of the £105K budgeted annual charge arising from the capitalisation direction.

The Council, as with the public sector generally, is expecting unprecedented financial challenges in the years ahead and in preparation, during 2009/10 it commenced a senior management review. The overall review will see a major reduction in the number of Directors and Service Heads employed and as a result several service areas will be merged, with significant financial savings arising. Associated one-off costs incurred during 2009/10 are reflected in the accounts accordingly. In addition, a further £0.8M has been set aside in a Revenue Support reserve, to assist with implementing any other cost reduction programmes needed.

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 2010 the working balance on the Housing Revenue Account amounted to £523,000, some £29,000 higher than the position at the start of the year. This represents an increase (or net underspending) of £173,000 when compared with the Revised Budget, before considering any requests to carry forward budgets into 2010/11. The main variances relate to less revenue funding being required to support the capital programme, offset partly by additional costs incurred on repair and maintenance of additional void properties. Current Council Policy is to maintain unallocated housing balances at no less than £350,000.

3 CAPITAL POSITION

In 2009/10 the City Council spent £12.972M on capital schemes, as summarised below:

Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£'000	Capital Financing	£'000
Council Housing	3,508	Grants & Contributions	5,660
City Council (Direct) Services	652	Reserves	3,803
Health & Strategic Housing	2,263	Unsupported Borrowing	2,100
Cultural Services	90	Capital Receipts	1,409
Planning	855		
Economic Development	2,911		
Information Services	42		
Property Services	551		
Financial Services	2,100		
Total	**12,972**	**Total**	**12,972**

The Council's revised Capital Programme for 2009/10 was £15.838M, but due to changes and delays in a number of schemes, around £2.753M is expected to be rolled forward into 2010/11.

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 2010, the Council held £150K in capital receipts and around £7.7M in reserves, specifically to help support future years' capital investment plans.

In 2009/10 the net cost of financing external borrowing (e.g. interest charges) was £2.234M, and the value of long term debt owed as at 31 March 2010 amounted to £39.2M, which is unchanged from the previous year. 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 £280M as at 31 March 2010.

4 PENSION LIABILITIES

In accordance with accounting practice, the Council must show the present surplus or deficit position on its share of the Pension Fund. For Lancaster, the net position as at 31 March 2010 showed a liability of £59.743M compared to a liability of £40.910M for the previous financial year. This represents an increase in net liabilities of £18.833M.

Information provided by the Actuary indicates that despite exceptionally good returns on assets during the year, the Fund has suffered increased interest costs on liabilities and the Actuary has also applied more conservative assumptions in respect of corporate bond yields and inflation compared to those used as at 31 March 2009. For Lancaster, these factors have resulted in assets increasing by 31% whilst liabilities have increased by 36.5%. The net result is an increase in the deficit of 46% overall, as the value of liabilities is much greater than the value of assets.

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, taking account of assumptions about mortality rates, salary levels etc., 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 / NEW LEGISLATION

There has been one significant change in accounting policy for 2009/10, which relates to accounting for Council Tax and NNDR. This is driven by a change in the SORP, and is based on the view that the Council, as billing authority, is formally acting as an agent for the Government and other major precepting authorities. This has required prior period adjustments to the 2008/09 Balance Sheet and Cash Flow Statement. Further details are provided in Note 1 on page 24.

There are also new requirements to expand on the reporting of remuneration to senior officers, full details of which are provided in Note 6 on page 25.

6 CONCLUSION

Although 2009/10 has been a challenging year, as at 31 March the Council has improved its financial standing to a degree, through generating net savings and other underspendings. Whilst there are still major uncertainties surrounding the outcome of Icelandic investments, the Council has ensured that all potential estimated losses are fully covered. In addition, the Council has earmarked further reserves to help respond to the greater financial challenges expected in the coming months and years; given funding prospects the Council must continue to reduce costs wherever possible. This process is well underway, but new efficiency and savings initiatives will need to be identified to ensure a balanced budget and ongoing financial stability for the future.

Statement of Accounting Policies

1 General

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year end of 31 March 2010. 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 accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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

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 over the time that they are employed by 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.

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 only 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 FIXED 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 10 below.

10 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.

10.1 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.

10.2 Measurement

De minimis levels for 2009/10 have remained 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.

10.3 Revaluations

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, or 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 01 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

10.4 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.

10.5 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.

10.6 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. The standard useful economic life applied to land and buildings and most infrastructure assets is 40 years, with vehicles, plant and equipment being between 10 and 15 years. The depreciation charges are adjusted to reflect the proportion of freehold land within the asset.

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.

11 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 (calculated in line with DCLG guidance on minimum revenue provision). 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.

12 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some expenditure to be classified as capital for financing purposes although 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 financed 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.

13 LEASES

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfers to the Council. 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.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life.

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable under operating leases are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning the rentals are charged when they become payable.

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 Financial Reporting Standard (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 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.

18 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.

19 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.

20 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.

21 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.

22 PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the council would be deemed to control the services that are provided under PFI schemes and as ownership of the fixed assets would pass to the council at the end of the contract for no additional charge, the council would carry the fixed assets used under the contracts on the Balance Sheet.

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 financial 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 related balances, and so 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.

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.

Auditors' 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 2010.

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

27th September 2010

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 2010 under the Audit Commission Act 1998. The accounting statements comprise the Lancaster City Council 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 auditors' 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 Responsible Financial Officer and auditors

The Responsible Financial Officer's 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 2009 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of:

- 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 the Explanatory Foreword and the content of the Annual Report. 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

27th September 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 2009/10 was approved by the Audit Committee at its meeting held on 30 June 2010, prior to the audit being completed.

Cllr Malcolm Thomas

3 THE HEAD OF FINANCIAL SERVICES' RESPONSIBILITIES

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

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

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

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 a true and fair view of the financial position of the authority as at 31 March 2010 and the income and expenditure for the year then ended 31 March 2010.

Nadine Muschamp, CPFA
Head of Financial Services

LANCASTER CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2009/10

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 2010 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 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 Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The following are the main processes applied in maintaining and reviewing the 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 considers and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In January 2010 the external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's accounts for 2008/09. They 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 at level 2 - "meeting minimum requirements – performing adequately".

  In their *Audit Letter*, the external auditors advised the council on areas where action was needed, including

  - The requirement from 2010/11 to prepare financial statements under International Financial Reporting Standards (IFRS);
  - The proposed requirement for all public sector bodies to report publicly on sustainability performance; and
  - Continuing pressures on local authorities' funding in the medium term and the need to have comprehensive efficiency programmes and sound financial management arrangements and be prepared to take bold measures to mitigate the impact on priority services.

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.

A serious breakdown in standards of professional conduct and financial management was identified during the year in the Council Housing Service's Repair and Maintenance Service. An investigation resulted in disciplinary action being taken and a comprehensive action plan drawn up to remedy the procedural weaknesses identified. The Audit Committee will monitor progress with implementing this action plan.

Given these points, the action already taken, 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.

The council recognises that financial pressures and the significant programme of structural and managerial change that it is currently undertaking present a new range of challenges to maintaining effective systems of governance. It is recognised that continued effort is needed to address any significant issues affecting the council and to ensure a continuous improvement of governance controls, and to that end the council will:

- ***Continue to seek to identify efficiencies and improve the Value for Money*** *the council* and its key partnerships provide, through a continued focus on operational efficiency, a review of the *Value for Money Strategy*
- ***Continue to strengthen delivery of customer-focused services*** by continuing the programme of service integration into the council's Customer Service Centres and by reviewing the level of both statutory and non-statutory services provided with a view to achieving more focused and prioritised service planning and allocation of resources.
- ***Continue to develop the effectiveness of partnership working*** by extending the roll-out of a programme reviewing and evaluating the governance arrangements of the council's key partnerships.
- ***Use organisational change as an opportunity to review standards of governance*** and promote high standards of conduct, ethics and performance throughout the organisation.
- ***Continue to improve the measurement and monitoring of the environmental impact*** of the council's policies, plans and decisions.

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 2010

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 32).

