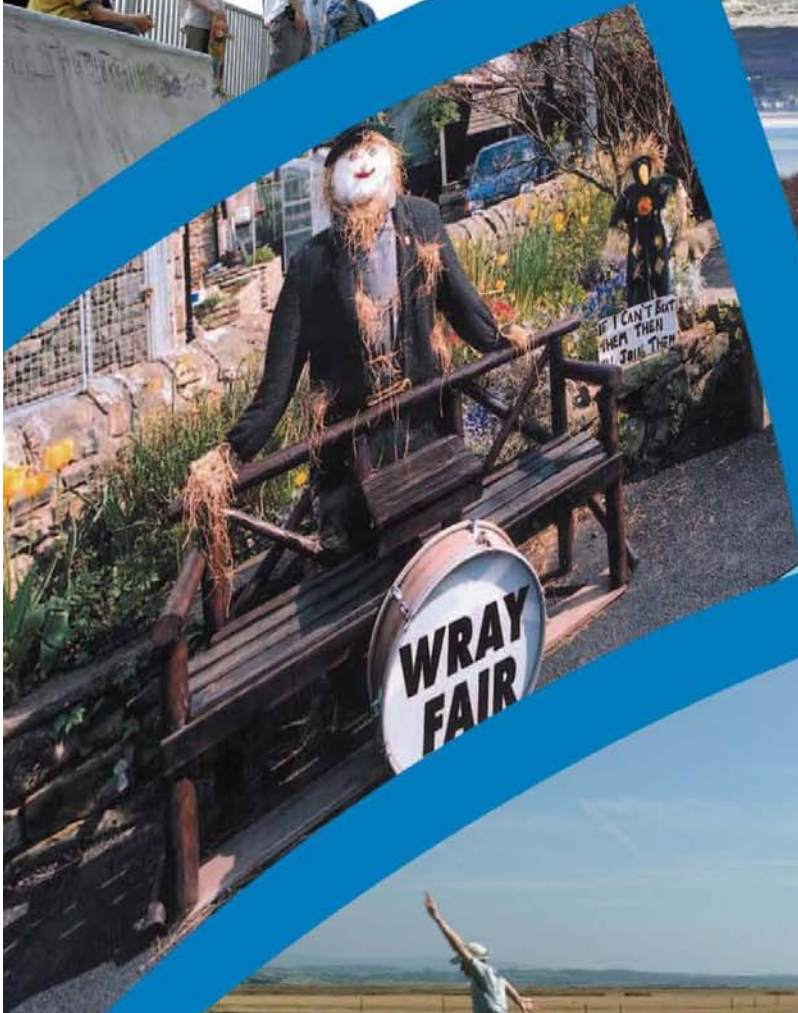


2005/06

# Statement of Accounts



**LANCASTER**  
**CITY COUNCIL**

*Promoting City, Coast & Countryside*

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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 2006. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting. It 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 2005/06 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 2005/06.

Expenditure	2005/06 Original Estimate £000	2005/06 Revised Estimate £000	2005/06 Actual £000	Variance from Revised Estimate £000
Central Services to the Public	961	748	720	(28)
Cultural, Environmental and Planning Services	15,010	16,311	15,733	(578)
Highways, Roads & Transport Services	335	269	179	(90)
Housing Services	3,514	3,545	4,122	577
Corporate & Democratic Core	2,268	2,464	2,263	(201)
Unapportionable Central Overheads	473	(1,289)	(1,341)	(52)
<b>Net Cost of General Fund Services</b>	<b>22,561</b>	<b>22,048</b>	<b>21,676</b>	<b>(372)</b>
Corporate Income & Expenditure	(676)	(1,638)	(1,560)	78
Appropriations	(2,310)	(764)	(711)	53
Parish Precepts	245	245	245	--
<b>Contribution to/(from) General Fund Reserve</b>	<b>(116)</b>	<b>(187)</b>	<b>54</b>	<b>241</b>
<b>BUDGET REQUIREMENT</b>	<b>19,704</b>	<b>19,704</b>	<b>19,704</b>	<b>--</b>
<b>Funded by :</b>				
Revenue Support Grant	(8,888)	(8,888)	(8,888)	--
National Non Domestic Rates	(3,922)	(3,922)	(3,922)	--
Council Tax	(6,894)	(6,894)	(6,894)	--
Collection Fund Balance	--	--	--	--
<b>TOTAL FUNDING</b>	<b>(19,704)</b>	<b>(19,704)</b>	<b>(19,704)</b>	<b>--</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 2005/06 was originally approved by Council on 01 March 2005 at £19.704M (including £244,800 for precept payments to parishes) and assumed that balances would be £1.273M by 31 March 2006, though these were increased by a further £457,000 following the 2004/05 outturn.

Overall in 2005/06 there has been a net underspend of £241,000 against the Revised Budget. The main savings areas have been staff turnover, recycling and trade waste collection. However, net expenditure has also increased in areas such as Salt Ayre Sports Centre, searches and markets. As a result of all these changes the General Fund unallocated balance stands at £2.061M as at 31 March 2006, which is well in excess of the basic minimum £1M level. This is before consideration of any requests to carry forward budgets; if any are approved this will effectively reduce available unallocated balances.

## **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 2006, the working balance on the Housing Revenue Account amounted to £1.152M, representing an increase of £123,000 from the position as at the end of the previous year, and an increase of £122,000 on the estimated position. This increase is mainly due to reduced spending on repair and maintenance, additional investment interest, and a reduced contribution to the bad debt provision. Current Council Policy is to maintain housing balances at £350,000.

## **2.4 Former Direct Service Organisations**

The remaining functions that still operate trading accounts include Building Maintenance and Highways, however Building Maintenance has been consolidated within Council Housing with effect from 01 April 2005.

For 2005/06 the financial performance of Highways was better than estimated, with a surplus of £230,000 against a budgeted surplus of £65,000. The Building Maintenance section's deficit was higher than estimated though, being £130,000 against a budgeted break even position.

