



LANCASTER CITY COUNCIL  
*Promoting City, Coast & Countryside*

# Statement of Accounts 2007-08





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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 2008. 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 2007/08 and assist in the interpretation of the accounting statements.

### 2 REVENUE POSITION

#### 2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for the financial year 2007/08.

	2007/08			Variance from Revised Estimate
	Original Estimate	Revised Estimate	Actual	£'000
	£'000	£'000	£'000	£'000
<b>Expenditure</b>				
Central Services to the Public	1,634	1,708	1,631	(77)
Cultural, Environmental and Planning Services	16,080	15,379	14,582	(797)
Highways, Roads & Transport Services	762	715	868	153
Housing Services	2,874	2,801	2,550	(251)
Corporate & Democratic Core	2,608	2,867	2,861	(6)
Non Distributed Costs	(667)	495	1,726	1,231
<b>Net Cost of General Fund Services</b>	<b>23,291</b>	<b>23,965</b>	<b>24,218</b>	<b>253</b>
Corporate Income & Expenditure	(1,677)	(2,457)	(1,489)	968
Interest Payable & Similar Charges	1,730	1,634	1,778	144
Parish Precepts	271	271	271	0
Contribution to/(from) General Fund Reserve	(885)	(583)	(127)	456
<b>NET REVENUE EXPENDITURE</b>	<b>22,730</b>	<b>22,830</b>	<b>24,651</b>	<b>1,821</b>
<b>Funded by :</b>				
General Government Grants	(2,296)	(2,396)	(3,240)	(844)
National Non Domestic Rates	(12,786)	(12,786)	(12,786)	0
Council Tax	(7,648)	(7,648)	(7,648)	0
Collection Fund Balance			0	0
<b>TOTAL FUNDING</b>	<b>(22,730)</b>	<b>(22,830)</b>	<b>(23,674)</b>	<b>(844)</b>

## **2.2 General Fund**

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of local authority housing (see section 2.3 below). The General Fund Revenue Budget for 2007/08 was originally approved by Council on 28 February 2007 at £22.580M (after allowing for general grants of £150,000 and including £270,800 for precept payments to parishes) and assumed that balances would be £1.749M by 31 March 2008, though these were increased by a further £381,000 following the 2006/07 outturn.

Overall in 2007/08 there has been a net underspending of £456,000 against the Revised Budget (or £758,000 against the Original Budget). The main savings areas have been LABGI grant, staff turnover and investment interest. Net expenditure has also increased in some areas, however, such as Community Pools and the Dome, and in relation to energy costs at all Council owned properties.

As a result of all these changes General Fund unallocated balances stand at £2.888M as at 31 March 2008, which is well in excess of the basic minimum £1M level. This is before consideration of any requests by Services to carry forward budgets; if any are approved this will effectively reduce available amounts. It is also highlighted that of the £2.888M, use of approximately £1.4M has already been built into the Council's revenue budget forecasts for 2008/09 onwards, as set out in its Medium Term Financial Strategy (MTFS).

## **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 2008 the working balance on the Housing Revenue Account amounted to £717,000, giving a reduction of £41,000 from the position at the start of the year (and as originally budgeted). This still represents an improvement of £367,000, however, when compared with the Revised Budget. This recent improvement is mainly due to a reduced spending on supervision and management and repairs and maintenance, additional investment interest, a reduced contribution to the bad debt provision and additional income from rents. Current Council Policy is to maintain housing balances at £350,000.

## **3 CAPITAL POSITION**

In 2007/08 the City Council spent £15.631M on capital schemes. An analysis of the expenditure and funding is shown on the following page.

The Council's revised Capital Programme for 2007/08 was £21.997M, however due to delays in starting a number of schemes, around £4.7M will need to be rolled forward into 2008/09.

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 2008, the Council held £1.4M in capital receipts and around £7M in reserves, to help support future years' capital investment plans.

## Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£'000	Capital Financing	£'000
Council Housing	2,879	Grants & Contributions	9,528
City Council (Direct) Services	925	Reserves	2,875
Health & Strategic Housing	4,993	Unsupported Borrowing	1,762
Cultural Services	230	Capital Receipts	1,466
Planning	3,129		
Economic Development	2,173		
Information & Customer Services	710		
Property Services	574		
Corporate Strategy	18		
<b>Total</b>	<b>15,631</b>	<b>Total</b>	<b>15,631</b>

In 2007/08 the net cost of financing external borrowing (e.g. interest charges) was £2.647M, and the value of long term debt owed as at 31 March 2008 amounted to £44.8M, which is the same as 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 £278M as at 31 March 2008.

## 4 PENSION LIABILITY

In accordance with recent changes to accounting practice, the Council must show the present surplus or deficit position on its share of the Pension fund. For Lancaster, the net position as at 31 March 2008 showed a liability of £41.517M compared to a liability of £27.803M for the previous financial year. This represents an increase in liability of £13.714M.

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

Notwithstanding these points, however, the future costs and funding of pensions are national issues that have recently been considered by Government.

## 5 CONCLUSION

During 2007/08 the Council continued to strengthen its overall financial position, in line with the improvements made in previous years. It has kept its net spending within budget and whilst there are some areas of overspending, the majority of underspends have been on controllable income and expenditure areas, or as a result of windfalls. As at 31 March 2008 balances were well above the basic minimum level, though as mentioned earlier the majority of this has already been identified to support future years' budget forecasts.

A more detailed report on the outturn position will be presented in due course to Cabinet and the Budget and Performance Panel. This scrutiny of the 2007/08 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2008/09 corporate financial monitoring processes.

## STATEMENT OF ACCOUNTING POLICIES

### 1 GENERAL

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. 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 Accounting Practice to local authorities.

The purpose of this statement 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. This statement provides this information.

### 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

Employees of the Council are members of the Local Government Pension Scheme, administered by Lancashire County Council.

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

### The Local Government Pension Scheme (LGPS)

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

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

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

- **quoted securities** – mid-market value
- **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 whose 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 employer's contributions to the pension fund.

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

### **Discretionary Benefits**

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

## **7 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 2007* (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 when 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 were last revised in 2004/05 and set so that assets of small value do not have to be included in the balance sheet. This is done on the grounds that their exclusion has no material effect.

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, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

## **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 by:

- 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.

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.

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 (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **12 DEFERRED CHARGES / INTANGIBLE ASSETS**

Following earlier changes to the SORP the heading for deferred charges has been replaced with intangible assets, which brings the terminology in line with UK Generally Accepted Accounting Practice (GAAP) and recognises the requirements of Financial Reporting Standard (FRS)10 "Goodwill and Intangible Assets".

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised where it will bring benefits to the Council for more than one financial year.

Deferred charges should be amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Local Authority. Because of the types of expenditure to which deferred charges usually apply, e.g. improvement grants, a local authority will seldom control the economic benefit arising from the expenditure and in such cases 100% of the deferred charge is amortised to revenue in the year the deferred charge is recognised.

## **13 LEASES**

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

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

## **14 FINANCIAL LIABILITIES**

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

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

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (subject to a maximum of 10 years in respect of discounts). The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

## **15 FINANCIAL ASSETS**

Financial assets are classified into two main types:

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

In addition, certain financial assets should be held at fair value through profit and loss and accounted for in line with FRS 26: Financial Instruments Recognition and Measurement. The Council's only financial assets within this category are its commitments entered into under forward purchase contracts. These are maintained in the Balance Sheet at fair value, measured on the basis of discounted cashflow analysis.

## **15.1 Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement. Fair value accounting applies only to the limited number of current loans which were originally arranged under forward agreements.

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

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

## **15.2 Available-for-sale Assets**

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

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

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

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

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

## **16 STOCKS AND WORK IN PROGRESS**

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

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

## **17 CAPITAL RECEIPTS**

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

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

## **18 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS**

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

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

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

## **19 POST BALANCE SHEET EVENTS**

Where a material post balance sheet event occurs which:

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

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

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

## **20 FOREIGN CURRENCY TRANSLATION**

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

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

## **21 CONTINGENT ASSETS**

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

## **22 CONTINGENT LIABILITIES**

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

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## SUMMARY OF FINANCIAL STATEMENTS

### Statement of Responsibilities

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

### Statement of Accounting Policies

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

### Annual Governance Statement

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

## THE CORE FINANCIAL STATEMENTS

### Income and Expenditure Account

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

### Statement of Movement on the General Fund Balance

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

### Statement of Total Recognised Gains and Losses

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

### Balance Sheet

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

### Cash Flow Statement

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

## THE SUPPLEMENTARY FINANCIAL STATEMENTS

### Housing Revenue Account Income and Expenditure Account

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

### Statement of Movement on the Housing Revenue Account Balance

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



**Collection Fund**

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

**Group Accounts**

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

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

**Bequests, Endowments and Trust Funds**

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



## **Independent auditor's report to the Members of Lancaster City Council**

### **Opinion on the statement of accounts**

We have audited the Authority statement of accounts and related notes of Lancaster City Council, for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, Income and Expenditure Account, the Statement of the 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, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

### **Respective responsibilities of the Chief Financial Officer and auditor**

The Chief Financial Officer's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the statement of accounts.