2008/09		2009/10			
Restated		**EXP**	**INC**	**NET**	***NOTES***
£'000		*£'000*	*£'000*	*£'000*	
2,499	Central Services to the Public	12,382	(11,067)	1,315	
18,405	Cultural, Environmental and Planning Services	31,780	(15,442)	16,338	
1,551	Highways, Roads and Transport Services	4,822	(3,371)	1,451	
(2,348)	Local Authority Housing (HRA)	27,416	(18,332)	9,084	
3,601	Other Housing Services	40,075	(38,243)	1,832	
4,297	Corporate and Democratic Core	3,263	(949)	2,314	
529	Non Distributed Costs	980	(195)	785	
28,534	Net Cost of Services	120,718	(87,599)	33,119	
0	(Gains) or Loss on Disposal of Fixed Assets	595	(835)	(240)	
284	Precepts of Local Precepting Authorities			515	
2,208	Surplus or Deficit of Trading Undertakings or Other Operations, including Dividends from Companies	4,561	(4,817)	(256)	*2*
2,443	Interest Payable & Similar Charges			2,234	
110	Amounts Payable into the Housing Capital Receipts Pool			88	
1,632	Investment losses			1,249	*25.7*
0	Unattached Capital Receipts			0	
(1,144)	Interest & Investment Income			(371)	
1,977	Pensions Interest Cost & Expected Return on Pensions Assets			3,415	*32*
0	Extraordinary Items			0	
36,044	Net Operating Expenditure			39,753	
(7,966)	Demand on the Collection Fund			(8,558)	
(3,212)	General Government Grants			(4,197)	*4*
(13,626)	Distribution from Non-Domestic Rate Pool			(12,995)	
11,240	**(Surplus) / Deficit for the Year**			**14,003**	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31 MARCH 2010

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.

2008/09 ***Restated*** £'000		**2009/10** £'000	
	OVERALL MOVEMENT ON THE GENERAL FUND BALANCE		***NOTES***
11,240	(Surplus) / Deficit for year on the Income & Expenditure Account	14,003	
(9,752)	Net additional amount required by Statute & Non-Statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(13,848)	***9***
1,488	**Net (Increase) / Decrease in General Fund Balance**	**155**	
(2,888)	**General Fund Balance brought forward**	(1,400)	
(1,400)	**General Fund Balance carried forward**	**(1,245)**	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL) FOR THE YEAR ENDED 31 MARCH 2010

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.

2008/09 ***Restated*** £'000		**2009/10** £'000	***NOTES***
11,240	(Surplus) / Deficit for Year on the Income & Expenditure Account	14,003	
(19,140)	(Surplus) / Deficit for Year Arising on Revaluation of Fixed Assets	2,325	
(2,634)	Actuarial (Gains) & Losses on Pension Fund Assets & Liabilities	16,627	***32***
38	Any Other Gains or Losses required to be included in the STRGL	(2)	
(10,496)	**TOTAL RECOGNISED (GAINS) & LOSSES FOR THE YEAR**	**32,953**	

BALANCE SHEET
FOR THE YEAR ENDED 31 MARCH 2010

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

2008/09 *Restated* £'000			2009/10 £'000	*NOTES*
474	**Intangible Assets**		306	***18***
	Tangible Fixed Assets			***10***
	Operational Assets :			
160,152		Council Dwellings	142,165	
47,994		Other Land & Buildings	49,641	
4,675		Vehicles, Plant & Equipment	4,487	
33,808		Infrastructure	32,854	
8,055		Community Assets	8,066	
	Non Operational Assets :			
20,603		Investment Properties	20,446	
338		Assets Under Construction	4,183	
15,573		Surplus assets, held for disposal	15,441	
291,672	**TOTAL FIXED ASSETS**		**277,589**	
0	Long Term Investments		2,857	
29	Long Term Debtors		19	
291,701	**TOTAL LONG TERM ASSETS**		**280,465**	
	Current Assets			
353		Stocks & Work in Progress	312	***20***
14,538		Debtors (Net of Bad Debt Provision)	9,391	***21***
12,588		Investments	7,538	***23***
	Current Liabilities			
(8,504)		Short Term Borrowing	0	***25.5***
(8,885)		Creditors	(9,475)	***22***
(1,858)		Bank Overdraft	(214)	
299,933	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**288,017**	
(39,215)	Long Term Borrowing		(39,215)	***25.5***
(223)	Deferred Liabilities		(223)	
(53,995)	Government Grants & Contributions Deferred		(56,409)	
(641)	Provisions		(431)	***27***
(40,910)	Liability related to defined benefit pension scheme		(59,743)	***32***
164,949	**TOTAL ASSETS LESS LIABILITIES**		**131,996**	
170,294	Capital Adjustment Account		155,889	
21,527	Revaluation Reserve		18,916	
(2,027)	Financial Instruments Adjustment Account		(668)	
(9)	Collection Fund Adjustment Account		30	
809	Usable Capital Receipts Reserve		150	
26	Deferred Credits		19	
(40,910)	Pension Reserve		(59,743)	***28***
6,724	Major Repairs Reserve		6,868	
6,621	Earmarked Reserves		8,767	
1,400	Fund Balances :	General Fund	1,245	
494		Housing Revenue Account	523	
0		Collection Fund	0	
164,949	**TOTAL EQUITY**		**131,996**	

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

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

	NOTES	2008/09 Restated		2009/10	
		£'000	£'000	£'000	£'000
Revenue Activities					
Cash Outflows					
Cash paid to and on behalf of employees		(24,502)		(24,541)	
Other operating cash payments		(42,811)		(40,066)	
Housing Benefit paid out		(29,959)		(36,831)	
Precepts paid		(285)		(515)	
Payments to Capital Receipts Pool		(94)		(37)	
TOTAL PAYMENTS			(97,651)		(101,990)
Cash inflows					
Rents (after rebates)		2,585		2,605	
NNDR receipts from National Pool		13,626		12,995	
Revenue Support Grant	*33.1*	1,897		2,999	
DWP grants for benefits	*33.1*	35,959		44,071	
Other government grants	*33.1*	3,413		3,456	
Cash received for goods and services		29,749		29,041	
Other operating cash receipts / payments		15,874	103,103	19,996	115,163
NET CASH INFLOW FROM REVENUE ACTIVITY	*33*		**5,452**		**13,173**
Returns on Investments and Servicing of Finance					
Cash outflows : Interest paid		(2,443)		(2,234)	
Cash inflows : Interest received		1,144	(1,299)	109	(2,125)
Capital Activities					
Cash outflows : Purchase of fixed assets		(10,197)		(10,562)	
Other capital cash payments		0		(2,857)	
TOTAL PAYMENTS		(10,197)		(13,419)	
Cash inflows : Sale of fixed assets		1,538		749	
Capital grants received		2,995		6,720	
Other capital cash receipts		1,005		0	
TOTAL RECEIPTS		5,538		7,469	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(4,659)		(5,950)
NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING	*33.4*		**(506)**		**5,098**
Management of Liquid Resources					
Net (increase) / decrease in short term deposits			6,181		5,050
Net (increase) / decrease in other liquid resources			10,134		3,685
Financing					
Cash outflows					
Repayments of amounts borrowed			(5,585)		(8,504)
NET CASH INFLOW/OUTFLOW(-)			**10,730**		**231**
NET INCREASE/(DECREASE) IN CASH			**10,224**		**5,329**

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 PRIOR PERIOD AND EXCEPTIONAL / EXTRAORDINARY ITEMS

There have been prior year adjustments within the accounts affecting the 2008/09 figures in relation to the restatement of Collection Fund balances following the requirement for the Council, as billing authority, to account for such transactions as an agent of the Government and major precepting bodies. This involved removing the surplus/deficit which was due to precepting authorities, balanced by the removal of the corresponding balance sheet items. The net impact of these changes is nil and as such they do not affect the outturn for 2008/09. In addition, the prior year deficit attributable to the City Council (£9K) was transferred out of the Collection Fund and into the General Fund balance sheet with no impact on Council tax in year. The main statements affected by the changes were the balance sheet and the cash flow statement.

Adjustments have also 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, building maintenance and the highways section which have not been consolidated into their relevant service areas.

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.

	2008/09 (Surplus) / Deficit £'000	Income £'000	Expenditure £'000	2009/10 (Surplus) / Deficit £'000
General highway and sewer work	(182)	(1,253)	1,201	(52)
Other maintenance work	0	(813)	813	0
Trade refuse collection	(133)	(910)	764	(146)
Markets	661	(814)	1,189	375
Commercial Properties / Industrial Units	1,862	(1,027)	594	(433)
Total (Surplus) / Deficit on Trading Undertakings	**2,208**	**(4,817)**	**4,561**	**(256)**

It should be noted that the surplus on general highway and sewer work has been reduced to take effect of the White Lund Depot being subject to impairment (a reduction in value) following a revaluation review. The total value of the impairment is £614,000 of which £194,000 is attributable to the highways section. In line with proper accounting practices the impairment 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 Balances.

3 AGENCY INCOME AND EXPENDITURE

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 Contract (Direct) Services 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 City Contract (Direct) Services and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £159,025, of which £121,764 was reimbursed by LCES and £37,261 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.