## **3 CAPITAL POSITION**

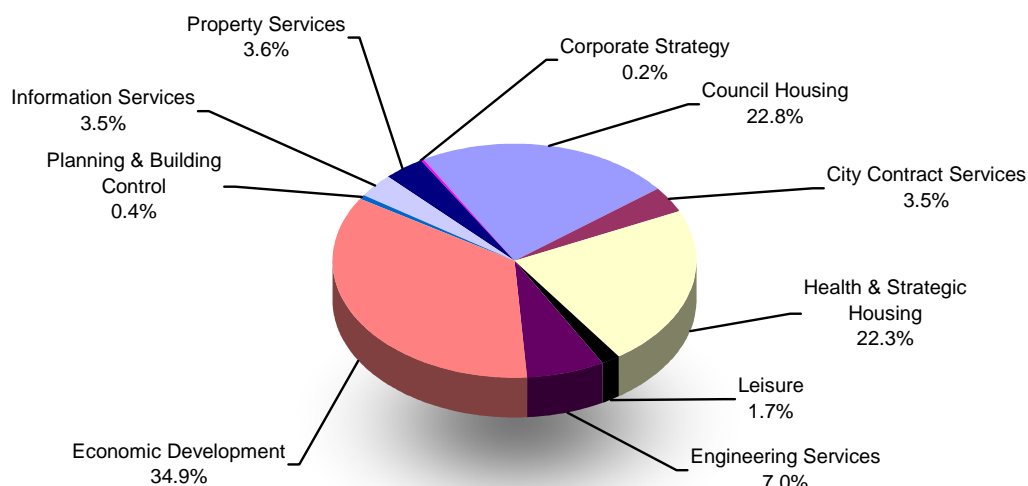
In 2005/06 the City Council spent £17.642M on capital schemes, and an analysis of the expenditure and funding is shown diagrammatically on the following page.

The Council's capital programme for 2005/06 was £22.351M, however due to delays in starting a number of schemes, £3.7M of this spend will need to be rolled forward into 2006/07.

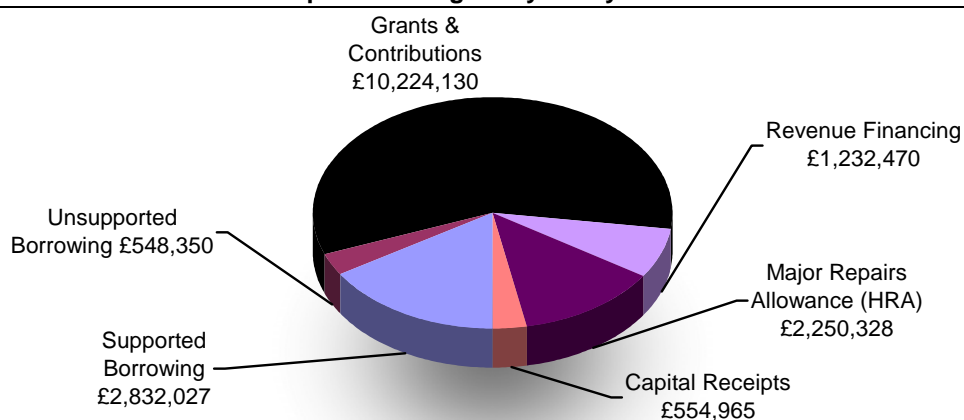
The capital programme is financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. The latter is in the form of "supported" or "unsupported" borrowing. Supported borrowing is where the Government provides support for the associated borrowing costs, and unsupported borrowing is where the Council can borrow money provided it can meet certain criteria, such as affordability, which are determined by the Prudential Code Framework.

In 2005/06 the cost of financing external borrowing was £2.6M, and the value of long term debt owed as at 31 March 2006 amounted to £44.8M, which is an increase of £3.3M on 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 £238M as at 31 March 2006.

### Capital Expenditure Analysed by Service



### Capital Funding Analysed by Source



## 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 2006 showed a liability of £33.031M compared to a liability of £34.983M for the previous financial year. This represents a decrease in liability of £1.952M.

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 are currently being considered by Government.

## **5 BEST VALUE PERFORMANCE PLAN**

The production of the 2005/06 Statement of Accounts has again been produced one month earlier than the previous year, in line with statutory deadlines. As a result of this improvement it has been possible to provide final outturn figures for the 2005/06 Best Value Performance Plan, which will be presented to the Budget and Performance Panel on 25 July 2006.

## **6 CONCLUSION**

During 2005/06 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. As at 31 March 2006 balances were well above the basic minimum level, though in accordance with its stated policy most of the excess has already been identified to support future years' spending.

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 2005/06 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2006/07 corporate financial monitoring process.

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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.

### **Statement on the Systems of Internal Control and Corporate Governance**

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

### **Consolidated Revenue 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 Revenue Support Grant from Central Government.

### **Housing Revenue Account**

This reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents, subsidy and other income.

### **Collection Fund**

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

### **Consolidated 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).

### **Statement of Total Movements in Reserves**

This statement brings together all the recognised gains and losses of the Authority during the year and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

### **Cash Flow Statement**

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

### **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 Consolidated Balance Sheet.

### **Bequests, Endowments and Trust Funds**

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



# AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT TO LANCASTER CITY COUNCIL

### Independent auditor's report to Lancaster City Council

#### Opinion on the financial statements

- 1 We have audited the financial statements of Lancaster City Council for the year ended 31/3/2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, and the Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out within them.
- 2 This report is made solely to Lancaster City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### Respective responsibilities of the Chief Finance Officer and auditors

- 3 The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.
- 4 Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 5 I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.
- 6 We review whether the statement on internal control reflects compliance with CIPFA's guidance. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.



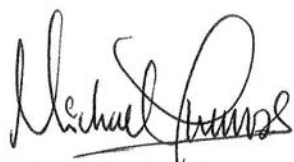
- 7 We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

- 8 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 9 We planned and performed our audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

- 10 In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31/3/2006 and its income and expenditure for the year then ended.