Our responsibility is to audit the statement of accounts 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 Authority statement of accounts presents fairly the financial position of Lancaster City Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

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 statement of accounts. 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.

### **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 Authority statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts 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 Authority statement of accounts 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 Authority statement of accounts and related notes.

### **Opinion**

In our opinion:

The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and



KPMG LLP  
Chartered Accountants  
Manchester  
30 September 2008



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

### **Authority's Responsibilities**

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

### **Auditor's Responsibilities**

We are required by the Audit Commission Act 1998 to satisfy ourselves 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.

In 2007 we were required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we had done so;
- stating whether we believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Proposed Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, 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 2008.

### **Best Value Performance Plan**

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 10 December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

### **Certificate**

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

KPMG LLP  
Chartered Accountants  
Manchester  
30 September 2008

# 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 2007/08 was approved by the Audit Committee at its meeting held on 25 June 2008, prior to the audit being completed.

Cllr M 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 Kingdom ("the Code of Practice").

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

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

The Head of Financial Services has also:

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

### 4 HEAD OF FINANCIAL SERVICES' CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the authority as at 31 March 2008 and the income and expenditure for the year then ended.

Nadine Muschamp, CPFA  
Head of Financial Services

## 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 our 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 2008 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 *Community Strategy* and through direct consultation with the community. The Council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The Council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.

- Performance is actively managed by the executive through the Performance Management Group and quarterly Performance Review Team meetings and is subject to review and challenge by the overview & scrutiny function via the Budget & Performance Panel.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, the Overview and Scrutiny function, Internal Audit and those conducted by our 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 we operate, 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 our established codes of conduct for employees and elected Members. Standards of probity are maintained through our *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy*.
- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- The Council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. The financial management and scheme of delegation of the Council is conducted in accordance with rules set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The Council's Audit Committee is established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.
- The Head of Legal and Human Resources Services is the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the Council as a whole. The Council publishes a *Forward Plan* containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer.
- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.
- The *Code of Corporate Governance* sets out the Council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The Council's *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the Council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.



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

## REVIEW OF EFFECTIVENESS

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

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

- The Audit Committee and the Head of Legal and HR Services, in her role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The Council's Standards Committee, chaired by one of three 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 to it by the Standards Board for local determination.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and agrees and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control.
- During 2007/08 the Audit Commission undertook, at the Council's request, a review of its Comprehensive Performance Assessment (CPA). This resulted in the Council being assessed as 'Good' (the second highest rating) compared with 'Fair' when the previous assessment was made in 2004. Notwithstanding this improvement, the review identified further areas for improvement which are to be addressed through the implementation of the Corporate/Service Business Plans.
- In April 2008, the Audit Commission, in its *Annual Audit Letter*, reported that the Council had strengthened its arrangements in a range of areas, including financial management, risk management and scrutiny. The Commission concluded that the Council had adequate arrangements in place for securing value for money. The Commission's views drew on assessments of the Council's "Direction of Travel" and its "Use of Resources", in which it



judged us to be “consistently above minimum requirements – performing well”.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control and arrangements to address weaknesses and ensure continuous improvement of the system are incorporated in the Council's improvement plans.

## **SIGNIFICANT GOVERNANCE ISSUES**

Work carried out by both our 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 our attention.

From assurances provided from the review of the effectiveness of our systems of the corporate governance framework and system of internal control, it is our opinion that they accord with proper practice and are working effectively.

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

- **Improve decision making** by undertaking a review of executive portfolios and Democratic Renewal and by reviewing and further developing the Council's performance management arrangements.
- **Continue to improve the Value for Money** we and our key partnerships provide, through the implementation of a *Corporate Improvement and Efficiency Plan*.
- **Continue to strengthen our delivery of customer-focussed services** by continuing the programme of service integration into our Customer Service Centres and by continuing to improve how we undertake consultation and community engagement, thereby contributing to more focussed business planning and allocation of resources.
- **Continue to develop the effectiveness of our partnership working** through implementation of a structured approach to reviewing and evaluating governance arrangements in relation to our key partnerships.
- **Improve the measurement and monitoring of the environmental impact** of our policies, plans and decisions.
- **Strengthen the capacity to deliver and improve services** through the implementation of a *Workforce Planning and Development Strategy* and improving the Council's programme management arrangements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**J R Mace**  
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 2008

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).

2006/07		2007/08			Notes
		EXP	INC	NET	
£'000		£'000	£'000	£'000	
711	Central Services to the Public	11,197	(9,566)	1,631	
13,253	Cultural, Environmental and Planning Services	31,373	(16,791)	14,582	
189	Highways, Roads and Transport Services	3,620	(2,752)	868	
(3,159)	Local Authority Housing (HRA)	16,172	(19,566)	(3,394)	
2,307	Other Housing Services	31,937	(29,387)	2,550	
2,547	Corporate and Democratic Core	3,533	(672)	2,861	
(167)	Non Distributed Costs	1,726		1,726	
15,681	Net Cost of Services	99,558	(78,734)	20,824	
(65)	(Gains) or Loss on Disposal of Fixed Assets			0	
260	Precepts of Local Precepting Authorities			271	
(649)	Surplus or Deficit of Trading Undertakings or Other Operations, including Dividends from Companies			(536)	2
2,734	Interest Payable & Similar Charges			3,630	24
1,557	Amounts Payable into the Housing Capital Receipts Pool			1,520	
0	Unattached Capital Receipts			(50)	
(900)	Interest & Investment Income			(1,139)	24
446	Pensions Interest Cost & Expected Return on Pensions Assets			283	32
0	Extraordinary Items			0	
19,064	Net Operating Expenditure			24,803	
(7,266)	Demand on the Collection Fund			(7,648)	
(2,802)	General Government Grants			(3,240)	
(12,130)	Distribution from Non-Domestic Rate Pool			(12,786)	
(3,134)	(Surplus) / Deficit for the Year			1,129	

# STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31 MARCH 2008

The overall movement in the General Fund Balance compares the amount raised in Council Tax for the year against the Council's spending for the year (after allowing for the use of reserves built up in the past and any contributions to those reserves to cover future expenditure).

2006/07 £'000		2007/08 £'000	NOTES
<b>OVERALL MOVEMENT ON THE GENERAL FUND BALANCE</b>			
(3,134)	(Surplus) / Deficit for year on the Income & Expenditure Account	1,129	
2,180	Net additional amount required by Statute & Non-Statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(1,002)	
(954)	<b>Net (Increase) / Decrease in General Fund Balance</b>	127	
(2,061)	<b>General Fund Balance brought forward</b>	(3,015)	
(3,015)	<b>General Fund Balance carried forward</b>	(2,888)	
<b>NOTE OF RECONCILING ITEMS</b>			
2006/07 £'000	<b>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</b>	2007/08 £'000	
(217)	Amortisation of intangible fixed assets	(317)	21
(1,738)	Depreciation and impairment of fixed assets	(3,102)	
4,385	Government Grants Deferred amortisation	4,026	
(3,071)	Write down of Deferred Charges to be financed from capital resources	(3,407)	
65	Net gain or loss on sale of fixed assets	0	
0	Unattached Capital Receipts	50	
0	Differences between amounts debited / (credited) to the Income and Expenditure account and amounts payable / (receivable) to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(132)	
(503)	Net changes made for retirement benefits in accordance with FRS17	(964)	32
(1,079)		(3,846)	
	<b>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</b>		
1,007	Minimum Revenue Provision for capital financing	1,099	
128	Capital expenditure charged in-year to the General Fund Balance	542	
(1,557)	Transfer from Usable Capital Receipts equal to amount payable to Housing Capital Receipts Pool	(1,519)	
(422)		122	
	<b>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</b>		
2,164	Housing Revenue Account Balance	1,508	
311	Voluntary Revenue Provision for capital financing	491	
1,206	Net transfer to / (from) earmarked reserves	723	
3,681		2,722	
	<b>Net additional amount required to be (credited)/debited to the General Fund Balance for the year</b>	(1,002)	

## STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES FOR THE YEAR ENDED 31 MARCH 2008

<b>2006/07</b>	<b>2007/08</b>
£'000	£'000
(3,134) (Surplus) / Deficit for Year on the Income & Expenditure Account	1,129
(4,752) (Surplus) / Deficit for Year Arising on Revaluation of Fixed Assets	(9,083)
(5,789) Actuarial (Gains) & Losses on Pension Fund Assets & Liabilities	12,753
(209) Any Other Gains or Losses required to be included in the STRGL	613
<b><u>(13,884)</u> TOTAL RECOGNISED (GAINS) &amp; LOSSES FOR THE YEAR</b>	<b><u>5,412</u></b>