4 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 £'000	2009/10 £'000
Revenue Support Grant	1,897	2,999
Area Based Grant	726	346
Housing and Planning Delivery Grant	245	818
Local Authority Business Growth Incentive	344	34
Total	**3,212**	**4,197**

5 Members Allowances

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

Type of Allowance	2008/09 £	2009/10 £
Basic Allowance	192,623	196,730
Special Responsibility Allowance	95,833	96,175
Carer Allowance	850	949
Total For All Members	**289,306**	**293,854**

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

6 Officers' Emoluments

Regulation 4 of the Accounts and Audit (Amendment) Regulations 2009 introduced a requirement to increase the transparency of and accountability for the remuneration of senior employees. The regulations extent the previous disclosure requirements to now show the numbers of officers in remuneration bandings of £5,000 (previously these were £10,000). The information in the following table is based on employees' total remuneration excluding employer's pension contributions.

	No. of Employees		Left During Year
Remuneration Band	2008/09	2009/10	2009/10
£50,000 - £54,999	1	1	
£55,000 - £59,999	10	7	
£60,000 - £64,999	2	2	
£65,000 - £69,999	-	-	
£70,000 - £74,999	1	-	
£75,000 - £79,999	2	3	
£80,000 - £84,999	-	-	
£85,000 - £89,999	-	-	
£90,000 - £94,999	-	-	
£95,000 - £99,999	-	-	
£100,000 - £104,999	-	-	
£105,000 - £109,999	1	1	
£110,000 - £114,999	-	-	
£115,000 - £119,999	-	2	2
£120,000 - £124,999	-	1	1

The new regulations also require further disclosures in respect of the individual remuneration details for senior officers, for each financial year. The following table provides relevant information for 2009/10 together with comparative figures for 2008/09; any recent changes in post titles as a result of restructuring have not been reflected in the information. In subsequent years, inter-authority comparison of such remuneration disclosures, viewed alongside key characteristics of authorities such as size, range of services and responsibilities, leadership models adopted and political make-up, should help inform accountability still further.

Post holder information (Post title - Name)	Salary (Including fees & Allowances)	Expenses	Redundancy Payments	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including pension contributions
2009/10	£	£	£	£	£	£
Chief Executive - M Cullinan	108,229	705		**108,934**	19,378	**128,311**
Corp. Director (Finance & Performance) - R Muckle	78,204	471		**78,675**	13,943	**92,618**
Corp. Director (Community Services) - P Loker	78,204	683		**78,887**	13,943	**92,831**
Corp. Director (Regeneration) - H McManus	76,778	1,692		**78,470**	13,685	**92,155**
Head of Financial Services - N Muschamp	62,945	623		**63,568**	11,164	**74,731**
Head of Legal & Human Resources - S Taylor	61,687	302		**61,989**	11,164	**73,153**
Head of Council Housing - S Milce	58,283	167		**58,450**	10,320	**68,770**
Head of Information Services - J Allder	55,994	399		**56,393**	9,923	**66,316**
Head of Corporate Strategy - R Tulej	54,824	0		**54,824**	9,923	**64,747**
Head of Health & Strategic Housing - S Lodge	55,994	757		**56,751**	9,923	**66,674**
Head of City Council (Direct) Services - M Davies	55,994	376		**56,370**	9,923	**66,293**
Head of Planning & Building Control - A Dobson	55,994	500		**56,494**	9,923	**66,417**
Head of Cultural Services - D Owen (Note 1)	55,994	1,119	62,454	**119,567**	9,923	**129,490**
Head of Revenue Services - R Mason (Note 1)	55,994	138	64,789	**120,921**	9,923	**130,844**
Head of Econ Dev & Tourism - P Sandford (Note 1)	55,994	562	61,298	**117,854**	9,923	**127,777**
Head of Property Services - G Cox	54,756	655		**55,411**	9,699	**65,110**
Head of Democratic Services - G Noall	56,506	741		**57,247**	9,699	**66,946**
TOTAL FOR 2009/10	**1,082,374**	**9,891**	**188,541**	**1,280,805**	**192,379**	**1,473,184**
2008/09						
Chief Executive - M Cullinan	108,154	744		**108,898**	18,307	**127,205**
Corp. Director (Finance & Performance) - R Muckle	78,129	658		**78,787**	13,173	**91,960**
Corp. Director (Community Services) - P Loker	78,129	526		**78,655**	13,173	**91,828**
Corp. Director (Regeneration) - H McManus	71,575	188		**71,763**	12,062	**83,825**
Head of Financial Services - N Muschamp	62,870	212		**63,082**	10,547	**73,629**
Head of Legal & Human Resources - S Taylor	61,677	317		**61,994**	10,547	**72,541**
Head of Council Housing - S Milce	55,919	82		**56,001**	8,997	**64,998**
Head of Information & Customer Services - J Allder	55,919	249		**56,168**	9,375	**65,543**
Head of Corporate Strategy - R Tulej	54,824	367		**55,191**	9,375	**64,566**
Head of Health & Strategic Housing - S Lodge	55,919	398		**56,317**	9,375	**65,692**
Head of City Council (Direct) Services - M Davies	55,919	427		**56,346**	9,375	**65,721**
Head of Planning & Building Control - A Dobson	55,919	483		**56,402**	9,375	**65,777**
Head of Cultural Services - D Owen	56,017	1,437		**57,454**	9,375	**66,829**
Head of Revenue Services - R Mason	55,919	658		**56,577**	9,375	**65,952**
Head of Econ Dev & Tourism - P Sandford	55,919	849		**56,768**	9,375	**66,143**
Head of Property Services - G Cox	53,430	516		**53,946**	8,807	**62,753**
Head of Democratic Services - G Noall	54,630	1,313		**55,943**	9,092	**65,035**
TOTAL FOR 2008/09	**1,070,868**	**9,424**	**0**	**1,080,292**	**179,705**	**1,259,997**

Note 1 : The Heads of Cultural Services, Revenue Services and Economic Development and Tourism all took early retirement / voluntary redundancy on 31 March 2010, as part of an ongoing senior management restructure.

7 RELATED PARTIES

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.

8 AUDIT COSTS

In 2009/10 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2008/09 £	2009/10 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor.	9,260	9,600
Fees payable to the Audit Commission in respect of statutory inspection.	14,495	8,200
Fees payable to the Audit Commission for the certification of grant claims and returns.	0	0
Fees payable to KPMG the certification of grant claims and returns.	42,265	44,527
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor.	124,000	120,000
TOTAL	**190,020**	**182,327**

9 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.

	2008/09 £'000	2009/10 £'000
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.	(279)	(215)
Depreciation and impairment of fixed assets.	(10,338)	(17,542)
Government Grants Deferred amortisation.	4,024	3,247
Revenue expenditure funded from Capital under Statute.	(4,056)	(1,930)
Net loss on sale of fixed assets.	0	240
Unattached Capital Receipts.	0	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.	(1,201)	1,201
Net changes made for retirement benefits in accordance with FRS17.	(1,765)	(1,911)
Capitalisation of investment losses, in accordance with capitalisation directive.	0	(2,100)
Amount by which Council Tax income adjustment included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation.	(7)	38
	(13,622)	**(18,972)**
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.		
Statutory provision for repayment of debt.	1,084	1,581
Capital expenditure charged to the General Fund Balance.	560	345
Transfer from Usable Capital Receipts equal to amount payable to Housing Capital Receipts Pool.	(110)	(88)
	1,534	**1,838**
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	1,256	1,235
Voluntary Revenue Provision for repayment of debt	458	0
Net transfer to / (from) earmarked reserves	622	2,051
	2,336	**3,286**
Net additional amount required to be (credited)/debited to the General Fund Balance for the year.	**(9,752)**	**(13,848)**

10 Movement on Fixed Assets

Movements in fixed assets during the year were as follows:

	Council dwellings £'000	Other land and buildings £'000	Vehicles plant & equipment £'000	Infrastructure assets £'000	Community assets £'000	Non-Operational properties £'000	TOTAL £'000
Gross book value as at 01/04/2009	**182,716**	**54,045**	**7,223**	**40,620**	**8,055**	**37,449**	**330,108**
Additions	3,386	264	595	709	11	3,930	8,895
Disposals	(75)	(140)	-	-	-	(415)	(630)
Revaluations / Adjustments	600	4,810	-	40	-	75	5,525
Impairment	(19,606)	(2,174)	-	(62)	-		(21,842)
Transfers	-	(95)	-	-	-	95	0
Gross book value as at 31/03/2010	**167,021**	**56,710**	**7,818**	**41,307**	**8,066**	**41,134**	**322,056**
Depreciation as at 01/04/2009	**(22,564)**	**(6,051)**	**(2,548)**	**(6,812)**	**0**	**(935)**	**(38,910)**
Depreciation for year	(2,304)	(1,118)	(783)	(1,641)	-	(51)	(5,897)
(on reducing balance basis)	-	-	-	-	-	-	0
Depreciation Adjustments	-	-	-	-	-	-	0
Depreciation on assets sold / transferred	12	100	-	-	-	(78)	34
Balance as at 31/03/2010	**(24,856)**	**(7,069)**	**(3,331)**	**(8,453)**	**0**	**(1,064)**	**(44,773)**
Net book value as at 31/03/2010	**142,165**	**49,641**	**4,487**	**32,854**	**8,066**	**40,070**	**277,283**

11 Capital Expenditure and Financing

Capital expenditure incurred during the year was £12.972M. The following table sets out how this was funded.