Auditor: Michael Thomas

Address: Audit Commission, Aspinall House, Middlebrook, Aspinall Close,  
BL6 6QQ

Date: 29 September 2006

# STATEMENT OF ACCOUNTS

## STATEMENT OF RESPONSIBILITIES

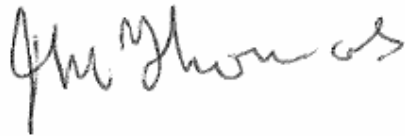
### 1 THE AUTHORITY'S RESPONSIBILITIES

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 2005/06 was approved by the Audit Committee at its meeting held on 28 June 2006, 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 2006 and the income and expenditure for the year then ended.



Nadine Muschamp, CPFA  
Head of Financial Services

# STATEMENT OF INTERNAL CONTROL AND CORPORATE GOVERNANCE

## 1. 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 also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. To this end the Council has adopted a Constitution and Code of Corporate Governance which is consistent with CIPFA/SOLACE<sup>1</sup> framework – *Corporate Governance in Local Government: A Keystone for Community Governance*. A full copy of the Council's Constitution is available on the Council's website.

Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies<sup>2</sup> to conduct a review at least once a year of the effectiveness of its internal control and risk management systems and to publish a statement on internal control (SIC) each year with the financial statements.

## 2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Effective systems of internal control are based on an ongoing risk management process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

## 3. THE INTERNAL CONTROL ENVIRONMENT

The system of internal control has been in place at Lancaster City Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with proper practice.

The following sets out the key elements of the Council's internal control environment:

- The Council has adopted a constitution (recently revised), which 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 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.

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<sup>1</sup> The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."

<sup>2</sup> Those bodies whose accounts are audited in accordance with Section 2 of the Audit Commission Act 1988

- The adopted Code of Corporate Governance sets out how the values of openness, inclusivity, integrity and accountability are applied to the Council's activities, in line with the principles and requirements of the CIPFA/SOLACE<sup>3</sup> framework – *Corporate Governance in Local Government: A Keystone for Community Governance*.
- A Risk Management Policy and Strategy, updated in July 2005, 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. The process of identifying, assessing and managing these risks is underpinned by the ongoing development of the Council's Risk Register and the supervisory activities of the Risk Management Group.
- 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, its Internal Audit and Best Value review teams and those conducted by our external auditors and other external agencies.
- For 2005/06, the Corporate Director (Central Services) was the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of financial 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 Council's commitment to high standards of conduct and integrity is supported by our established codes of conduct for employees and elected Members and probity is maintained through our Anti-Fraud and Corruption Policy and Strategy and the Whistleblowing Policy.
- The financial management of the Council is conducted in accordance with rules set out in the Financial Regulations and Procedures within the Constitution. The Council also has in place a three-year Medium Term Financial Strategy to support the key priorities and objectives set out in the Council's Corporate Plan, and the Head of Financial Services has statutory duties for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- Internal Audit operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2003*' and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.
- The Council's performance management framework is driven by our Corporate Plan which focuses attention on our corporate priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- The Council sets out its approach to partnering in service delivery and in construction projects through the introduction of the *Framework for Partnership Working* and the *Procurement through Partnering Guidelines* published in November 2004. These documents set out clear guidance on how the Council will meet the strategic objective of delivering better services to citizens through the creation of sustainable partnerships between the Council and suppliers in the public, private and voluntary sectors and the carrying out of major projects, including construction.

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<sup>3</sup> The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."

#### 4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the systems of internal control. The review of the effectiveness of internal control is informed by the work of internal auditors and senior managers of the Council who have responsibility for the development and maintenance of the systems of internal control, and also by comments made by the Council's external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

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 Corporate Director (Central Services), in his 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 Audit Committee has responsibility for reviewing the Internal Control & Corporate Governance Framework and the Council's assurance statement on corporate governance is now incorporated within this Statement of Internal Control and Corporate Governance.
- The Audit Committee also reviews the adequacy of internal controls and risk management arrangements, monitoring the performance of Internal Audit and agreeing 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
- The Council's performance management arrangements have been fundamentally reviewed during the year, with a new framework being adopted from 1<sup>st</sup> April 2006. The new arrangements provide clearer roles and responsibilities for managers and elected members, particularly Cabinet portfolio holders and scrutiny members of the Budget and Performance Panel. Ongoing development and implementation of the new computerised corporate performance management system is continuing to improve the scope and quality of information and decision making.
- In tandem with performance management developments, the ongoing development of corporate and service-level risk registers is providing improved information and focus on the key risks facing the Council, again serving to improve the overall decision making process.
- The Comprehensive Performance Assessment (CPA) carried out by the Audit Commission in 2003/04 assessed the Council as a 'Fair' performing authority, placing it in the middle of a range of possible scores from Poor to Excellent. The report identified areas for improvement, particularly around prioritisation and performance management. The Council has continued to address these, as well as other priority action areas, through our Corporate Improvement Plan.
- In April 2006, the Audit Commission, in its Annual Audit Letter, reported that the Council was addressing the weaknesses in the CPA and had strengthened its arrangements in a range of

areas, including financial management and control, corporate governance, its internal structures and had particularly set a good strategic direction through its vision and priorities. 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".

## 5. SIGNIFICANT INTERNAL CONTROL 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 internal control and the corporate governance framework, 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 already considerable governance controls, and to that end we will:

- ***Improve our delivery of customer-focussed services*** by continuing to improve how we undertake consultation and community engagement, contributing to more focussed business planning and allocation of resources.
- ***Improve decision making*** by fully implementing new performance management arrangements and improving the scope and quality of performance information.
- ***Manage risk more effectively*** by fully implementing the risk management strategy and embedding risk management processes throughout the Council and its main partnerships. Also by drawing up service continuity plans for all critical service areas to provide compliance with the Civil Contingencies Act.
- ***Improve the Value For Money*** we provide by continuously challenging and reviewing the efficiency with which we manage the organisation and provide our services.
- ***Resource and implement action plans*** through the development of our workforce planning arrangements to ensure that our staff have the necessary skills and training to deliver services.
- ***Continue to develop the effectiveness of governance arrangements*** by increasing staff, elected Member and stakeholder awareness of our standards and by continuing to build effective relationships with our partners.