## BALANCE SHEET AS AT 31 MARCH 2008

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

2006/07 £'000		2007/08 £'000	NOTES
485	<b>Intangible Assets</b>	678	21
	<b>Tangible Fixed Assets</b>		13
	Operational Assets :		
150,436	Council Dwellings	153,065	
44,992	Other Land & Buildings	49,363	
4,739	Vehicles, Plant & Equipment	5,022	
19,321	Infrastructure	32,503	
4,966	Community Assets	7,182	
	Non Operational Assets :		
11,137	Investment Properties	10,987	
14,226	Assets Under Construction	3,284	
14,389	Surplus assets, held for disposal	15,490	
<b>264,691</b>	<b>TOTAL FIXED ASSETS</b>	<b>277,574</b>	
2,000	Long Term Investments	1,004	
80	Long Term Debtors	43	
1,186	Deferred Premiums	0	
<b>267,957</b>	<b>TOTAL LONG TERM ASSETS</b>	<b>278,621</b>	
	<b>Current Assets</b>		
327	Stocks & Work in Progress	331	
16,298	Debtors (Net of Bad Debt Provision)	19,396	
9,500	Investments	10,265	
	<b>Current Liabilities</b>		
(10,811)	Creditors	(13,145)	
(3,871)	Bank Overdraft	(1,948)	
<b>279,400</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>293,520</b>	
(44,800)	Long Term Borrowing	(44,800)	
(223)	Deferred Liabilities	(223)	
(27)	Deferred Discounts	0	
(46,401)	Government Grants & Contributions Deferred	(51,896)	
(348)	Provisions	(698)	27
(27,803)	Liability related to defined benefit pension scheme	(41,517)	32
<b>159,798</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>154,386</b>	
172,867	Capital Adjustment Account	176,161	} 28
0	Revaluation Reserve	3,923	
0	Financial Instruments Adjustment Account	(975)	
1,594	Usable Capital Receipts Reserve	1,364	
57	Deferred Credits	40	
(27,803)	Pension Reserve	(41,517)	
3,716	Major Repairs Reserve	5,827	
4,997	Earmarked Reserves	5,969	
3,015	Fund Balances : General Fund	2,888	
759	Housing Revenue Account	717	
596	Collection Fund	(11)	
<b>159,798</b>	<b>TOTAL EQUITY</b>	<b>154,386</b>	

## CASH FLOW STATEMENT AS AT 31 MARCH 2008

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

	NOTES	2006/07		2007/08	
		£'000	£'000	£'000	£'000
<b>Revenue Activities</b>					
<i>Cash Outflows</i>					
Cash paid to and on behalf of employees		(24,353)		(23,626)	
Other operating cash payments		(36,486)		(37,938)	
Housing Benefit paid out		(33,077)		(27,914)	
Non-Domestic Rates payments to National Pool		(28,605)		(35,891)	
Precepts paid		(49,804)		(53,236)	
Payments to Capital Receipts Pool		(1,557)		(1,716)	
<b>TOTAL PAYMENTS</b>			(173,882)		(180,321)
<i>Cash inflows</i>					
Rents (after rebates)		2,357		2,606	
Council Tax receipts		58,370		61,558	
NNDR receipts		28,365		34,851	
NNDR receipts from National Pool		12,130		12,786	
Revenue Support Grant	33.1	2,342		2,146	
DWP grants for benefits	33.1	33,044		34,141	
Other government grants	33.1	1,030		2,527	
Cash received for goods and services		38,074		27,207	
Other operating cash receipts / payments		6,664	182,376	9,477	187,299
<b>NET CASH INFLOW FROM REVENUE ACTIVITY</b>	<b>33</b>		<b>8,494</b>		<b>6,978</b>
<b>Returns on Investments and Servicing of Finance</b>					
Cash outflows : Interest paid		(2,582)		(2,488)	
Cash inflows : Interest received		908	(1,674)	688	(1,800)
<b>Capital Activities</b>					
Cash outflows : Purchase of fixed assets		(31,030)		(11,649)	
Long Term Investments		(2,000)		0	
Other capital cash payments		(3,168)		(3,917)	
<b>TOTAL PAYMENTS</b>		(36,198)		(15,566)	
Cash inflows : Sale of fixed assets		1,108		1,236	
Capital grants received		24,252		10,845	
Other capital cash receipts		0		995	
<b>TOTAL RECEIPTS</b>		25,360		13,076	
<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			(10,838)		(2,490)
<b>NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING</b>	<b>33.4</b>		<b>(4,018)</b>		<b>2,688</b>
<b>Management of Liquid Resources</b>					
Net (increase) / decrease in short term deposits			700		(765)
<b>Financing</b>					
Cash outflows					
Repayments of amounts borrowed		(174)		0	
Cash inflows					
New Loans Raised		0	(174)		0
<b>NET CASH INFLOW/OUTFLOW(-)</b>			<b>526</b>		<b>(765)</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>			<b>(3,492)</b>		<b>1,923</b>

For further detail see Note 33

# DISCLOSURE NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

There have been no material exceptional items, extraordinary items or prior year adjustments within the accounts, which required restatement of comparative figures for the previous year. Adjustments have been made in year regarding asset valuations, but these have been incorporated into the authority's rolling revaluation programme: see note 13 for more details.

## 2 TRADING SERVICES

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

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

For 2007/08, of the former DSO activities, trading accounts for Repairs and Maintenance and Highways Contractor were still operated. Any surplus/deficits in respect of Repairs and Maintenance are attributable to the Housing Revenue Account, and Highways are attributable to the General Fund. Following a review of the working arrangements under the Lancashire Highways Partnership (LHP), with effect from 01 July 2006 the City Council was retained as a preferred contractor for the LHP, with the exception of street lighting works.

	Income	Expenditure	2007/08 (Surplus) / Deficit	2006/07 (Surplus) / Deficit
	£'000	£'000	£'000	£'000
General highway and sewer work	(1,123)	918	(205)	(143)
Other maintenance work	(2,257)	2,253	(4)	(84)
Trade refuse collection	(850)	714	(136)	(167)
Markets	(829)	1,113	284	205
Commercial Properties / Industrial Units	(1,067)	592	(475)	(460)
<b>Total (Surplus) / Deficit on Trading Undertakings</b>	<b>(6,126)</b>	<b>5,590</b>	<b>(536)</b>	<b>(649)</b>

## 3 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 empowers a local authority to make contributions to charities operating in the UK and to not for profit making bodies providing public services in the UK. The Council's expenditure under this power was £51,094, mainly on donations to voluntary bodies working in the local area (£48,400 in 2006/07). The table below breaks down this expenditure.

Analysis	2006/07 £	2007/08 £
Victim Support	4,500	4,600
Council for Voluntary Service	22,850	23,100
Lancaster DISC	5,600	5,700
Relate	6,400	6,400
Miscellaneous Grants	5,150	7,294
Twinning	3,900	4,000
<b>Total</b>	<b>48,400</b>	<b>51,094</b>

## 4 PUBLICITY EXPENDITURE

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

Section 5 Local Government Act 1986	2006/07 £'000	2007/08 £'000
Promotions and Publicity	162	192
Recruitment Advertising	66	53
Other Advertising	25	29
<b>TOTAL</b>	<b>253</b>	<b>274</b>

## 5 BUILDING CONTROL TRADING ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Lancaster City Council sets charges for work carried out in relation to building regulations, with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit for 2007/08, divided between chargeable and non-chargeable activities.

2007/08	Chargeable £'000	Non- Chargeable £'000	Total £'000
Expenditure			
Employee Expenses	317	79	396
Transport	25	6	31
Supplies & Services	55	3	58
Central & Support Recharges	137	14	151
<b>TOTAL EXPENDITURE</b>	<b>534</b>	<b>102</b>	<b>636</b>
Income			
Building Regulation Charges	(373)	0	(373)
Miscellaneous Income	(30)	0	(30)
<b>TOTAL INCOME</b>	<b>(403)</b>	<b>0</b>	<b>(403)</b>
<b>(Surplus)/Deficit for Year</b>	<b>131</b>	<b>102</b>	<b>233</b>
Comparatives for previous year			
Expenditure	503	152	655
Income	(496)	--	(496)
<b>(Surplus)/Deficit for Year</b>	<b>7</b>	<b>152</b>	<b>159</b>

## 6 AGENCY SERVICE

On 01 July 2003 the Council entered into the Lancashire Highways Partnership (LHP) which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Council (Direct) Services (CC(D)S) are involved as a sub-contractor. The only area of work falling outside the single works contract is Highways Grounds Maintenance, which is carried out by CC(D)S and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £121,613, of which £95,500 was reimbursed by LCES and £25,113 was the contribution made by Lancaster City Council General Fund to provide a higher level of service in this area to its ratepayers.

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

## 7 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970

Under the Act the Council is empowered to provide goods and services to other public bodies. The authority provided grounds maintenance, cleansing, trade refuse and other minor services for



Lancashire County Council and various schools to the value of £290,442 during 2007/08. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Income and Expenditure Account.

## 8 LOCAL AREA AGREEMENTS (LAA)

The council is a participant in the Lancashire LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA has completed the second year of its three-year agreement.