Capital Expenditure and Financing	2008/09 £'000	2009/10 £'000
Opening Capital Financing Requirement	**45,595**	**45,857**
Capital Expenditure (Investment)		
Intangible Assets	75	27
Operational Assets	5,186	8,678
Non Operational Assets	4,234	39
Revenue Exp funded from Capital Under Statute	4,056	4,228
Sources of Finance		
Capital Receipts	(2,093)	(1,409)
Government Grants, Contributions and Deferred Charges	(6,123)	(5,660)
Other Revenue Provision	(5,073)	(5,384)
Closing Capital Financing Requirement	**45,857**	**46,376**
Explanation of Movements in Year		
Increase in underlying need to borrow (supported by Government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	(262)	(519)
Increase in Capital Financing Requirement	**(262)**	**(519)**

12 Capital Commitments

As at 31 March 2010 the Council was contractually committed to capital works, which amounted to approximately £983K, details of which are shown in the following table.

Capital Projects	£
Council Housing Interior Refurbishments	65,000
Council Housing Exterior Refurbishments	121,000
Council Housing Env Improvements	97,000
Council Housing IT Equipment	63,000
Council Housing Central Control	19,000
Luneside East Lands Tribunal	247,000
Disabled Facilities Grants	298,000
Bold Street Renovation	21,000
Municipal Building Works	52,000

13 Information on Assets Held

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

	Number as at 31 March 09	Number as 31 March 10
COUNCIL DWELLINGS	3,812	3,810
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	35
Heavy Plant	13	13
COMMUNITY ASSETS		
Community Centres	1	0
Parks	15	15
Playing Fields	6	6
NON OPERATIONAL ASSETS		
Commercial / Investment Properties	57	55

14 Assets Held Under Leases

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

Leased Assets – Rentals (excluding staff car leases)	Operating Leases £
Total rentals paid in 2009/10	557,441
Outstanding undischarged leasing obligations:	
< 1yr	0
1 - 2 years	103,690
2 - 5 years	380,635
5 + years	126,328

At 31 March 2010, 20 cars were leased for staff. The total cost in 2009/10 was £117,640 and after contributions by staff of £11,769, it resulted in a charge to the Authority of £105,871.

15 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 (31/03/10)	3,595
Accumulated Depreciation	(207)
Net Book Value (31/03/10)	**3,388**
Annual depreciation charge	14
Impairment	106

16 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 2010.

17 Valuation Information

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**
2009/2010	600	4,810		40		75	**5,525**
TOTAL CHANGE	**30,605**	**29,525**	**(1,262)**	**(19)**	**9,618**	**5,022**	**73,489**

18 Intangible Fixed Assets

Intangible assets are purchased software licenses with an expected useable life of more than one year. Depreciation, using the straight line method, has been charged according to the estimated life of the asset involved, which for intangible assets is deemed to be 5 years.

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.

Software Licences	31 March 09 £'000	31 March 10 £'000
Opening Balance	678	474
Amounts written off to Income and Expenditure Account :		
Expenditure during the year	75	47
Written off to revenue in year	(279)	(215)
Closing Balance	**474**	**306**

19 ANALYSIS OF 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 09 £'000	31 March 10 £'000
General Fund	10,646	(5,146)
Housing Revenue Account	154,303	137,142
	164,949	**131,996**

20 STOCKS AND WORK IN PROGRESS

At 31 March 2010 the City Council held stocks and work in progress to the value of £312,000 (£353,000 for 2008/09), after allowing for the provision of £26,000 for obsolescence / reductions in value, and excluding internal work in progress of £118,000.

21 ANALYSIS OF DEBTORS

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2010), there are outstanding monies owed to the Council in respect of the 2009/10 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 2010.

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 2010 is analysed as follows.

DEBTORS	2008/09 £'000	2009/10 £'000
Government Departments	8,576	2,501
Other Local Authorities	566	1,019
Commercial Ratepayers	61	73
Council Taxpayers	2,795	2,488
Housing Rents	363	417
Sundry Debtors and Accruals	3,328	4,003
Provision for Bad Debts	(1,151)	(1,110)
TOTAL	**14,538**	**9,391**

22 ANALYSIS OF CREDITORS

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2010), there are outstanding monies owed by the Council in respect of the 2009/10 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 2010. The Creditors balance as at 31 March 2010 is analysed as follows.

CREDITORS	2008/09 £'000	2009/10 £'000
Government Departments	(1,789)	(976)
Other Local Authorities	(2,545)	(1,802)
Commercial Ratepayers	0	(1,958)
Council Taxpayers	(81)	(81)
Housing Rents	(116)	(154)
Sundry Creditors and Accruals	(4,354)	(4,504)
TOTAL	**(8,885)**	**(9,475)**

23 Financial Liabilities and Assets

The following table summarises the financial liabilities and assets of the Council:

	Long term		Short term	
	2008/09	2009/10	2008/09	2009/10
Financial Liabilities	£'000	£'000	£'000	£'000
At Amortised Cost	39,215	39,215	8,504	-
At Fair Value through Income & Expenditure Account	-	-	-	-
Creditors	864	654	8,885	9,475
Bank overdraft	0	0	1,858	214
TOTAL	**40,079**	**39,869**	**19,247**	**9,689**
Financial Assets				
Loans and Receivables	**29**	**2,876**	**27,126**	**16,929**
Breakdown :				
Nominal Value of Investments	-	4,011	13,300	7,372
Net gains on assets held at fair value, through 'Profit & Loss' (at balance sheet date)	-	-	-	-
Net gains on assets held at fair value, through 'Profit & Loss' (at settlement date)	-	-	-	-
Impairment of Icelandic investments	-	(1,403)	(1,632)	154
Interest accrued for Icelandic investments	-	249	431	12
Other investments interest accrued	-	-	489	-
Debtors	29	19	14,538	9,391
TOTAL	**29**	**2,876**	**27,126**	**16,929**

24 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 2009/10. 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 2009/10 was £2.29M; the total interest earned on non Icelandic deposits was £108K although £261K of interest was credited to the Income and Expenditure account in relation to notional interest on Icelandic investments following CIPFA's guidance. In addition, the carrying amount of Icelandic impairments was revised in 2009/10 with a further impairment of £1,294K on top of the £1,632K recognised but deferred in the prior year.

25 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	49,558	60,618
Amounts carried at Fair Value	0	0
	49,558	**60,618**

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	19,805	19,805
	19,805	**19,805**

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 2010, elements of the Icelandic investments were not scheduled for repayment for more than 12 months, however, the carrying value of these investments has been reviewed to reflect the current estimates of future cash flows.

25.1 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.

25.2 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 2009/10 was approved by Council at its meeting on 04 March 2009 and is available on the Council's internet site. This strategy represented a movement towards reducing the risk associated with loss of principal. Overall, this leads to the majority of balances being held on instant access in UK banks or in fixed term investments with the Debt Management Office (DMO, part of Her Majesty's Treasury).

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.

25.3 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. As noted above, during 2009/10 this has mainly been achieved through the use of instant access deposits with UK banks or the DMO.

The following analysis summarises the Council's maximum exposure to credit risk. The table gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2009 on investments out to 1 year, vs. the long term credit rating (a composite from Standard and Poors, Moody's and Fitch).

	31 March 10	Historical experience of default	Exposure
	£'000 (a)	% (b)	£'000 (a * c)
AAA rated counterparties	5,300	0.00%	-
AA rated counterparties	0	0.03%	-
A rated counterparties	2,000	0.08%	2
Icelandic investments	3,095	N/A	1,363
Trade debtors	2,185	17.00%	371
Total	**12,580**		**1,736**

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. There has been no loss of investment balances in the year except for a further impairment of the existing Icelandic investments (see further details below). All investments were made with UK banks, the DMO or the GB Sterling Money Market Funds, limiting the counterparty risk associated with foreign investments.

The Council does not generally allow credit for its trade debtors, such that £1.3M of the £2.2M balance is past its due date for payment. The due amount can be analysed by age as follows.

	31 March 09	31 March 10
	£'000	£'000
Current, < 28 Days	911	905
28-59 Days	139	157
60-91 Days	111	79
92-183 Days	163	210
184-364 Days	152	226
365+ Days	609	608
Total	**2,085**	**2,185**

25.4 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.