**I S Barker**  
**Leader of the Council**



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



**R C Muckle**  
**Corporate Director (Central Services)**  
**Monitoring Officer**



**N Muschamp**  
**Head of Financial Services**  
**(Section 151 Officer)**



## STATEMENT OF ACCOUNTING POLICIES

### 1 GENERAL

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), and also with 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

All expenditure and income, both revenue and capital, has been accrued and accounted for in the period to which it relates.

### 3 FIXED ASSETS

#### 3.1 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 in full to the relevant fixed asset with the excess of any cost over value being written off to the fixed asset restatement reserve.

#### 3.2 Measurement

De minimis levels were revised in 2004/2005 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 the 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.

### **3.3 Revaluations**

Where an asset is included in the balance sheet at current value, it should be formally revalued at intervals of not more than five years and the revised amount included in the balance sheet.

The value at which each category of assets is included in the balance sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, and that the change is likely to be other than temporary, the valuation is adjusted accordingly. Any such general reductions in asset values are disclosed as impairment changes.

### **3.4 Disposals**

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

### **3.5 Depreciation**

Depreciation is now 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 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.

## **4 DEFERRED CHARGES**

Following 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"

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, eg 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.

## **5 INTANGIBLE ASSETS**

In those cases where the authority does control the economic benefit arising from the expenditure then it is recognised as an asset in the balance sheet. Purchased intangible assets (eg software licences) are now capitalised as assets based on actual cost, and are amortised to revenue over a five year period.

## **6 BASIS FOR CHARGES FOR CAPITAL**

Each service within the City Council is charged with a capital charge for all fixed assets used in the provision of that service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net value at which the asset is included in the balance sheet.

## **7 DEBTORS AND CREDITORS**

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS 18. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. There are minor exceptions but these are not material compared with the total for the year.

## **8 STOCKS AND WORKS 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.

## **9 OVERHEADS**

Charges or apportionments covering all support service costs are made to all their users, including services to the public, divisions of services, trading undertakings, capital accounts, services provided for other bodies and other support services.

The cost of service management (comprising all management except corporate management) is in the same way apportioned to the accounts representing the activities managed.

The bases of apportionment adopted is consistent for all the heads to which apportionments are made.

The costs of corporate management and unapportionable central overheads are allocated to separate objective headings kept for these purposes and are not reapportioned to any other heading.

## **10 PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

Provision has been made for doubtful debts, and known uncollectable debts have been written off during the year.

## **11 RESERVES**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. No expenditure is charged directly to any reserve.

Capital reserves are not available for revenue purposes and certain elements of them can only be used for specific statutory purposes. The fixed asset restatement account, usable capital receipts, and capital financing account are examples of such reserves.

## **12 PENSIONS**

The attributable assets (if any) of each scheme should be measured at their fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses should be deducted. The attributable scheme liabilities should be measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i. any benefit promised under the formal terms of the scheme; and
- ii. any constructive obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

The surplus/deficit in a scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. An authority should recognise an asset to the extent that it is able to redress a surplus either through reduced contributions in the future or through refunds from the

scheme. An authority should recognise a liability to the extent that it reflects its legal or constructive obligation.

Any unpaid contributions to the scheme should be presented in the balance sheet as a creditor due within one year.

The change in the defined benefit asset or liability (other than that arising from contributions to the scheme) should be analysed into the following components:

- i. Periodic costs:
  - a. current service cost;
  - b. interest cost;
  - c. expected return on assets; and
  - d. actuarial gains and losses; and
- ii. Non-periodic costs:
  - a. past service costs; and
  - b. gains and losses on settlements and curtailments.

The current service cost should be included within Net Cost of Services (except in so far as the related employee remuneration is capitalised in accordance with the Code and Statute). The net of the interest cost and the expected return on assets should be 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 should be recognised in the Statement of Total Movements for the period.

Past service costs should be recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost should be recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions should be measured at the date on which the authority becomes demonstrably committed to the transaction and recognised in Net Cost of Service at that date. Gains arising on a settlement or curtailment now allowed for in the actuarial assumptions should be measured at that date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

### **13 INVESTMENT INTEREST**

Interest is credited to the General Fund and the Housing Revenue Account based on the equated level of their respective fund balances.

### **14 INVESTMENTS**

Current investments are shown in the Consolidated Balance Sheet at cost less any provision required for loss in value. Dividends on Longer Term Investments have been credited to revenue when paid. Details of the Council's holdings in any companies are set out in the notes to the Consolidated Balance Sheet.

### **15 GOVERNMENT GRANTS**

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

## **16 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 asset management revenue account.

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

## **17 DEBT RESCHEDULING**

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the consolidated revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing is coupled with a refinancing or restructuring of borrowing with substantially the same economic effect when viewed as a whole, gains and losses are recognised over the life of the replacement borrowing. The balance of any outstanding premia is held on the balance sheet as a deferred premium.

## **18 MINIMUM REVENUE PROVISION**

In accordance with the requirements of the Local Government and Housing Act 1989 the Authority is required to set aside a minimum revenue provision for repayment of debt. This is the aggregate of 4% of the Adjusted Capital Financing Requirement at the beginning of the year for the General Fund. If depreciation does not equal this amount a transfer to/from the Capital Financing Account is required for the difference.

## **19 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.

## **20 VALUE ADDED TAX**

VAT is fully recoverable from Customs and Excise except in certain exceptional cases. Consequently all expenditure, whether revenue or capital, is shown in the accounts as net of VAT.

## **21 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 consolidated revenue 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 consolidated revenue 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 adjustments should also be noted at the foot of the Statement of Total Movement in Reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period should be disclosed where practicable.