The purpose of the LAA is:

- To form an agreement between the Lancashire Partnership and Government (represented by Government Office North West), and other external agencies, to ensure that together they achieve the Vision set out in “Ambition Lancashire” the sustainable Community Strategy for Lancashire.
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement.
- To improve the effectiveness and efficiency of public services in Lancaster by pooling and aligning funding streams.

The LAA partners are:

- Local government bodies – Lancashire County Council, Lancaster City Council, Burnley Borough Council, Chorley Borough Council, Fylde Borough Council, Hyndburn Borough Council, Lancaster City Council, Pendle Borough Council, Preston City Council, Ribble Valley Borough Council, Rossendale Borough Council, South Ribble Borough Council, West Lancashire District Council, Wyre Borough Council.
- Community protection authorities – Lancashire Fire and Rescue, Lancashire Constabulary, Lancashire Police Authority, Lancashire Probation Service
- Health bodies – Strategic Health Authority, Burnley, Pendle & Rossendale PCT, Chorley & South Ribble PCT, Fylde PCT, Hyndburn & Ribble Valley PCT, Morecambe Bay PCT, Preston PCT, West Lancashire PCT and Wyre PCT, Lancashire Drug Action Team
- Public Bodies – Learning and Skills Council Lancashire, Environment Agency, Job Centre Plus Lancashire, Business Link Lancashire, Elevate, Lancashire Economic Partnership
- Private bodies - East Lancashire Chamber of Commerce
- Voluntary organisations - Lancashire Partnership, Burnley Action Partnership, The Chorley Partnership, Fylde Vision, Hyndburn First, Lancaster District LSP, Pendle Partnership, Preston Strategic Partnership, Ribble Valley Strategic Partnership, Rossendale Partnership, South Ribble Partnership, West Lancashire LSP, Wyre Strategic Partnership, Lancashire VCFS Consortium.

The accountable body for the LAA is Lancashire County Council. Lancaster City Council receives grant from the County Council which is spent on services in accordance with the approved allocations. The total amount of LAA Grant received by the Council in 2007/08 is £2,324,539.

## 9 MEMBERS ALLOWANCES

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

Type of Allowance	2006/07	2007/08
	£	£
Basic Allowance	175,437	185,147
Special Responsibility Allowance	91,524	86,901
Carer Allowance	937	1,768
<b>Total For All Members</b>	<b>267,898</b>	<b>273,816</b>

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

## 10 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Sixteen officers of the Council received in excess of this amount during 2007/08. The increase from 2006/07 is solely down to annual pay / inflationary increases.

Remuneration Band	No. of Employees	
	2006/07	2007/08
£50,000 - £59,999	2	12
£60,000 - £69,999	3	0
£70,000 - £79,999	0	2
£80,000 - £89,999	0	0
£90,000 - £99,999	1	0
£100,000 +	0	1

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

## 11 RELATED PARTY TRANSACTIONS

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

- 1 Transactions with Central Government have been disclosed within both the Income and Expenditure Account and the Cash Flow Statement, as well as in other notes to the accounts.
- 2 Transactions with the Lancashire Pensions Fund have been disclosed within the Statement of Accounting Policies and the notes to the Income and Expenditure Account Balance Sheet.
- 3 Transactions with associated companies have been disclosed within the notes to the Balance Sheet.

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

## 12 AUDIT COSTS

In 2007/08 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2006/07 £	2007/08 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	121,082	26,697
Fees payable to the Audit Commission in respect of statutory inspection	2,859	13,360
Fees payable to the Audit Commission for the certification of grant claims and returns	46,631	35,457
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	0	111,000
	<b>170,572</b>	<b>186,514</b>

## 13 MOVEMENT ON FIXED ASSETS

Movements in fixed assets during the year were as follows:

	Council dwellings £'000	Other land and buildings £'000	Vehicles plant and equipment £'000	Infrastructure assets £'000	Community assets £'000	Non-Operational properties £'000	TOTAL £'000
<b>Gross book value as at 01 April 2007</b>	<b>168,627</b>	<b>49,387</b>	<b>6,845</b>	<b>23,771</b>	<b>4,966</b>	<b>40,532</b>	<b>294,128</b>
Additions	2,879	740	1,169	2,416	1,273	3,263	11,740
Disposals	(2,290)					(602)	(2,892)
Revaluations / Adjstmts	4,145	4,249	(1,259)	(185)		379	7,329
Impairment						(164)	(164)
Transfers		14		11,809	943	(12,766)	0
<b>Gross book value as at 31 March 2008</b>	<b>173,361</b>	<b>54,390</b>	<b>6,755</b>	<b>37,811</b>	<b>7,182</b>	<b>30,642</b>	<b>310,141</b>
<b>Depreciation as at 01 April 2007</b>	<b>(18,191)</b>	<b>(4,394)</b>	<b>(2,107)</b>	<b>(4,450)</b>	<b>0</b>	<b>(781)</b>	<b>(29,923)</b>
Depreciation for year (on straight line basis)	(2,268)	(1,037)	(829)	(1,035)		(70)	(5,239)
Depreciation Adjstmts		404	1,203			(30)	1,577
Depreciation on assets sold / transferred	163			177			340
<b>Balance as at 31 March 2008</b>	<b>(20,296)</b>	<b>(5,027)</b>	<b>(1,733)</b>	<b>(5,308)</b>	<b>0</b>	<b>(881)</b>	<b>(33,245)</b>
<b>Net book value as at 31 March 2008</b>	<b>153,065</b>	<b>49,363</b>	<b>5,022</b>	<b>32,503</b>	<b>7,182</b>	<b>29,761</b>	<b>276,896</b>

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

## 14 CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year was £15.631M. The following table sets out how this was funded.

<b>2007/08</b>	<b>£'000</b>
<b>Opening Capital Financing Requirement</b>	<b>45,423</b>
<b>Capital Investment</b>	
Intangible Assets	511
Operational Assets	8,477
Non Operational Assets	3,233
Deferred Charges	3,407
Minor Items, not increasing asset values	3
<b>Sources of Finance</b>	
Capital Receipts	(1,466)
Government Grants, Contributions and Deferred Charges	(9,528)
Revenue Provision	(4,465)
<b>Closing Capital Financing Requirement</b>	<b>45,595</b>
<b>Explanation of Movements in Year</b>	
Increase in underlying need to borrow (supported by Government financial assistance)	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	(172)
<b>Increase in Capital Financing Requirement</b>	<b>(172)</b>

## 15 CAPITAL COMMITMENTS

As at 31 March 2008 the Council was contractually committed to capital works, which amounted to approximately £3.771M. Major contracts included the following schemes:-

Capital Projects	£
EDZ Cycling & Walking Network	399,597
Morecambe Coastal Defence Works Ph 6 & 7 Ext	2,508,417
West End Street Scene	151,059
Euston Road, Morecambe	242,083
Galgate/Cockerham Kitchen & Bathroom Refurbs	164,160
Vale Estate External Refurbishments	257,033

## 16 MAJOR FIXED ASSETS

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

	Number as at 31/03/2007	Number as 31/03/2008
<b>COUNCIL DWELLINGS</b>	3,881	3,814
<b>OPERATIONAL BUILDINGS</b>		
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
<b>OPERATIONAL EQUIPMENT</b>		
Vehicles	22	29
Heavy Plant	13	13
<b>COMMUNITY ASSETS</b>		
Community Centres	1	1
Parks	15	15
Playing Fields	6	6
<b>NON OPERATIONAL ASSETS</b>		
Commercial/Investment Properties	58	58

## 17 LEASING AND OTHER LONG TERM COMMITMENTS

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

Leased Assets – Rentals (excluding staff car leases)	
	Operating Leases £000
Total rentals paid in 2007/08	420
Outstanding undischarged leasing obligations:	
< 1yr	441
1 - 2 years	430
2 - 5 years	698
5 + years	535

At 31 March 2008, 24 cars were leased for staff. The total cost in 2007/08 was £152,672 and after contributions by staff of £15,746, it resulted in a charge to the Authority of £136,926.