All deposits in year were held on either instant access or terms of less than 6 months with the DMO. As noted above, some of the Icelandic investments are not due for repayment for more than 1 year, as shown in the maturity structure of assets note below.

25.5 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 09	31 March 10
	£'000	£'000
Less than one year	(8,504)	0
More than fifteen years	(39,215)	(39,215)
Total	**(47,719)**	**(39,215)**

The maturity analysis of financial assets is as follows:

	31 March 09	31 March 10
	£'000	£'000
Less than one year	12,588	16,929
Between one and two years	-	1,944
Between two and five years	-	734
Between five and ten years	-	179
Total	**12,588**	**19,786**

25.6 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 2009/10 but the Council did take on short term borrowings at the start of the year. Although these were at fixed rates, had the prevailing rates been higher, these would have been more expensive although as the total interest cost for these loans was £1.5K the risk was not significant.

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	-	(1)
New or variable investments		
Fixed term	54	86
Call accounts	12	42
Total	**66**	**127**

This highlights that most of the Council's borrowings were insensitive to interest rate changes during 2009/10. The investments placed and the instant access accounts were sensitive to interest rates and this is shown clearly in the drop of investment interest in the year to £108K vs. £804K in the prior year (not including the notional interest on Icelandic investments).

25.7 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. The value of these was impaired in the 2008/09 accounts, the table below shows the movement on this in the year:

Bank	Rate	Principal	Start date	End date
		£'000		
Landsbanki Islands	6.25%	1,000	16/05/2007	15/05/2009
Glitnir	5.76%	3,000	14/01/2008	14/01/2009
Kaupthing, Singer & Friedlander	6.00%	2,000	16/05/2008	15/05/2009
Total		**6,000**		

Bank	Value at 31/3/09	Interest accrued 2009/10	Impairment adjustment 2009/10	Repayments made 2009/10	Value at 31/03/10
	£'000	£'000	£'000	£'000	£'000
Landsbanki Islands	902	56	(404)	0	554
Glitnir	2,977	171	(1,279)	0	1,869
Kaupthing, Singer & Friedlander	920	34	434	(717)	671
Total	**4,799**	**261**	**(1,249)**	**(717)**	**3,094**

There is still significant uncertainty over the amounts recoverable from the Icelandic banks, a significant factor being the challenge by Glitnir (with a challenge by Landsbanki expected if Glitnir is successful) of the Council's preferential creditor status. The decision on this could reduce the recovery from 95% down to 38% for Landsbanki and from 100% down to 29% for Glitnir, using current estimates provided by CIPFA (see further details below). Clearly this is a large financial risk to the Council with the chance of being classified as a preferential creditor currently unclear.

To address this, the loss on these investments has been based on an even chance of being classified as preferential or non preferential creditor. This has resulted in an increased charge to the Income and Expenditure account in 2009/10 on top of the deferred element recognised in 2008/09 (£1,202K net of notional interest earned). The full charge in 2009/10, net of the notional interest, is £2,189K. The Council was awarded a capitalisation order from the DCLG for £2.1M which has been utilised in full to spread the cost of this charge and so reduce the acute impact on council tax.

To further mitigate the risk of being classed as a non preferential creditor an amount, equal to the difference of the worst case scenarios and the £2,189K already charged through the Income and Expenditure account, has been placed in a reserve pending a final decision on the Council's creditor status. This amounts to a further £1,363K.

The value of the investments has been impaired based on the information detailed below and the accounting treatment as set out in CIPFA's guidance updates LAAP 78, 79, 82 and 84. The available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers so it is likely that further adjustments will be made to the accounts in future years.

The following is an update to the detailed information on each bank that was presented in the 2008/09 statement of accounts. Full details are available in the CIPFA guidance update LAAP 84 which is freely available on the CIPFA website.

25.8 KAUPTHING SINGER AND FRIEDLANDER LTD

The administrators issued the latest creditors report in April 2010. This report noted that the current estimated total distributions to unsecured creditors should be in the range of 65p to 78p in the pound with the total dividends paid to date coming to 35% of the claim.

In calculating the impairment the Council has therefore made the assumption that the total return will be 71% with the remaining 36% being spread between July 2010 and January 2013.

25.9 GLITNIR BANK

Under the best case scenario, if local authority deposits retain priority status, 100% of claims are expected to be repaid. No payment is expected to be received prior to the court cases required to make the decision on creditor status and any appeal in respect of priority status being heard. It is therefore estimated that the earliest date by which payment could be made is the end of June 2011.

Under the worst case scenario where local authority deposits with Glitnir do not enjoy preferential status, the expected recovery rate is 29% with the remaining amounts assumed to be recovered evenly between October 2011 and October 2015.

In calculating the impairment the Council has assumed a 50:50 chance of being classified as a preferential creditor and so has assumed a 65% recovery.

25.10 LANDSBANKI ISLANDS

Under the best case scenario where local authority deposits maintain priority status, the expected recovery is 95% with annual instalments until October 2018. Under the worst case scenario, the recovery rate is 38%, again, with annual instalments until October 2018.

In calculating the impairment the Council has assumed a 50:50 chance of being classified as a preferential creditor and so has assumed a 67% recovery.

25.11 IMPACT OF REGULATIONS ON FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Council took advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund in 2008/09, with a sum of £1.201M being transferred into the Financial Instruments Adjustment Account (FIAA). In line with CIPFA guidance, during 2009/10 a further £261K of notional interest was also credited to the FIAA but at the year end this was brought back into the accounts as a net impairment charge of £940K. This has effectively cleared out all balances in relation to Icelandic investments from the FIAA.

Bank	Net balance 31/03/09	Interest credits reversed to FIAA in year	Net Dr in the FIAA charged to I&E 31/03/10	Impairment in year charged to I&E 31/03/10	Net impairment recognised in I&E 31/03/10
	£'000	£'000	£'000	£'000	£'000
Landsbanki Islands	98	(56)	42	404	446
Glitnir	23	(171)	(148)	1,279	1,131
Kaupthing, Singer & Friedlander	1,080	(34)	1,046	(434)	612
Total	**1,201**	**(261)**	**940**	**1,249**	**2,189**

26 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 2009/10 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 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 SORP 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 2009/10 financial year.

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

26.1 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 2009/10 were E Blamire, S Burns, J Pritchard, A 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 was based on a 14 month financial accounting period to coincide with the Council's year end of 31 March, whereas for 2009/10 the Company has submitted accounts covering a normal 12 month accounting period. The information below differs slightly from the other financial information in this summary, however as it is still comparing two different accounting periods. This anomaly no longer exists after 2009/10, although arrangements are in hand for the Company to be dissolved, with park operations returning directly to the Council.

The City Council provided revenue grant support of £171,700 to the Company during the Council's 2009/10 financial year (2008/09 £222,200). In addition, the Council also provided grant totalling £17,000 in its role as Accountable Body for the Local Strategic Partnership funding for feasibility studies (Catering, Architects and Tree Survey).

The 2008/09 figures were provided on a provisional basis last year; now audited the figures have been restated. Draft figures have been provided for 2009/10.

	31 March 09 £	31 March 10 £
Net assets	11,006	59,420
Profit/(Loss) before taxation Profit/(Loss) after taxation	(21,436)	48,414

26.2 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, E Blamire, S Rogerson and M Forrest.

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 £146,800 to the Company during the 2009/10 financial year for its core activities (2008/09 £165,300). This included the provision of grant in lieu of rent free Council accommodation to the value of £12,500 (2008/09 £13,500). 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 (2008/09 £8,000).

The 2008/09 figures were provided on a provisional basis last year; now audited the figures remain unchanged. Draft audited figures have been provided for 2009/10.

	31 March 09 £	31 March 10 £
Net Assets	560,758	457,618
Profit/(Loss) before taxation Profit/(Loss) after taxation	72,888	(103,140)

26.3 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) onto the Board of the company there is no ultimate controlling party. The City Councillor nominated during 2009/10 was M Greenall. The Council's Corporate Director (Finance & Performance) R Muckle also undertook the roles of Company Secretary and Director, although he resigned as Director on 07 March 2010.

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 2008/09 figures were provided on a provisional basis last year; now audited the figures remain unchanged. Draft audited figures have been provided for 2009/10.

	31 March 09 £	31 March 10 £
Net Assets	1,792,770	1,792,155
Profit/(Loss) before taxation	113,344	449
Profit/(Loss) after taxation	89,274	(615)

26.4 STOREY LTD

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 2009/10 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 their previous accounts have been signed off by its Directors rather than independently audited.

The City Council provided revenue grant support of £72,869 during the 2009/10 financial year (2008/09 £85,426).