## **22 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.

## **23 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.

## **24 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.

## **25 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.

# CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH

2004/05 £000		EXP £000	INC £000	NET £000	Notes
	<b>NET COST OF SERVICES</b>				
905	Central Service to the Public	9,611	(8,892)	719	
14,943	Cultural, Environmental & Planning Services	24,378	(8,645)	15,733	
426	Highways, Roads & Transport Services	3,854	(3,675)	179	
6,366	Housing Services	46,189	(39,804)	6,385	
2,103	Corporate & Democratic Core	2,608	(345)	2,263	
350	Non Distributed Costs		(1,341)	(1,341)	
<b>25,093</b>	<b>NET COST OF SERVICES</b>	<b>86,573</b>	<b>(62,635)</b>	<b>23,938</b>	
	<b>CORPORATE INCOME &amp; EXPENDITURE</b>				
235	Precept of Local Precepting Authorities	245		245	4
(405)	(Surpluses) / Deficits on trading undertakings	6,313	(6,929)	(616)	2
(5,598)	Asset Management Revenue Account	6,616	(11,986)	(5,370)	1
2,190	Contribution to pooled capital receipts	1,150		1,150	
193	(Gain) / Loss on the early settlement of borrowing	222	(5)	217	
(657)	Interest and investment income	8	(757)	(749)	
629	Pensions Interest Costs & Expected Return on Pensions Assets	6,206	(5,260)	946	10
<b>21,680</b>	<b>NET OPERATING EXPENDITURE</b>	<b>107,333</b>	<b>(87,572)</b>	<b>19,761</b>	
	<b>APPROPRIATIONS</b>				
198	(Deficit)/Surplus transferred to HRA			123	
168	Contribution to or (from) HRA Earmarked Reserves			268	
345	Contributions to or (from) General Fund Earmarked Reserves			620	
21	Contributions to or (from) DSO Earmarked Reserves			165	
(746)	Contributions to or (from) Capital Reserves			(1,143)	
(884)	Contribution to or (from) Pensions Reserve			1,006	10
(2,190)	Transfer from Usable Capital Receipts			(1,150)	
<b>18,592</b>	<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS</b>			<b>19,650</b>	
(6,503)	Demand on Collection Fund			(6,894)	
(8,613)	Revenue Support Grant			(8,888)	
(3,638)	Contribution from NNDR Pool			(3,922)	
<b>(162)</b>	<b>(SURPLUS) / DEFICIT FOR YEAR</b>			<b>(54)</b>	
(1,845)	Balance on General Fund brought forward			(2,007)	
(2,007)	Balance on General Fund carried forward			(2,061)	



## DISCLOSURE NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The Accounting Code of Practice (ACOP) on Local Authority Accounting requires the publication of additional financial information as notes to the Consolidated Revenue Accounts. 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 ASSET MANAGEMENT REVENUE ACCOUNT

The purpose of the Asset Management Revenue Account is to ensure that capital charges do not impact on the level of Council Tax and that the Council's accounts are charged only with the true capital financing costs. The account is summarised below:

Transactions on the Asset Management Revenue Account		
Income	£000	£000
Capital Charges :		
General Fund	(4,209)	
Housing Revenue Account	(7,303)	
Government Grants Deferred	(474)	
		(11,986)
<b>Expenditure</b>		
Depreciation	4,050	
External Interest Charges	2,566	
		6,616
<b>Balance to Consolidated Revenue Account</b>		<b>(5,370)</b>

### 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 area.

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. Most of the former DSO activities have now been consolidated into the General Fund.

For 2005/06, the Council still operated trading accounts for Building Maintenance and Highways Contractor. Building Maintenance has been consolidated with Council Housing with effect from April 2005, and a review of the working arrangements under the Highways Partnership is due to take place in summer 2006/07.

	<b>Income</b>	<b>Expenditure</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£000</b>	<b>£000</b>	<b>(Surplus) / Deficit £000</b>	<b>(Surplus) / Deficit £000</b>
General highway and sewer work	(1,718)	1,488	(230)	(75)
Other maintenance work	(2,464)	2,595	131	12
Trade refuse collection	(879)	575	(304)	(237)
Markets	(797)	1,060	263	183
Commercial Properties / Industrial Units	(1,071)	595	(476)	(288)
<b>Total (Surplus) / Deficit on Trading Undertakings</b>	<b>(6,929)</b>	<b>6,313</b>	<b>(616)</b>	<b>(405)</b>

### 3 LEASING AND OTHER LONG TERM COMMITMENTS

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

<b>Leased Assets – Rentals (excluding staff car leases)</b>	
	<b>Operating Leases £000</b>
Total rentals paid in 2005/06	338
Outstanding undischarged leasing obligations:	
2006/07	344
2007/08	351

At 31 March 2006, 58 cars were leased for staff. The total cost in 2005/06 was £206,000 and after contributions by staff of £26,000 it resulted in a charge to the Authority of £180,000.

The Council had no outstanding obligations in respect of finance leases as at 31 March 2006, nor did it have any outstanding obligations arising from other long term contracts such as Private Finance Initiative agreements.

### 4 PARISH PRECEPTS

In line with previous years local parishes levied their own precept within their parish boundaries. In total the precepts levied amounted to £244,791.93. Full details of individual parish precepts are available from the Head of Financial Services at Lancaster Town Hall.

### 5 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 enables 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. This expenditure is limited to £1.90 per head of relevant population as defined by statute. For Lancaster, this produces a spending limit for 2005/06 of £265,633.

<b>Analysis</b>	<b>2004/05</b>	<b>2005/06</b>
	<b>£</b>	<b>£</b>
Victim Support	4,400	4,400
Council for Voluntary Service	17,700	17,700
Lancaster DISC	5,500	5,500
Relate	6,400	6,400
Miscellaneous Grants	8,185	5,508
Twinning	3,800	3,800
<b>Total</b>	<b>45,985</b>	<b>43,308</b>

## 6 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, but the following analysis shows the elements of expenditure which are judged to be relevant.

<b>2004/05</b>	<b>Section 5 Local Government Act 1986</b>	<b>2005/06</b>
<b>£000</b>		<b>£000</b>
152	Promotions and Publicity	145
91	Recruitment Advertising	67
27	Other Advertising	29
<b>270</b>	<b>TOTAL</b>	<b>241</b>

## 7 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 2005/06 divided between the chargeable and non-chargeable activities.