## 18 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:	<b>£'000</b>
Gross Book Value (31/03/07)	3,595
Accumulated Depreciation	(69)
<b>Net Book Value (31/03/08)</b>	<b>3,526</b>
Annual depreciation charge	9

## 19 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 2008.

## 20 FIXED ASSET VALUATION

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

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

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

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

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infrastructure	Investment Properties	Non-Operational	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost	--	--	--	--	--	--	0
Valued at Current Value							0
1999/2000	--	(1,496)	--	--	(127)	--	(1,623)
2000/2001	--	2,438	--	--	369	--	2,807
2001/2002	(61,723)	135	--	--	277	--	(61,311)
2002/2003	14,146	(2)	(3)	--	--	--	14,141
2003/2004	31,635	2,376	--	--	--	798	34,809
2004/2005	42,786	818	--	--	--	2,499	46,103
2005/2006	(7,469)	11,218	--	126	--	112	3,987
2006/2007	--	--	--	--	3,363	488	3,851
2007/2008	4,145	4,249	(1,259)	(185)	0	379	7,329
<b>TOTAL CHANGE</b>	<b>23,520</b>	<b>19,736</b>	<b>(1,262)</b>	<b>(59)</b>	<b>3,882</b>	<b>4,276</b>	<b>50,093</b>

## 21 INTANGIBLE ASSETS

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

Software Licences	31/03/2007	31/03/2008
	£'000	£'000
Opening Balance	606	485
Amounts written off to Income and Expenditure Account		
Expenditure during the year	96	511
Written off to revenue in year	(217)	(317)
<b>Closing Balance</b>	<b>485</b>	<b>679</b>

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

## 22 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 07 £'000	31 March 08 £'000
General Fund	18,351	8,170
Housing Revenue Account	141,968	146,206
	<b>160,319</b>	<b>154,376</b>
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	(521)	10
	<b>159,798</b>	<b>154,386</b>

## 23 FINANCIAL LIABILITIES AND ASSETS

With effect from the financial year 2007/08, the Council is required to make certain adjustments to the Balance Sheet values of Financial Liabilities (i.e. the Council's borrowings) and Financial Assets (i.e. the Council's Investments), where these are necessary to reflect the 'Fair Value' of the item. In practice, for 2007/08, this applies only in limited circumstances, i.e.:

(a) In the case of borrowings, where a current loan directly replaced one or more previous loans as part of a Debt Rescheduling exercise which involved either the payment of a premium or the earning of a discount. There were two such loans in existence at 1 April 2007. Both were themselves repaid, as part of a further Debt Rescheduling exercise, early in 2007/08 and so there are no adjustments to the Balance Sheet value at 31 March 2008. The Council is not required to make a formal restatement of the accounts to show the adjustment at 1 April 2007.

(b) In the case of investments, where the Council enters into an agreement to place an investment at a later date at a particular rate of interest. There were two such investments which became effective during 2007/08 (total nominal value of £5M) and a further one where the agreement was made in 2007/08 but was not effective until 2008/09. The adjustments are twofold,

- (i) the first to reflect the difference between the interest rate agreed in respect of the deal and that which could have been obtained on the day on which it became effective, and
- (ii) the second to allow for the interest earned on the investment during the year, which now adjusts its carrying value rather than being shown elsewhere on the Balance Sheet as a Debtor.

	Long-Term			Short-Term		
	As Per 2006-07 Statement	2006-07 Restated	2007-08	As Per 2006-07 Statement	2006-07 Restated	2007-08
	£	£	£	£	£	£
<b>Financial Liabilities</b>						
At Amortised Cost	44,800,000	37,800,000	44,800,000			
At Fair Value through Income & Expenditure Account	0	7,334,471	0			
	44,800,000	<b>45,134,471</b>	<b>44,800,000</b>	0	0	0
<b>Change</b>		<b>334,471</b>				
<b>Associated Movements in Balance Sheet Items</b>						
Deferred Premiums		(151,624)				
Deferred Discounts		10,690				
Financial Instruments Adjustment Account		(193,537)				
		<b>(334,471)</b>				
<b>Financial Assets</b>						
Loans and Receivables	<b>2,000,000</b>	<b>2,000,893</b>	<b>1,004,561</b>	<b>9,500,000</b>	<b>9,500,000</b>	<b>10,265,211</b>
<b>Breakdown :</b>						
Nominal Value of Investments	2,000,000	2,000,410	1,000,410	9,500,000	9,500,000	10,130,410
Net gains on assets held at fair value, through 'Profit & Loss' (at balance sheet date)		483	4,151			
Net gains on assets held at fair value, through 'Profit & Loss' (at settlement date)						(1,388)
Interest Attributable for Year						136,599
<b>TOTAL</b>	<b>2,000,000</b>	<b>2,000,893</b>	<b>1,004,561</b>	<b>9,500,000</b>	<b>9,500,000</b>	<b>10,265,621</b>

## 24 GAIN AND LOSS ON FINANCIAL ASSETS AND LIABILITIES

The gains and losses recognised in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses in respect of Financial Assets and Liabilities are shown below. In order to illustrate the overall impact on the General Fund the position after taking into account the further items contained in the Statement of Movement on the General Fund balance is then shown.

<b>Financial Liabilities</b>		£'000
Interest Costs		2,488
Premiums and Discounts on Early Repayment of Debt		1,142
<b>Interest Payable and Similar Charges</b>		<b>3,630</b>
<b>Net of Items Included in Statement of Movement on General Fund Balance</b>		
Interest Costs		2,488
Premiums and Discounts on Early Repayment of Debt		159
<b>Interest Payable and Similar Charges</b>		<b>2,647</b>

  

<b>Financial Assets</b>		
Interest and Investment Income		1,139
<b>Net of Items Included in Statement of Movement on General Fund Balance</b>		
Interest and Investment Income		1,130

## 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 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
<b>Financial Liabilities</b>		
Amounts carried at Amortised Cost	44,800	63,389
Amounts carried at Fair Value	0	0
	44,800	63,389

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
<b>Financial Assets</b>		
Amounts carried at Amortised Cost	6,130	6,139
Amounts carried at Fair Value	5,135	5,135
	11,265	11,274

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 2008, the Council had just one investment with a maturity date greater than this. That investment was at a fixed interest rate which was greater than that which could have been obtained at the Balance Sheet date, and so has a Fair Value greater than its nominal worth.

## 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
- Dukes Playhouse Ltd
- Heysham Mossgate (Community Facilities) Company Ltd
- Storey Ltd (set up in 2006/07, and now trading)

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

None of the Council's interests in the above Companies are considered material when the tests as set out in the Code of Practice are applied with the aggregate financial liability totalling £14 (upper limit being £100,000). Consequently no Group Accounts are required to be prepared for the 2007/08 financial year.

### 26.1 WILLIAMSON PARK LTD

The Company is limited by guarantee. 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 financial accounting period ended on 31 January 2008. Consequently the information below differs slightly from the other financial information in this summary. The City Council provided revenue grant support of £165,900 and capital grant support of £4,842 to the Company during the Council's 2007/08 financial year (2006/07 £183,809).

	31 Jan 07	31 Jan 08
	£	£
Net assets	103,009	35,299
Profit/(Loss) before taxation	2,653	(71,317)
Profit/(Loss) after taxation	2,653	(71,317)

### 26.2 DUKES PLAYHOUSE LTD

The Company is limited by guarantee with no share capital. It is also a registered charity.

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 £162,300 to the Company during the 2007/08 financial year (2006/07 £159,400). This included the provision of grant in lieu of rent free accommodation to the value of £13,500 (2006/07 £13,500).

	31 March 07	31 March 08
	£	£
Net Assets	168,349	236,768
Profit/(Loss) before taxation	(19,360)	68,419
Profit/(Loss) after taxation		

### 26.3 HEYSHAM MOSSGATE (COMMUNITY FACILITIES) COMPANY LTD

The Company is limited by guarantee without share capital. 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 2006/07 figures were provided on a provisional basis last year, now audited the figures have been restated for 2006/07. Draft figures have been provided for 2007/08.



	31 March 07	31 March 08
	£	£
Net Assets	740,002	1,703,708
Profit/(Loss) before taxation	139,004	966,766
Profit/(Loss) after taxation	136,175	963,706

## 26.4 STOREY CREATIVE INDUSTRIES CENTRE

The Company is limited by guarantee and began trading in 2007/08. The principal activity of the company is the remodelling and management of the Storey Creative Industries Centre on a non-profit making basis. No Accounts have been audited at this time and we are awaiting draft figures.

The City Council provided revenue grant support of £40,222 during the 2007/08 financial year.

## 27 PROVISIONS

	Balance 01/04/07 £'000	Expenditure £'000	Transfers £'000	Income £'000	Balance 31/03/08 £'000
<b>Revenue</b>					
Insurance	250	(222)	100	118	246
Vehicle Replacements	41		54		95
Equal Pay	0		300		300
<b>Capital</b>					
General Fund Clawback	57				57
<b>TOTAL</b>	<b>348</b>	<b>(222)</b>	<b>454</b>	<b>118</b>	<b>698</b>

The closing balance on the Insurance Provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims. At the end of 2007/08 there was a total of 227 claims outstanding with an estimated value of £472,204, of which it is anticipated that just under half will fall on the Council. As a result the provision has been set at approximately £250,000 with a further £100,000 in an insurance reserve.

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

A new provision has been created to cover estimated liabilities in respect of Equal Pay claims. It is anticipated that such claims will be settled during 2008/09, as part of the current Job Evaluation process.