The information provided below for 2009/10 is based on a draft set of accounts provided by the company. The figures will be updated if necessary if final audited accounts are received prior to the Council's own accounts being signed off by its external auditors.

	31 March 09 £	31 March 10 £
Net Assets	667	10,473
Profit/(Loss) before taxation Profit/(Loss) after taxation	(249)	8,187

27 PROVISIONS

	Balance 01/04/09 £'000	Expenditure £'000	Transfers £'000	Income £'000	Balance 31/03/10 £'000
Revenue					
Insurance	289	(262)	168	79	274
Vehicle Replacements	95	-	(95)	-	0
Equal Pay	100	-	(100)	-	0
Williamson Park	100	-	-	-	100
Capital					
General Fund Clawback	57	-	-	-	57
TOTAL	**641**	**(262)**	**(27)**	**79**	**431**

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 2009/10 there were 257 claims outstanding with an estimated value of £487K, of which it is anticipated that just over half will fall on the Council. As a result the provision has been set at £274K.

The vehicle provision was created in 2005/06 to cover future shortfalls in funding associated with timing differences when vehicles require replacement. This provision has now been closed and future funding requirements will be met from the Renewals Reserve.

Virtually all claims relating to Equal Pay have now been settled and the provision applied accordingly to fund the settlements.

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

A new provision of £100K was 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. The company is currently in the process of being wound up and management of the park will transfer in its entirety to the City Council during 2010/11, at which point the provision will be applied to cover any outstanding net liabilities.

28 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 2009 £'000	Net Movement in Year £'000	Balance at 31 March 2010 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	21,527	(2,611)	18,916	Store of gains on revaluation of fixed assets not yet realised through sales	*See (a) below*
Capital Adjustment Account	170,294	(14,405)	155,889	Store of capital resources set aside to meet past expenditure	*See (b) below*
Collection Fund Adjustment Account	0	30	30	Amount of Council Tax over and above demands due to General Fund	*See Collection Fund Income & Expenditure Account below*
Financial Instruments Adjustment Account	(2,027)	1,359	(668)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	*See (c) below*
Usable Capital Receipts	809	(659)	150	The balance of proceeds from fixed assets sales that remains available to finance future capital expenditure	*See (d) below*
Deferred Credits	26	(7)	19	Balance of income due in future years, as a result of granting mortgages	*Included in various other accounts*
Pensions Reserve	(40,910)	(18,833)	(59,743)	Balance of pensions liability	*See Note 36 below*
Major Repairs Reserve	6,724	144	6,868	Resources available for capital investment in the Council's housing stock	*See Note 2 to Housing Revenue Account statements below*
Earmarked Reserves	6,621	2,146	8,767	Amounts set aside to meet specific future spending plans	*See (e) below*
General Fund Balance	1,400	(155)	1,245	Resources available to meet the Council's future general running costs	*See Statement of Movement in General Fund Balance above*
Housing Revenue Account Balance	494	29	523	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*
TOTAL	**164,958**	**(32,962)**	**131,996**		

(a) Revaluation Reserve	£'000
Balance at 1 April 2009	**(21,527)**
(Gains)/losses on revaluation of Fixed Assets	2,325
Depreciation adjustment for revalued assets	274
Amounts written off in respect of disposals	12
Balance at 31 March 2010	**(18,916)**

(b) Capital Adjustment Account	
Balance at 1 April 2009	**(170,294)**
Usable Capital Receipts applied	(1,409)
Capital expenditure financed from revenue	(1,499)
Capital expenditure financed from MRR	(2,304)
Depreciation	5,897
Net Write Down of Govt Grants Deferred	(1,214)
Amortisation of Intangible Assets	215
Impairment adjustments	14,000
Icelandic Bank Impairment adjustment	2,100
Depreciation adjustment for revalued assets	(274)
Disposals & Fixed Asset changes	575
Net Deferred Charges	(101)
Minimum Revenue Provision	(1,581)
Balance at 31 March 2010	**(155,889)**

(c) Financial Instruments Adjustment Account	
Balance at 1 April 2009	**2,027**
Premia/Discounts written back	(158)
Interest on Icelandic investments 0910	(261)
Reversal of net Icelandic investment impairment into I&E 0910	(940)
Balance at 31 March 2010	**668**

(d) Usable Capital Receipts	
Balance at 1 April 2009	**(809)**
Amounts receivable in year	(750)
Amounts applied to finance new capital investment in year	1,409
Balance at 31 March 2010	**(150)**

(e) Earmarked Reserves	Balance at 01 April 2009 £'000	Net Movement in Year £'000	Balance at 31 March 2010 £'000
Restructuring Reserves	(943)	169	(774)
Capital Support	(1,231)	724	(507)
Job Evaluation Reserves	(703)	(8)	(711)
Flats Planned Maintenance	(713)	(105)	(818)
Open Spaces Commuted Sum	(263)	47	(216)
Planning Delivery Grant Reserve	(175)	85	(90)
Renewals Reserve	(198)	19	(179)
Welfare Planned Maintenance	(260)	(68)	(328)
Concessionary Travel	0	(100)	(100)
Project Implementation Reserve	(197)	109	(88)
Welfare Equipment	(235)	4	(231)
Replacement Hsg Mgt System	(227)	(87)	(314)
Fixed Lifeline Equipment	(110)	(15)	(125)
Access To Services Reserve	(139)	139	0
Other Commuted Sums	(535)	(620)	(1,155)
Central Control Equipment	(128)	55	(73)
Welfare Support Grant Maintenance	(114)	(23)	(137)
Impairment Reserve	0	(1,363)	(1,363)
Performance Reward Grant Reserve	0	(239)	(239)
Revenue Support	0	(800)	(800)
Other Reserves (less than £75,000)	(450)	(69)	(519)
Total	**(6,621)**	**(2,146)**	**(8,767)**

29 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 items existed as at 31 March 2010:

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 2010/11. 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 submitted an application for costs in connection with a Lands Tribunal hearing regarding one of the claims; but any economic benefits are contingent on the outcome of the Tribunal and the application itself.

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 ongoing commitment of partners to progress this scheme, however, and the specific market conditions giving rise to the current position, it is still probable that a positive outcome will be forthcoming, thereby avoiding any material liabilities falling on the Council as at 31 March 2010.

30 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 24 June 2010.

31 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.

32 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.

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.

In his budget statement on 22 June, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the Lancashire County Pension Fund are expected to be slightly lower, on average, than would have been the case if this change had not been made. This change is estimated to reduce the Financial Reporting Standard (FRS)17/International Accounting Standard (IAS)19 benefit obligations by between 5% and 8% for most employers. The precise financial effect will be taken into account in the FRS17/IAS19 figures for the financial year ending 31 March 2011.

The following transactions have been made in the Income and Expenditure Account during the 2009/10 year in accordance with FRS 17.

Net Cost of Services:	**HRA £'000**	**General Fund £'000**	**Total £'000**
Current Service Costs	(285)	(1,733)	(2,018)
(Gain)/Loss	-	(113)	(113)
Net Operating Expenditure			
Interest Costs	(1,164)	(7,084)	(8,248)
Expected return on Assets in the	682	4,151	4,833
Employer's contributions payable to the scheme	471	2,869	3,340
Overall impact of FRS 17 transactions	**(296)**	**(1,910)**	**(2,206)**

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	2008/09 £'000	2009/10 £'000
Reversal of net charges made	2,027	**2,206**

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	2008/09 £'000	2009/10 £'000
Actuarial gains and (losses)	2,634	**(16,627)**

As at 31 March 2010, 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	2009/10 £'000
Present value of liabilities	(114,767)	(132,216)	(131,840)	(138,363)	(117,345)	(160,210)
Fair value of assets	79,784	99,185	104,037	96,846	76,435	100,467
Surplus/deficit	**(34,983)**	**(33,031)**	**(27,803)**	**(41,517)**	**(40,910)**	**(59,743)**

Experience gains and losses as % of assets and liabilities	2004/05 %	2005/06 %	2006/07 %	2007/08 %	2008/09 %	2009/10 %
Assets	4.70%	13.70%	0.70%	13.40%	34.30%	20.10%
Liabilities	1.30%	1.90%	0.00%	5.70%	0.00%	0.00%

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

		LGPS Liabilities		
	Total 2008/09 £'000	Unfunded 2009/10 £'000	Funded 2009/10 £'000	Total 2009/10 £'000
Opening balance	(138,363)	(4,379)	(112,966)	(117,345)
Current service cost	(3,176)	-	(2,018)	(2,018)
Interest cost	(8,429)	(301)	(7,947)	(8,248)
Contributions by scheme participants	(1,072)	-	(1,056)	(1,056)
Actuarial gains and losses	29,082	(869)	(35,987)	(36,856)
Benefits paid	4,625	268	5,158	5,426
Past service cost	(12)	-	(113)	(113)
Closing balance	**(117,345)**	**(5,281)**	**(154,929)**	**(160,210)**