<b>2005/06</b>	<b>Chargeable</b>	<b>Non-Chargeable</b>	<b>Total Building Control</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>			
Employee Expenses	282	115	397
Transport	21	9	30
Supplies & Services	96	4	100
Central & Support Recharges	104	20	124
<b>TOTAL EXPENDITURE</b>	<b>503</b>	<b>148</b>	<b>651</b>
<b>Income</b>			
Building Regulation Charges	(451)	-	(451)
Miscellaneous Income	(43)	-	(43)
<b>TOTAL INCOME</b>	<b>(494)</b>	<b>-</b>	<b>(494)</b>
<b>(Surplus)/Deficit for Year</b>	<b>9</b>	<b>148</b>	<b>157</b>

### Comparatives for 2004/05

Expenditure	512	157	669
Income	(476)	--	(476)
<b>(Surplus)/Deficit for Year</b>	<b>36</b>	<b>157</b>	<b>193</b>

The 2005/06 deficit has resulted from increased investment in software applications aimed at streamlining processes within the Building Control function.

## 8 AGENCY SERVICES

The Council entered into the Lancashire Highways Partnership (LHP) on 01 July 2003 which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Contract Services (CCS) 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 CCS and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £126,919, of which £72,900 was reimbursed by LCES and £54,019 was the contribution made by Lancaster City Council General Fund to provide a higher level of service in this area to its ratepayers. As stated previously, the operation of the LHP (and the Council's involvement) is currently being reviewed.

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

## 9 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 £214,507 during 2005/06. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Consolidated Revenue Account.

## 10 PENSION COSTS

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 the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the Consolidated Revenue Account during the 2005/06 year in accordance with FRS 17.

<b>Net Cost of Services:</b>	£000
Current Service Costs	2,657
Past Service & Curtailment (Gain)/Loss	(1,726)
<b>Net Operating Expenditure</b>	
Interest Costs	6,206
Expected return on Assets in the scheme	(5,260)
<b>Amounts to be met from Government Grants &amp; Local Taxation</b>	
Movement from Pensions Reserve	1,006
Actual amount charged against Council Tax for pensions in the year	--
<b>Employer's contributions payable to the scheme</b>	(2,883)
<b>Overall cash impact of FRS 17 transactions</b>	<b>0</b>

Note 21 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 7 to the Statement of Total Movements in Reserves gives details on the expected return on pensions investments.

## 11 MINIMUM REVENUE PROVISION (MRP)

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculating the provision is defined by statute. For 2005/06 the amount is £814,000 (2004/05 £678,000) as set out below.

	2004/05 £000	2005/06 £000
Non-housing amount - 4% of opening Capital Financing requirement (adjusted re commutation)	678	814
<b>Minimum Revenue Provision</b>	<b>678</b>	<b>814</b>
Amount charged as depreciation (net)	(1,160)	(1,365)
Net credit to Consolidated Revenue Account	(482)	(551)

Following the introduction of the Major Repairs Allowance there is no longer a requirement for the Housing Revenue Account to set aside a minimum revenue provision.

In addition to the Minimum Revenue Provision, the Council has voluntarily set aside a further £140,000 in respect of financing costs associated with unsupported borrowing used to purchase vehicles during 2005/06.

## 12 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Only five officers of the Council received in excess of this amount during 2005/06.

Remuneration Band	No. of Employees	
	2004/05	2005/06
£50,000 - £59,999	1	1
£60,000 - £69,999	2	3
£70,000 - £79,999	1	0
£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.

### 13 MEMBERS ALLOWANCES

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

Type of Allowance	2004/05 £	2005/06 £
Basic Allowance	169,835	172,821
Special Responsibility Allowance	84,592	90,686
Carer Allowance	1,670	1,587
<b>Total For All Members</b>	<b>256,097</b>	<b>265,094</b>

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

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

There have been no exceptional items, extraordinary items or prior year adjustments within the accounts.

### 15 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 Consolidated Revenue 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 Consolidated Revenue Account and Consolidated Balance Sheet.
- 3 Transactions with associated companies have been disclosed within the notes to the Consolidated 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.

### 16 AUDIT COSTS

In 2005/06 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2004/05 £	2005/06 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	120,400	99,410
Fees payable to the Audit Commission in respect of statutory inspection	7,900	11,350
Fees payable to the Audit Commission for the certification of grant claims and returns	39,800	42,416
Fees payable in respect of other services provided by the appointed auditor	22,000	0
	<b>190,100</b>	<b>153,176</b>

The fees disclosed above do not account for accruals or prepayments; they represent purely the Audit & Inspection fees paid in the year.

## HOUSING REVENUE ACCOUNT

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 Consolidated 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 Consolidated Revenue Account to the Housing Revenue Account working balance.

2004/05 £000		2005/06		NOTES
		£000	£000	
	<b>INCOME</b>			
(9,530)	Dwelling Rents (gross)	(9,818)		
(147)	Non-Dwelling Rents (gross)	(154)		
(1,368)	Charges for services and facilities	(1,465)		
(8)	Contributions towards Expenditure	(8)		
-	HRA subsidy receivable	-		
(11,053)			(11,445)	
	<b>EXPENDITURE</b>			
3,037	Repairs and maintenance	3,116		
2,532	Supervision and management	2,891		
163	Rents, rates, taxes and other charges	186		
755	Negative Subsidy Payable to Secretary of State	488		7
131	Increased Provision for Bad or Doubtful Debts	104		
5,496	Cost of Capital Charge	5,093		
2,212	Depreciation and Impairments of Fixed Assets	2,210		5
12	Debt management Costs	12		
14,338			14,100	
<b>3,285</b>	<b>NET COST OF SERVICES</b>		<b>2,655</b>	
(4,587)	Net Income or Expenditure on the Asset Management Revenue Account		(4,225)	4
54	Pension Interest Cost and Expected Return on Assets		106	
(37)	Transfers to/from General Fund as directed by Secretary of State		(133)	10
207	Amortised Premiums and Discounts		207	
(125)	Investment Income		(129)	
<b>(1,203)</b>	<b>NET OPERATING EXPENDITURE</b>		<b>(1,519)</b>	
(105)	HRA Contributions to/(from) Pension Reserve		(82)	9
943	Revenue Contribution to Capital Expenditure		1,210	
-	Contribution to Minimum Repayment Provision		-	
(26)	Transfer to/(from) Major Repairs Reserve		(26)	
194	Transfers to/(from) Earmarked Reserves		294	
<b>(197)</b>	<b>(SURPLUS)/DEFICIT FOR YEAR</b>		<b>(123)</b>	
(832)	HRA balance brought forward		(1,029)	
<b>(1,029)</b>	<b>HRA BALANCE CARRIED FORWARD</b>		<b>(1,152)</b>	