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

## 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 2007 £'000	Net Movement in Year £'000	Balance at 31 March 2008 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	0	3,923	3,923	Store of gains on revaluation of fixed assets not yet realised through sales	See (a) below
Capital Adjustment Account	172,867	3,294	176,161	Store of capital resources set aside to meet past expenditure	See (b) below
Financial Instruments Adjustment Account	0	(975)	(975)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	See (c) below
Usable Capital Receipts	1,594	(230)	1,364	The balance of proceeds from fixed assets sales that remains available to finance future capital expenditure	See (d) below
Deferred Credits	57	(17)	40	Balance of income due in future years, as a result of granting mortgages	Included in various other accounts
Pensions Reserve	(27,803)	(13,714)	(41,517)	Balance of pensions liability	See Note 29 below
Major Repairs Reserve	3,716	2,111	5,827	Resources available for capital investment in the Council's housing stock	See Note 2 to Housing Revenue Account statements below
Earmarked Reserves	4,997	972	5,969	Amounts set aside to meet specific future spending plans	See (e) below
General Fund Balance	3,015	(127)	2,888	Resources available to meet the Council's future general running costs	See Statement of Movement in General Fund Balance above
Housing Revenue Account Balance	757	(40)	717	Resources available to meet the future general running costs of the Council's housing stock	See Housing Revenue Account Statement of Movement in Balance below
Collection Fund Balance	596	(607)	(11)	Amount of Council Tax collected over and above the demands made by the Council and precepting authorities	See Collection Fund Income & Expenditure Account below
<b>TOTAL</b>	<b>159,796</b>	<b>(5,410)</b>	<b>154,386</b>		

<b>(a) Revaluation Reserve</b>		£'000
Balance at 1 April 2007		0
(Gains)/losses on revaluation of Fixed Assets		(5,030)
Amounts written off in respect of disposals		1,107
<b>Balance at 31 March 2008</b>		<b>(3,923)</b>
<b>(b) Capital Adjustment Account</b>		
Balance Transferred from FARA/CFA		(172,868)
Usable Capital Receipts applied		(1,466)
Capital expenditure financed from revenue		(2,310)
Capital expenditure financed from MRR		(565)
Depreciation		5,239
Write Down of Govt Grants Deferred		(4,026)
Amortisation of Intangible Assets		317
Impairment adjustments		167
Disposals & Fixed Asset changes		(2,466)
Deferred Charges		3,407
Minimum Revenue Provision		(1,099)
Additional voluntary provision for debt repayment		(491)
<b>Balance at 31 March 2008</b>		<b>(176,161)</b>
<b>(c) Financial Instruments Adjustment Account</b>		
Balance at 1 April 2007		0
Gain/Loss on Premia/Discounts on Early Repayment of Debt		983
Gain/Loss on Assets held at fair value through profit & loss		(8)
<b>Balance at 31 March 2008</b>		<b>975</b>
<b>(d) Usable Capital Receipts</b>		
Balance at 1 April 2007		(1,594)
Amounts receivable in year		(1,236)
Amounts applied to finance new capital investment in year		1,466
<b>Balance at 31 March 2008</b>		<b>(1,364)</b>

<b>(e) Earmarked Reserves</b>	<b>Balance at 1 April 2007</b>	<b>Net Movement in Year</b>	<b>Balance at 31 March 2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital Support	(460)	(772)	(1,232)
Job Evaluation Reserve	(555)	(163)	(718)
Flats Planned Maintenance	(577)	(50)	(627)
Open Spaces Commuted Sum	(312)	36	(276)
Planning Delivery Grant Reserve	0	(262)	(262)
Renewals Reserve	(100)	(153)	(253)
Welfare Planned Maintenance	(218)	(25)	(243)
Concessionary Travel	(290)	66	(224)
Project Implementation Reserve	(50)	(174)	(224)
Welfare Equipment	(187)	(32)	(219)
Integrated Hsg Mgt Sys Replacement Reserve	(134)	(53)	(187)
Fixed Lifeline Equipment	(143)	(30)	(173)
Access To Services Reserve	(491)	340	(151)
Other Commuted Sums	(183)	65	(118)
Central Control Equipment	(102)	(16)	(118)
Welfare Support Grant Maintenance	(81)	(20)	(101)
Insurance Reserve	(353)	253	(100)
Business Continuity Reserve	(100)	0	(100)
Dispersed Lifeline Equipment	(75)	(11)	(86)
Other Reserves (less than £75,000)	(586)	29	(557)
<b>Total</b>	<b>(4,997)</b>	<b>(972)</b>	<b>(5,969)</b>

## 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 liabilities existed as at 31 March 2008:

### 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 anticipated that settlement should be achieved by 2009/10, if not earlier. The Council has made some financial provision within the accounts, to cover legal and other professional costs also, but at this stage any potential liabilities arising cannot be measured with any reliability.

Also, under the building agreement for Luneside East, the developer was required to meet certain funding conditions by 29 April 2008. As a result of current market conditions, the Developer has not been able to meet these terms and this gives rise to a potential default on the building agreement. There are options available to the Council regarding the way forward, however, involving partners, and these are due to be considered in July 2008. As such, any decision regarding default is effectively deferred until that date. The Council's balance sheet includes debtors of £1.7M that would not be receivable if, in due course, the developer does default on the agreement and other alternative funding arrangements are not secured. The Council has also accounted for European Regional Development funding of £2.5M, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes. Given the commitment of partners to progress this project, however, and the specific market conditions giving rise to the current position, it is probable that a positive outcome will be forthcoming, avoiding any material liabilities falling on the Council as at 31 March 2008.

## Market Rents Payable by the City Council

An annual rent increase of 66% has been proposed by the landlord of Lancaster Market, payable from 2005/06. The Council disputes the basis of this increase, however, and it has been referred to arbitration. As such, whilst some provision has been made within the accounts, this does not cover the full rent increase proposed. If the landlord's claim was successful, the Council would incur further liabilities estimated at around £0.5M as at 31 March 2008.

## 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 25 June 2008.

## 31 POST BALANCE SHEET EVENTS

Events arising after 31 March should be reflected in the accounts if 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.

As set out in note 29, a potential default has arisen regarding the Luneside East Regeneration Scheme, in April 2008. The outcome of this is not yet certain, however, and therefore this has been disclosed as a contingent liability as at 31 March 2008.

## 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 Authority participates in one principal pension scheme.

The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council – this is a funded 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.

The following transactions have been made in the Income and Expenditure Account during the 2007/08 year in accordance with FRS 17.

<b>Net Cost of Services:</b>	<b>£'000</b>
Current Service Costs	(2,650)
Past Service & Curtailment (Gain)/Loss	(977)
<b>Net Operating Expenditure</b>	
Interest Costs	(7,083)
Expected return on Assets in the scheme	6,800
<b>Employer's contributions payable to the scheme</b>	<b>2,949</b>
<b>Overall impact of FRS 17 transactions</b>	<b>(961)</b>

This is balanced by a contribution of £964,303 from the Pensions Reserve and the Statement of Movement on the General Fund Balance, and a contribution of £3,300 to the Pensions Reserve in the corresponding statement for the Housing Revenue Account.

The actuarial gains and losses identified as movements on the Pension Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008.

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Differences between the expected and actual return on assets	9,574	13.1	3,768	4.7	13,587	13.7	(711)	(0.7)	(8,331)	8.6
Differences between actuarial assumptions about liabilities and actual experience	--	--	(1,546)	1.3	(2,461)	1.9	0	0.0	3,277	2.4
Changes in the demographic and financial assumptions used to estimate liabilities	--	--	(18,681)	16.3	(10,180)	7.7	6,500	4.9	(7,699)	5.6
	<b>9,574</b>		<b>(16,459)</b>		<b>946</b>		<b>5,789</b>		<b>(12,753)</b>	

As at 31 March 2008, the Authority had the following overall assets and liabilities for pensions as disclosed in the Balance Sheet:

Local Government Pension Scheme			
	31/03/2007	31/03/2008	
	£'000	£'000	
Estimated liabilities in scheme	(131,840)	(138,363)	
Estimated assets in scheme	104,037	96,846	
<b>Net asset/(liability)</b>	<b>(27,803)</b>	<b>(41,517)</b>	

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 2008, 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 authority's revenue account and not a charge to the Pension Fund.

The latest assessment took into account market movements up to 31 December 2007 and projected the likely position at 31 March 2008. 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.

#### Changes to the Local Government Pension Scheme (LGPS)

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.