	LGPS Assets			
	Total 2008/09 £'000	Unfunded 2009/10 £'000	Funded 2009/10 £'000	Total 2009/10 £'000
Opening balance	96,846	-	76,435	76,435
Expected rate of return	6,452	-	4,833	4,833
Actuarial gains and losses	(26,448)	-	20,229	20,229
Employer contributions	3,138	268	3,072	3,340
Contributions by scheme participants	1,072	-	1,056	1,056
Benefits paid	(4,625)	(268)	(5,158)	(5,426)
Closing balance	**76,435**	**0**	**100,467**	**100,467**

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 2010, 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 the actual payments by the authority and market movements up to 31 December 2009 and projected the likely position at 31 March 2010. 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	2008/09 %	2009/10 %
Rate of inflation	3.3	3.3
Rate of increase in salaries	5.1	5.1
Rate of increase in pensions	3.3	3.3
Rate of discounting scheme liabilities	7.1	5.6
Proportion of employees opting to take a commuted	50.0	50.0

Demographic assumptions	Years	Years
Life expectancy of male current pensioner	86.2	86.2
Life expectancy of female current pensioner	89.0	89.0
Life expectancy of female future pensioner	90.0	90.1
Life expectancy of male future pensioner	87.2	87.2

Expected rate of return on assets	2008/09 %	2009/10 %
Equity investments	7.5	7.5
Government Bonds	4.0	4.5
Other Bonds	6.0	5.2
Property	6.5	6.5
Cash/Liquidity	0.5	0.5
Other assets	7.5	7.5

Split of assets between investment	2008/09 £'000	2008/09 %	2009/10 £'000	2009/10 %
Equity investments	46,778	61.2	61,486	61.2
Government Bonds	5,962	7.8	7,836	7.8
Other Bonds	9,402	12.3	12,357	12.3
Property	5,656	7.4	7,435	7.4
Cash/Liquidity	3,745	4.9	4,923	4.9
Other Assets	4,892	6.4	6,430	6.4
	76,435	**100**	**100,467**	**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 2010 is as follows:

Movement during 2009/10	£'000
Year	**(40,910)**
Current Service Costs	(2,018)
Employer Contributions	3,340
Past Service Cost / Curtailment Cost	(113)
Net Interest / Return on Assets	(3,415)
Actuarial Gain or (Loss)	(16,627)
Surplus / (Deficit) at End of Year	**(59,743)**

33 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.

2009/10	£'000	£'000
Income and Expenditure Account Surplus/(Deficit)		
General Fund		(14,003)
Housing Revenue Account		(10,300)
		(24,303)
Net additional amounts required by statute to be debited or credited to the accounts in the year		
General Fund	13,848	
Housing Revenue Account	10,329	24,177
		(126)
Collection Fund Surplus/(Deficit)		39
ADD		
Provision for Debt Redemption	1,581	
Write Down of Deferred Assets	1,352	
Revenue Exp financed from Capital	(97)	
Direct Revenue Financing of Capital Expenditure	3,803	
Contribution from/(to) Earmarked Provisions	(210)	
Contribution from/(to) Earmarked Reserves	2,290	8,719
Decrease/(Increase) in Debtors	2,066	
Decrease/(Increase) in Stocks	41	
Increase/(Decrease) in Creditors	309	2,416
External Interest Paid	2,234	
Interest Received	(109)	2,125
		13,173

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.

33.1 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 in the following table.

	2008/09 £'000	2009/10 £'000
Revenue Support Grant	1,897	2,999
DWP Grants - Housing Benefits and Council Tax Council Tax Collection Council Tax Preparation Grant Benefit Fraud Grant	35,959	44,071
Benefit Administration Grant	1,139	1,244
NNDR Administration	216	211
Area Based Grant	726	346
Housing and Planning Delivery Grant	245	818
LABGI	344	34
50 Forward	113	0
Concessionary Travel	487	498
Homelessness	0	98
Other Grants	143	207
	41,269	**50,526**

33.2 Movement in Long Term Borrowing

	As at 31 March 09 £'000	As at 31 March 10 £'000	Movement in Cash £'000
Public Works Loans Board	39,215	39,215	0

The level of long term borrowing has remained unchanged during 2009/10.

33.3 Movement in Other Current Assets and Liabilities

	As at 31 March 09 £'000	As at 31 March 10 £'000	Movement in Cash £'000
Stocks and Work in Progress	353	312	41
Debtors	10,733	8,667	2,066
Creditors	(8,745)	(9,054)	309
TOTAL	**2,341**	**(75)**	**2,416**

Note that the figures relating to 2008/09 have been restated following the changes in accounting requirements for Council Tax and NNDR.

33.4 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 2008/09 and the 2009/10 Balance Sheets.

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

	As at 31 March 09 £'000	As at 31 March 10 £'000	Movement in Cash £'000
Short Term Borrowing	(8,504)	0	8,504
Long Term Borrowing	(39,215)	(39,215)	0
Temporary Investments	12,588	7,538	(5,050)
Cash in Hand and at Bank	(1,858)	(214)	1,644
TOTAL	**(36,989)**	**(31,891)**	**5,098**

HOUSING REVENUE ACCOUNT : INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

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.

2008/09 £'000		2009/10 £'000	NOTES
	Income		
(11,001)	Dwelling Rents	(11,416)	
(186)	Non-Dwelling Rents	(184)	
(1,868)	Charges for Services & Facilities	(1,875)	
(8)	Contributions Towards Expenditure	(8)	
(165)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	(168)	
(13,228)	**Total Income**	(13,651)	
	Expenditure		
3,801	Repairs & Maintenance	4,236	
3,222	Supervision & Management	3,012	
97	Rents, Rates, Taxes & Other Charges	93	
1,361	Negative Housing Revenue Account Subsidy Payable	947	*7*
265	Increase in Bad Debt Provision	210	
2,315	Depreciation & Impairments of Fixed Assets	14,269	*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*
11,062	**Total Expenditure**	**22,768**	
(2,166)	**Net Cost of HRA Services per Authority Income and Expenditure Account**	**9,117**	
	HRA share of the operating income and expenditure included in the whole authority accounts		
(3)	Gain or Loss on Sale of HRA Fixed Assets	(65)	
838	Interest Payable & Similar Charges	799	
0	Amortisation of Premiums & Discounts	0	
(182)	Interest & Investment Income	(33)	
257	Pensions Interest Costs & Expected Return on Pensions Assets	482	*8*
(1,256)	**(Surplus) or deficit for the year on HRA Services**	**10,300**	

STATEMENT OF MOVEMENT IN THE HOUSING REVENUE ACCOUNT BALANCE FOR THE YEAR ENDED 31 MARCH 2010

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

2008/09 £'000		2009/10 £'000	NOTES
(1,256)	**(Surplus) / Deficit for Year on the HRA Income & Expenditure Account**	**10,300**	
1,479	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(10,329)	*12*
223	**(Increase) or decrease in Housing Revenue Account Balance**	**(29)**	
(717)	Housing Revenue Account Balance brought forward	(494)	
(494)	**Housing Revenue Account Balance carried forward**	**(523)**	

NOTES TO THE HOUSING REVENUE ACCOUNT

1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2010 the Council held the following number of dwellings:

Bedsits		116
1 Bedroom	Houses & Bungalows	649
	Flats & Maisonettes	511
2 Bedroom	Houses & Bungalows	506
	Flats & Maisonettes	681
3 Bedroom	Houses & Bungalows	1,258
	Flats & Maisonettes	7
4 or more bedroomed dwellings		82
TOTAL ALL DWELLINGS		**3,810**

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

	Value as at 01/04/2009 £'000	Value as at 31/03/2010 £'000
Operational		
Council Dwellings	160,152	142,165
Other land and buildings	113	129
	160,265	**142,294**
Non-operational Assets	1,122	1,193
TOTAL	**161,387**	**143,487**

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 fourth year of which has now updated all values to 01 April 2005. The figures for 2009/10 incorporate the first annual rebasing exercise on the April 2005 revaluation and this has resulted in an decrease in asset values of £16,340,891 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 £2,304,196, for 2009/10 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 2009 was £301,048,394. The difference between this and the EUV-SH valuation of £144,503,229 (i.e. the update figure after the 2009/10 rebasing exercise effective as of 01 April 2009 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 2009/10	£'000
Opening Balance 01 April	**6,724**
Transfer from General Reserves	144
Transfer to MRR – Depreciation	(2,354)
Transfer to HRA - Depreciation Adjustment	50
Capital Expenditure	
- Land	-
- Houses	2,304
- Other property.	-
Closing Balance 31 March	**6,868**