## NOTES TO THE HOUSING REVENUE ACCOUNT

**1** As at 31 March 2006 the authority held the following dwellings:

Bedsits		121
1 Bedroom	Houses & Bungalows	650
	Flats & Maisonettes	506
2 Bedroom	Houses & Bungalows	516
	Flats & Maisonettes	686
3 Bedroom	Houses & Bungalows	1,311
	Flats & Maisonettes	7
4 or more bedroomed dwellings		84
<b>TOTAL ALL DWELLINGS</b>		<b>3,881</b>

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

	<b>Bal b/fwd 01 April 2005 £'000</b>	<b>Bal c/fwd 31 March 2006 £'000</b>
Operational Assets:		
Council Dwellings	152,562	141,589
Other land and buildings	410	374
	152,972	141,963
Non-operational Assets	432	835
<b>TOTAL</b>	<b>153,404</b>	<b>142,798</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, prior to a periodic full revaluation exercise which has now been undertaken to update all values to 01 April 2005. This has resulted in a decrease in asset values of £7,469,118, 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 £2,183,948, for 2005/06 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 2005 was £245,926,780. The difference between this and the EUV-SH valuation of £145,092,960 (i.e. the updated figure after the full valuation exercise effective as of 01 April 2005 but before depreciation, disposals etc) represents the economic cost to the Government of providing Council Housing at less than open market rents.

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

<b>Summary of Movements on Major Repairs Reserve 2005/06</b>	
	<b>£'000</b>
Opening Balance 01 April	2,165
Transfer to MRR – Depreciation	2,210
Transfer to HRA - Depreciation Adjustment	(26)
Capital Expenditure - Land	-
- Houses	(2,250)
- Other property.	-
<b>Closing Balance 31 March</b>	<b>2,099</b>

- 3 Capital expenditure of £4,025,000 was incurred during the year being £4,012,000 on improvements to dwellings and £13,000 on other property. This was financed as follows:

	<b>£'000</b>
Borrowing	-
Usable Capital Receipts	555
Direct Revenue Financing	1,200
Earmarked Reserves	10
Majors Repairs Reserve	2,250
Grants and Contributions	10
Movement in Capital Creditors	-
<b>Total Capital Financing</b>	<b>4,025</b>

Capital Receipts totalling £1,703,000 were received during the year from the following sources:

	<b>£'000</b>
Sale of dwellings	1,667
Sale of land	-
Repayment of Principal on Mortgages	36
Repayment of Right to Buy discounts	-
<b>Total Capital Receipts</b>	<b>1,703</b>

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 The Cost of Capital Charges is a notional interest charge of £5,093,000 representing 3½% of the revalued opening asset values, which is credited to the Asset Management Revenue Account. Because this exceeds the actual interest payable on HRA-related debt which is £868,000, a compensating transfer of £4,225,000 is made from the Asset Management Revenue Account.

- 5 Total depreciation charges for the year were:

	<b>£'000</b>
Council Dwellings	2,184
Other land and buildings	16
Non-operational Assets	10
<b>TOTAL</b>	<b>2,210</b>

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

- 7** The total Negative Housing Subsidy payable for the year 2005/06 was £483,000, the analysis of which is shown in the table below. However, the actual negative subsidy paid this year amounted to £488,000, this included a payment of £5,000 made to the ODPM in respect of 2004/05.

<b>2005/06</b>	<b>£'000</b>
Management Allowance	1,520
Maintenance Allowance	3,316
Major Repairs Allowance	2,184
Admissible Allowances	56
Anti-Social Behaviour Allowance	-
Charges for Capital	1,841
Rent Rebates	-
Notional Rent	(9,392)
Interest on Receipts	(8)
Government Grants	-
<b>Total Housing Subsidy</b>	<b>(483)</b>

- 8** Total arrears of rent at 31 March 2006 amounted to £305,000. Against this an amount of £378,000 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.

**9 CONTRIBUTION TO/FROM THE PENSION RESERVE**

This is the second 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 Total Movements for the period.

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

Details of the transactions are as follows:

	<b>£'000</b>
Shared Amenities	(162)
Rent Rebates Compensation	29
<b>TOTAL</b>	<b>(133)</b>

**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

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.

2004/05 £000	INCOME	See Note	2005/06 £000
	<b>Council Tax</b>		
44,677	Income from Council Tax	1	46,372
	<b>Transfers from General Fund:</b>		
7,801	Council Tax Benefits		8,057
	<b>Council Tax Benefit Subsidy Limitation</b>		
--	Contributions from other Local Authorities		--
	<b>Business Rates</b>		
38,751	Income from Business Ratepayers	2	36,433
	<b>Contributions</b>		
--	Towards previous year's Collection Fund deficit	5	--
--	Adjustment of previous years Community Charges	3	1
104	From Provisions for Council Tax Amounts Written Off		270
<b>91,333</b>	<b>TOTAL INCOME</b>		<b>91,133</b>

2004/05 £000	EXPENDITURE	See Note	2005/06 £000
	<b>Precepts and Demands</b>		
38,939	Lancashire County Council		40,367
6,503	Lancaster City Council (including parish precepts)		6,894
4,229	Lancashire Police Authority		4,576
2,085	Lancashire Fire Authority		2,213
	<b>Business Rates</b>		
38,526	Payment to National Pool		36,221
225	Cost of Collection Allowance		212
	<b>Council Tax Bad and Doubtful Debts</b>		
104	Write-offs		270
310	Contribution to Provision for Non-Collection		282
<b>90,921</b>	<b>TOTAL EXPENDITURE</b>		<b>91,035</b>