Local Government Pension Scheme		
Financial Assumptions	2006/07	2007/08
	%	%
Rate of inflation	3.1	3.6
Rate of increase in salaries	4.9	5.4
Rate of increase in pensions	3.1	3.6
Rate of discounting scheme liabilities	5.4	6.1
Proportion of employees opting to take a commuted lump sum	50.0	50.0

Expected rate of return on assets	2006/07	2007/08
	%	%
Equity investments	7.5	7.5
Government Bonds	4.7	4.6
Other Bonds	5.4	6.1
Property	6.5	6.5
Cash/Liquidity	5.3	5.3
Other assets	7.5	7.5

Split of assets between investment categories	2006/07		2007/08	
	£'000	%	£'000	%
Equity investments	66,895	64.3	60,238	62.2
Government Bonds	8,739	8.4	6,876	7.1
Other Bonds	13,005	12.5	14,527	15.0
Property	7,283	7.0	5,811	6.0
Cash/Liquidity	4,682	4.5	3,196	3.3
Other Assets	3,433	3.3	6,198	6.4
	104,037	100	96,846	100

The movement in the net pension liability for the year to 31 March 2008 is as follows:

Movement in Surplus during 2007/08		£'000
<b>Surplus / (Deficit) at Beginning of Year</b>		<b>(27,803)</b>
Current Service Costs		(2,650)
Employer Contributions		2,949
Past Service Cost / Curtailment Cost		(977)
Net Interest / Return on Assets		(283)
Actuarial Gain or (Loss)		(12,753)
<b>Surplus / (Deficit) at End of Year</b>		<b>(41,517)</b>

The actuarial loss can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31 March 2008.

Statement of Actuarial Gains & (Losses)	£'000	%
Differences between the expected and actual return on assets	(8,331)	(8.6% of Assets)
Differences between actuarial assumptions about liabilities and actual experience	3,277	(2.4% of Liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(7,699)	(5.6% of Liabilities)
	<b>(12,753)</b>	

### 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.

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

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

	£'000	£'000
<b>Income and Expenditure Account Surplus/(Deficit)</b>		
General Fund		(1,129)
Housing Revenue Account		1,508
		<u>379</u>
<b>Net additional amounts required by statute to be debited or credited to the accounts in the year</b>		
General Fund	1,002	
Housing Revenue Account	(1,549)	(547)
		<u>(168)</u>
Collection Fund Surplus/(Deficit)		(607)
<b>ADD</b>		
Provision for Debt Redemption	1,591	
Write Down of Deferred Assets	168	
Direct Revenue Financing of Capital Expenditure	2,875	
Contribution from/(to) Earmarked Provisions	350	
Contribution from/(to) Earmarked Reserves	3,083	8,067
		<u></u>
Decrease/(Increase) in Debtors	(4,377)	
Decrease/(Increase) in Stocks	(5)	
Increase/(Decrease) in Creditors	2,269	(2,113)
		<u></u>
External Interest Paid	2,487	
Interest Received	(688)	1,799
		<u>6,978</u>



### 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 below.

	2006/07 £'000	2007/08 £'000
Revenue Support Grant	2,342	2,146
DWP Grants - Housing Benefits and Council Tax	31,843	34,141
Council Tax Collection		
Council Tax Preparation Grant		
Benefit Fraud Grant		
Benefit Administration Grant	1,201	1,179
NNDR Administration	214	212
Planning Delivery Grant	356	235
LABGI	460	163
50 Forward	0	205
Neighbourhood Management	0	145
Other Grants	0	388
	<b>36,416</b>	<b>38,814</b>

### 33.2 MOVEMENT IN LONG TERM BORROWING

	As at 31/03/2007 £'000	As at 31/03/2008 £'000	Movement in Cash £'000
Public Works Loans Board	44,800	44,800	0

### 33.3 MOVEMENT IN OTHER CURRENT ASSETS AND LIABILITIES

	As at 31/03/2007 £'000	As at 31/03/2008 £'000	Movement in Cash £'000
Stocks and Work in Progress	326	331	(5)
Debtors	11,320	15,697	(4,377)
Creditors	(9,950)	(12,219)	2,269
<b>TOTAL</b>	<b>1,696</b>	<b>3,809</b>	<b>(2,113)</b>

### 33.4 RECONCILIATION OF THE 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 2005/06 and the 2006/07 Balance Sheets.

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

	As at 31/03/2007 £'000	As at 31/03/2008 £'000	Movement in Cash £'000
Short Term Borrowing	0	0	0
Long Term Borrowing	(44,800)	(44,800)	0
Temporary Investments	9,500	10,265	765
Cash in Hand and at Bank	(3,871)	(1,948)	1,923
<b>TOTAL</b>	<b>(39,171)</b>	<b>(36,483)</b>	<b>2,688</b>

## SUPPLEMENTARY FINANCIAL STATEMENTS

### HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

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.

2006/07 £'000	2007/08 £'000	Notes
<b>Income</b>		
(10,295) Dwelling Rents	(10,713)	
(179) Non-Dwelling Rents	(267)	
(1,544) Charges for Services & Facilities	(1,677)	
(8) Contributions Towards Expenditure	(8)	
(160) Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	(165)	
<b>(12,186) Total Income</b>	<b>(12,830)</b>	
<b>Expenditure</b>		
3,097 Repairs & Maintenance	3,406	
2,953 Supervision & Management	3,038	
169 Rents, Rates, Taxes & Other Charges	108	
569 Negative Housing Revenue Account Subsidy Payable	820	7
131 Increase in Bad Debt Provision	91	
2,278 Depreciation & Impairments of Fixed Assets	2,305	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
<b>9,198 Total Expenditure</b>	<b>9,769</b>	
<b>(2,988) Net Cost of HRA Services per Authority Income and Expenditure Account</b>	<b>(3,061)</b>	
0 HRA Services Share of Corporate & Democratic Core	0	
0 HRA Share of other Amounts Included in the Whole Authority Net Cost of Services but not Allocated to Specific Services	0	
<b>(2,988) Net Cost of HRA Services</b>	<b>(3,061)</b>	
<b>HRA share of the operating income and expenditure included in the whole authority accounts</b>		
0 Gain or Loss on Sale of HRA Fixed Assets	0	
878 Interest Payable & Similar Charges	851	
159 Amortisation of Premiums & Discounts	1,002	
(256) Interest & Investment Income	(336)	
43 Pensions Interest Costs & Expected Return on Pensions Assets	36	8
<b>(2,164) (Surplus) or deficit for the year on HRA Services</b>	<b>(1,508)</b>	

## STATEMENT OF MOVEMENT IN THE HOUSING REVENUE ACCOUNT BALANCE FOR THE YEAR ENDED 31 MARCH 2008

2006/07 £'000		2007/08 £'000	Notes
(2,164)	<b>(Surplus) / Deficit for Year on the HRA Income &amp; Expenditure Account</b>	(1,508)	
2,558	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	1,549	
394	<b>(Increase) or decrease in Housing Revenue Account Balance</b>	41	
(1,152)	Housing Revenue Account Balance brought forward	(758)	
(758)	<b>Housing Revenue Account Balance carried forward</b>	(717)	

### Note to the Statement of Movement on the HRA Balance

#### Additional amounts required by Statute & Non-Statutory Proper Practices to be taken into account in determining the movement in the HRA Balance

0	Difference between Interest Payable and Similar Charges including Amortisation of Premiums & Discounts determined in accordance with the SORP & those determined in accordance with Statute	(843)	
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	0	
(58)	Net charges made for retirement benefits in accordance with FRS17	3	8
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	
(58)		(840)	

#### 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	371	
0	Transfer to/from Housing Repairs Account	0	
290	Transfer to/from Earmarked Reserves	250	
2,364	Capital Expenditure funded by the Housing Revenue Account	1,768	
0	HRA Share of the Minimum Revenue Provision		
0	Voluntary set aside for debt repayment		
2,616		2,389	
2,558	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	1,549	

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2008 the authority held the following dwellings:

Bedsits		117
1 Bedroom	Houses & Bungalows	649
	Flats & Maisonettes	510
2 Bedroom	Houses & Bungalows	508
	Flats & Maisonettes	682
3 Bedroom	Houses & Bungalows	1,260
	Flats & Maisonettes	7
4 or more bedroomed dwellings		81
<b>TOTAL ALL DWELLINGS</b>		<b>3,814</b>

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

	Bal b/fwd 01/04/2007 £'000	Bal c/fwd 31/03/2008 £'000
<b>Operational</b>		
Council Dwellings	150,436	153,065
Other land and buildings	18	19
	150,454	153,084
<b>Non-operational Assets</b>	1,034	1,091
<b>TOTAL</b>	<b>151,488</b>	<b>154,175</b>

Dwellings are valued on the basis of Existing Use Value (Social Housing). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the second year of which has now updated all values to 01 April 2005. The figures for 2007/08 incorporate the first annual rebasing exercise on the April 2005 revaluation and this has resulted in an increase in asset values of £6,332,927 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 £2,267,899, for 2007/08 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 2007 was £326,601,867. The difference between this and the EUV-SH valuation of £156,768,894 (i.e. the updated figure after the 2007/08 rebasing exercise effective as of 01 April 2007 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 2007/08		£'000
Opening Balance 01 April		3,716
Transfer from General Reserves		408
Transfer to MRR – Depreciation		2,305
Transfer to HRA - Depreciation Adjustment		(36)
Capital Expenditure		
- Land		0
- Houses		(566)
- Other property.		
<b>Closing Balance 31 March</b>		<b>5,827</b>

### 3 CAPITAL EXPENDITURE

Capital expenditure of £2,873,000 was incurred during the year on works and improvements to dwellings. A £75,000 revenue contribution to General Fund Capital was also made in respect of the EDMS project; this is included in the Direct Revenue Financing figure of £1,744,000. This was financed as follows:

	£'000
Borrowing	0
Usable Capital Receipts	614
Direct Revenue Financing	1,744
Earmarked Reserves	24
Majors Repairs Reserve	566
Grants and Contributions	0
Movement in Capital Creditors	0
<b>Total Capital Financing</b>	<b>2,948</b>

Capital Receipts totalling £2,156,000 were received during the year from the following sources:

	£'000
Sale of dwellings	2,146
Sale of land	0
Repayment of Principal on Mortgages	10
Repayment of Right to Buy discounts	0
<b>Total Capital Receipts</b>	<b>2,156</b>

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

### 4 DEPRECIATION

Total depreciation charges for the year were:

	£'000
Council Dwellings	2,268
Other land and buildings	0
Non-operational Assets	37
<b>TOTAL</b>	<b>2,305</b>

## 5 IMPAIRMENT CHARGES

There were no impairment charges for the financial year.