3 CAPITAL EXPENDITURE

Capital expenditure of £3,508,000 was incurred during the year, of which £3,385,000 was on works and improvements to dwellings, £103,000 on non dwellings and £20,000 on intangible assets. This was financed as follows:

	£'000
Borrowing	-
Usable Capital Receipts	42
Direct Revenue Financing	1,077
Earmarked Reserves	77
Majors Repairs Reserve	2,304
Grants and Contributions	8
Total Capital Financing	**3,508**

Capital Receipts totalling £131,000 were received during the year from the following sources:

	£'000
Sale of dwellings	113
Sale of land	15
Repayment of Principal on Mortgages	3
Repayment of Right to Buy discounts	-
Total Capital Receipts	**131**

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

4 DEPRECIATION

Total depreciation charges for the year were as follows :

	£'000
Council Dwellings	2,304
Other land and buildings	3
Non-operational Assets	47
Deferred Charges on Intangible Assets	8

5 IMPAIRMENT CHARGES

An impairment charge of £19,607,000, in respect of Council Dwellings was made to the HRA for the financial year 2009/10. This was as a result of downward market valuations to the Council Housing Dwellings stock. £11,909,000 of the impairment charge is shown in the Income and Expenditure account, this is because there were insufficient balances against the individual assets on the Revaluation Reserve.

6 INTANGIBLE ASSETS

A charge of £8,000 was made during the year, this was made up as follows: a second year charge of £4,000 in respect of software purchased for the Task Total Repairs system, which is an upgrade of the contractor system, and a further £4,000 in respect of the Testing and Implementation of Task Total Solution by Northgate. The assets are to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

7 HOUSING REVENUE ACCOUNT SUBSIDY

The total Negative Housing Subsidy payable for the year 2009/10 was £932,000, the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £947,000. The additional payment of £15,000 is in respect of 2008/09 and was due to a lower Consolidated Rate of Interest being applied to the final determination than originally estimated.

	£'000
Management Allowance	2,005
Maintenance Allowance	3,922
Major Repairs Allowance	2,304
Admissible Allowances	-
Anti-Social Behaviour Allowance	-
Charges for Capital	1,704
Rent Rebates	-
Notional Rent	(10,865)
Interest on Receipts	(2)
Government Grants	-
Rental Constraint Allowance	-
Total Housing Subsidy	**(932)**

8 CONTRIBUTION TO/FROM THE PENSION RESERVE

In accordance with the requirements of FRS17, 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 2010 amounted to £413,000 (£362,000 for 2008/09). An amount of £420,000 (£526,000 for 2008/09) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The significant decrease in provision this year is directly attributable to the higher number of write offs within the year. 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

Note 12 Statement of Movement on the HRA Balance

2008/09 £'000		2009/10 £'000
	Additional amounts required by Statute & Non-Statutory Proper Practices to be taken into account in determining the movement in the HRA Balance	
159	Difference between Interest Payable and Similar Charges including Amortisation of Premiums & Discounts determined in accordance with the SORP & those determined in accordance with Statute	159
0	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	65
(262)	Net charges made for retirement benefits in accordance with FRS17	(295)
0	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
(103)		(71)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year	
(38)	Transfer to/from Major Repairs Reserve	144
0	Transfer to/from Housing Repairs Account	0
30	Transfer to/from Earmarked Reserves	409
1,590	Capital Expenditure funded by the Housing Revenue Account	1,154
	Reconciling Items	(11,965)
1,582		**(10,258)**
1,479	**Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year**	**(10,329)**

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

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.

2008/09 ***Restated*** £'000	**INCOME**	***NOTES***	**2009/10** £'000
	Council Tax		
(54,255)	Income from Council Tax	*1*	(55,939)
	Transfers from General Fund:		
(9,038)	Council Tax Benefits		(10,086)
	Business Rates		
(30,346)	Income from Business Ratepayers	*2*	(35,738)
	Contributions		
(282)	From Provisions for Council Tax Amounts Written Off		(117)
(93,921)	**TOTAL INCOME**		**(101,880)**
	EXPENDITURE		
	Precepts and Demands		
46,475	Lancashire County Council		47,879
7,973	Lancaster City Council (including parish precepts)		8,520
5,867	Lancashire Police Authority		6,138
2,596	Lancashire Fire Authority		2,696
	Business Rates		
30,135	Payment to National Pool		35,526
211	Cost of Collection Allowance		211
	Council Tax Bad and Doubtful Debts		
282	Write-offs		117
440	Contribution to Provision for Non-Collection		484
93,979	**TOTAL EXPENDITURE**		**101,571**
	FUND BALANCE		
58	(Surplus)/deficit for year		(309)
11	(Surplus)/deficit as at 01 April (Brought forward)	*3*	0
(69)	(Surplus)/deficit distributed in year		309
0	**(Surplus)/Deficit as at 31 March (Carried forward)**	*4*	**0**

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 2009/10 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,743	11,159
Band B	13,256	10,310
Band C	9,934	8,830
Band D	5,413	5,413
Band E	3,362	4,109
Band F	1,715	2,477
Band G	757	1,262
Band H	38	76
Total	**51,218**	**43,636**
Collection Rate		*99%*
Council Tax Base		**43,200**

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 48.5p per £ for 2009/10 (46.2p for 2008/09). For local businesses with a rateable value of less than £15,000, a discount of 0.4p was allowed giving a rate of 48.1p per £. The rateable value at 31 March 2010 was £87,778,082 (£80,614,155 for 2008/09). 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 2009/10, paid directly to the Income and Expenditure Account, amounted to £12.995M.

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 2009 the Council Tax deficit was shown as £69,000, however, as per the SORP 2009, changes have been made to the presentation of the collection fund such that the brought forward deficit was de-recognised from the 2008/09 accounts with the relevant share of the balance sheet removed. This has no bottom line impact.

In addition, the deficit due to the City Council has been transferred onto the general fund balance sheet reducing the collection fund surplus/deficit balance to nil. Adjustments have been made, in line with CIPFA guidance, to ensure that only entries in line with legislation have impacted on the general fund balance in both 2008/09 and 2009/10.

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

The movements in the Collection Fund during 2009/10 are summarised below.

	Residual Community Charge £'000	Council Tax £'000	TOTAL £'000
(Surplus)/Deficit for 2009/10	--	309	309
Distributions in Year	--	(309)	(309)
Net Transaction in Year	--	0	0
(Surplus)/Deficit 31/03/10	**0**	**0**	**0**

The £309K is attributable to other Local Authorities as follows:

	£'000
Lancashire County Council	229
Lancashire Police Authority	29
Lancashire Fire Authority	13
Lancaster City Council	38

BEQUEST, ENDOWMENTS AND TRUST FUNDS FOR THE YEAR ENDED 31 MARCH 2010

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 2010 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	**Balance b/f 01/04/09**	**Income**	**Expenditure**	**Balance c/f 31/03/10**
	£	**£**	**£**	**£**
Bequests and Endowments				
(a) Council sole trustee				
Ashton Memorial	0	0	0	0
Williamson Park	0	0	0	0
Other	(4,855)	(4,165)	3,835	(5,185)
(b) Council not sole trustee	(9,599)	(106)	0	(9,705)
School etc. Prize Funds				
(a) Council sole trustee	(24,111)	(273)	0	(24,384)
(b) Council not sole trustee	(1,949)	(13)	0	(1,962)
TOTAL	**(40,514)**	**(4,557)**	**3,835**	**(41,236)**

	2008/09	**2009/10**
	£	**£**
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	50,883	51,212
(b) Council not sole trustee		
Capital	0	0
Revenue	1,000	1,000
Cash and Debtors	10,643	10,750
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	874	874
Cash and Debtors	25,734	26,007
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	2,307	2,321
TOTAL	**93,403**	**94,126**

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

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

Income & Expenditure Account	2008/09 £	2009/10 £
Income		
Interest	(6,447)	(4,559)
Capital		
	(6,447)	**(4,559)**
Expenditure		
Ashton Memorial	1,338	1,092
William Smith Festival	312	207
Whalley Playground	658	658
Lune Bank Gardens	99	13
Williamson Park	1,924	1,864
War Memorial Fund	16	2
Other	374	0
	4,721	**3,836**
Excess Income	**(1,726)**	**(723)**

Balance Sheet	2008/09 £	2009/10 £
Assets		
Investments	3,836	3,836
Debtors	2,023	2,143
Bank	87,544	88,147
	93,403	**94,126**
Represented by:		
Reserves as at 31st March	91,677	93,403
Income in year	1,726	723
	93,403	**94,126**

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.