## 6 DEFERRED CHARGES

No charges were made during the year in respect of deferred charges.

## 7 HOUSING REVENUE ACCOUNT SUBSIDY

The total Negative Housing Subsidy payable for the year 2007/08 was £800,000, the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £820,000. The additional payment of £20,000 in respect of 2006/07 was due to a lower CRI of 5.73% being applied at final determination instead of the estimated 5.8%.

	£'000
Management Allowance	1,895
Maintenance Allowance	3,753
Major Repairs Allowance	2,268
Admissible Allowances	0
Anti-Social Behaviour Allowance	0
Charges for Capital	1,777
Rent Rebates	0
Notional Rent	(10,692)
Interest on Receipts	(4)
Government Grants	0
Rental Constraint Allowance	203
<b>Total Housing Subsidy</b>	<b>(800)</b>

## 8 CONTRIBUTION TO/FROM THE PENSION RESERVE

This is the third year in which the requirements of FRS17 have been applied to the Housing Revenue Account. As such, the current service cost has been included within the Net Cost of Services and the net of the interest cost and the expected return on assets included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Movements in the HRA balance.

## 9 RENT ARREARS

Total arrears of rent at 31 March 2008 amounted to £365,000. Against this an amount of £358,000 was held as provision for bad debts (including rent arrears and all other debts outstanding to the Housing Revenue Account). 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.

## COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT 2007/08

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.

2006/07 £'000	INCOME	See Note	2007/08 £'000
	<b>Council Tax</b>		
(49,219)	Income from Council Tax	1	(52,033)
	<b>Transfers from General Fund:</b>		
(8,404)	Council Tax Benefits		(8,681)
	<b>Council Tax Benefit Subsidy Limitation</b>		
--	Contributions from other Local Authorities		--
	<b>Business Rates</b>		
(27,449)	Income from Business Ratepayers	2	(33,650)
	<b>Contributions</b>		
--	Towards previous year's Collection Fund deficit		--
(299)	From Provisions for Council Tax Amounts Written Off		(336)
<b>(85,371)</b>	<b>TOTAL INCOME</b>		<b>(94,700)</b>
	<b>EXPENDITURE</b>		
	<b>Precepts and Demands</b>		
42,628	Lancashire County Council		45,298
7,266	Lancaster City Council (including parish precepts)		7,648
4,836	Lancashire Police Authority		5,451
2,339	Lancashire Fire Authority		2,487
	<b>Business Rates</b>		
27,235	Payment to National Pool		33,438
214	Cost of Collection Allowance		212
	<b>Council Tax Bad and Doubtful Debts</b>		
299	Write-offs		336
345	Contribution to Provision for Non-Collection		437
<b>85,162</b>	<b>TOTAL EXPENDITURE</b>		<b>95,307</b>
	<b>FUND BALANCE</b>		
(209)	(Surplus)/deficit for year		607
(387)	(Surplus)/deficit as at 01 April (Brought forward)	3	(596)
<b>(596)</b>	<b>(Surplus)/deficit as at 31 March (Carried forward)</b>	4	<b>11</b>

## 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 2007/08 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,561	11,038
Band B	13,021	10,127
Band C	9,949	8,844
Band D	5,375	5,375
Band E	3,422	4,183
Band F	1,710	2,469
Band G	763	1,272
Band H	38	76
<b>Total</b>	<b>50,839</b>	<b>43,384</b>
<i>Collection Rate</i>		99%
<b>Council Tax Base</b>		<b>42,950</b>

### 2 BUSINESS RATES

The City Council collects National Non-Domestic Rates (NNDR) for its area. NNDR is based on rateable values set by the Inland Revenue, multiplied by a Uniform Business Rate set by Central Government. For most businesses, this was set at 44.4p per £ for 2007/08 (43.3p for 2006/07). For local businesses with a rateable value of less than £15,000, a discount of 0.3p was allowed giving a rate of 44.1p. The rateable value at 31 March 2008 was £87,977,782 (£87,289,085 for 2006/07). 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 2007/08, paid directly to the Income and Expenditure Account, amounted to £12.786 M.

### 3 DISTRIBUTION OF COLLECTION FUND (SURPLUSES) OR DEFICITS

Collection Fund Surpluses 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 2007 the Council Tax surplus was shown as £596,000. During 2007/08 the following distributions were made to precepting authorities.



	£'000
Lancaster City Council	76
Lancashire County Council	452
Lancashire Police Authority	54
Lancashire Fire Authority	25
<b>TOTAL</b>	<b>607</b>

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

The movements in the Collection Fund during 2007/08 are summarised below.

	Residual Community Charge £'000	Council Tax £'000	TOTAL £'000
(Surplus)/Deficit 01/04/07	--	(596)	(596)
Distributions in Year	--	--	0
Net Transaction in Year	--	607	607
<b>(Surplus)/Deficit 31/03/08</b>	<b>0</b>	<b>11</b>	<b>11</b>

Of the £11,000 deficit as at 31 March 2008, £10,000 is attributable to other Local Authorities as follows:

	£'000
Lancashire County Council	8
Lancashire Police Authority	1
Lancashire Fire Authority	1

## BEQUESTS, ENDOWMENTS AND TRUST FUNDS

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

At 31 March 2008 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/07 £	Income £	Expenditure £	Balance c/f 31/03/08 £
<b>Bequests and Endowments</b>				
(a) Council sole trustee				
Ashton Memorial	0	(1,405)	1,405	0
Williamson Park	0	(1,941)	1,941	0
Other	(1,803)	(4,335)	1,151	(4,987)
(b) Council not sole trustee	(8,516)	(579)	0	(9,095)
<b>School etc. Prize Funds</b>				0
(a) Council sole trustee	(21,399)	(1,461)	0	(22,860)
(b) Council not sole trustee	(1,725)	(121)	0	(1,846)
<b>TOTAL</b>	<b>(33,443)</b>	<b>(9,842)</b>	<b>4,497</b>	<b>(38,788)</b>

	Fund Balances £	Cash and Fund Investments £
<b>Bequests and Endowments</b>		
<b>(a) Council sole trustee</b>		
Capital		
Ashton Memorial	15,602	0
Williamson Park	18,343	0
Other	14,045	1,962
Revenue	4,987	0
Cash and Debtors	0	51,015
<b>(b) Council not sole trustee</b>		
Capital	2,045	0
Revenue	9,096	2,045
Cash and Debtors	0	9,096
<b>School etc. Prize Funds</b>		
<b>(a) Council sole trustee</b>		
Capital	2,496	0
Revenue	22,860	1,630
Cash and Debtors	0	23,726
<b>(b) Council not sole trustee</b>		
Capital	358	0
Revenue	1,846	0
Cash and Debtors	0	2,204
<b>TOTAL</b>	<b>91,678</b>	<b>91,678</b>

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

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

<b>Income &amp; Expenditure Account</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Interest	(6,193)	(9,842)
Capital		
	<b>(6,193)</b>	<b>(9,842)</b>
<b>Expenditure</b>		
Ashton Memorial	1,352	1,405
William Smith Festival	266	345
Whalley Playground	658	658
Lune Bank Gardens	104	123
Williamson Park	1,928	1,941
War Memorial Fund	17	20
Other	3	5
	<b>4,328</b>	<b>4,497</b>
<b>Excess Income</b>	<b>(1,865)</b>	<b>(5,345)</b>
<b>Balance Sheet</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£</b>	<b>£</b>
<b>Assets</b>		
Investments	3,836	3,836
Debtors	1,805	1,923
Bank	80,692	85,919
	<b>86,333</b>	<b>91,678</b>
<b>Represented by:</b>		
Reserves as at 31st March	84,468	86,333
Income in year	1,865	5,345
	<b>86,333</b>	<b>91,678</b>

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.

### **Deferred Charges**

Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the authority.

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

This list is not intended to be comprehensive.

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

### **Remuneration**

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

### **Residual value**

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

**Retirement benefits**

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

**Scheme Liabilities**

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

**Settlement (re pension matters)**

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

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

**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.