2004/05 £000	FUND BALANCE	See Note	2005/06 £000
(412)	(Surplus)/deficit for year		(98)
123	(Surplus)/deficit as at 01 April (Brought forward)	4	(289)
<b>(289)</b>	<b>(Surplus)deficit as at 31 March (Carried forward)</b>	6	<b>(387)</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 2005/06 the numbers are as follows:-

	<b>Chargeable Dwellings</b>	<b>Band D Equivalents</b>
Band A	16,142	10,761
Band B	12,830	9,978
Band C	9,837	8,744
Band D	5,400	5,400
Band E	3,403	4,160
Band F	1,720	2,484
Band G	735	1,225
Band H	39	77
Total	50,106	42,829
<i>Collection Rate</i>		99%
<b>Council Tax Base</b>		<b>42,400</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. This was set at 41.5p per £ for 2005/06 (45.6p for 2004/05). The rateable value at 31 March 2006 was £87,508,701 (£96,587,845 for 2004/05). 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 2005/06, paid directly to the Consolidated Revenue Account, amounted to £3.922 M.

### 3 ADJUSTMENTS FOR PREVIOUS YEARS' COMMUNITY CHARGES

Although Council Tax has replaced Community Charge from 01 April 1993, the Council continues to account for residual adjustments in relation to the Community Charges raised in earlier years. No adjustments were made to the Community Charge debit and no income has been collected in respect of the £555 deficit, therefore it has been written off to the bad debt provision during 2005/06.

### 4 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 2005 the Council Tax surplus was shown as £289,000. During 2005/06 the following distributions were made to precepting authorities.

	£000
Lancaster City Council	(10)
Lancashire County Council	(75)
Lancashire Police Authority	(8)
Lancashire Fire Authority	(4)

## 5 DISTRIBUTIONS OF RESIDUAL COLLECTION FUND SURPLUSES OR DEFICITS

Lancaster City Council receives the full impact of surpluses and deficits relating to residual Community Charge transactions, unlike those relating to Council Tax, which are shared (see note 4 above).

At 1 April 2005 the residual Community Charge deficit was £555 which was written off in full during 2005/06, as mentioned above.

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

Surpluses and deficits relating to Community Charge transactions (residual) are administered separately from those surpluses and deficits relating to Council Tax transactions, as highlighted in notes 4 and 5 above.

The movements in the Collection Fund during 2005/06 are summarised below.

	Residual Community Charge	Council Tax	TOTAL
	£000	£000	£000
(Surplus)/Deficit 01/04/05	--	(289)	(289)
Distributions in Year	--	97	97
Net Transaction in Year	--	(195)	(195)
<b>(Surplus)/Deficit 31/03/06</b>	<b>--</b>	<b>(387)</b>	<b>(387)</b>

Of the £387,000 surplus as at 31 March 2006, £338,000 is attributable to other Local Authorities as follows:

	£000
Lancashire County Council	(289)
Lancashire Police Authority	(33)
Lancashire Fire Authority	(16)

## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

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

2004/05 £000		2005/06 £000	Notes
465	<b>Intangible Assets</b>	606	1
	<b>Tangible Fixed Assets</b>		2
	Operational Assets :		
152,562	Council Dwellings	141,589	
31,484	Other Land and Buildings	42,663	
3,339	Vehicles, Plant and Equipment	3,911	
19,587	Infrastructure	19,613	
3,922	Community Assets	4,897	
16,769	Non Operational Assets	22,933	
<b>228,128</b>	<b>TOTAL FIXED ASSETS</b>	<b>236,212</b>	
3	Long Term Investments	-	11
288	Long Term Debtors	225	12
1,582	Deferred Premium	1,361	
<b>230,001</b>	<b>TOTAL LONG TERM ASSETS</b>	<b>237,798</b>	
	<b>Current Assets</b>		
409	Stocks and Work in Progress	255	13
10,246	Debtors	11,568	14
6,500	Investments	10,200	
481	Cash and Bank	--	
	<b>Current Liabilities</b>		
(321)	Borrowing (Amounts due within one year)	(174)	16
(9,864)	Creditors	(11,292)	15
--	Bank Overdraft	(379)	
<b>237,452</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>247,976</b>	
(41,474)	Long Term Borrowing	(44,800)	
(223)	Deferred Liabilities	(223)	22
(109)	Deferred Credits	(70)	
(537)	Provisions	(556)	18
(34,983)	Liability related to defined benefit pension scheme	(33,031)	
<b>160,126</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>169,296</b>	
128,926	Fixed Asset Restatement Account	126,701	
41,050	Capital Financing Account	40,512	
2,201	Usable Capital Receipts Reserve	2,474	
(34,983)	Pensions Reserve	(33,031)	21
15,019	Government Grants & Contributions Deferred	23,440	17
2,165	Major Repairs Reserve	2,099	
2,423	Earmarked Reserves	3,500	
2,007	Balances: General Fund	2,061	
1,029	Housing Revenue Account	1,153	
289	Collection Fund	387	
<b>160,126</b>	<b>TOTAL EQUITY</b>	<b>169,296</b>	

## 1 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.

<b>Software Licences</b>	<b>31/03/05</b>	<b>31/03/06</b>
	<b>£000</b>	<b>£000</b>
Opening Balance	240	465
Amounts written off to Consolidated Revenue Account		
Expenditure during the year	365	367
Written off to Revenue in 2005/06	(140)	(226)
<b>Closing Balance</b>	<b>465</b>	<b>606</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.

## 2 FIXED ASSETS

Movements in fixed assets during the year were as follows:

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infra-structure assets	Comm-unity assets	Non-Operational properties	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Gross book value as at 01 April 2005	166,329	34,716	6,845	22,593	3,922	17,491	251,896
Additions		795	878	609	975	6,158	9,415
Disposals	(1,320)	(56)	(2,051)			(94)	(3,521)
Revaluations	(7,469)	11,218		126		112	3,987
Impairment		(251)					(251)
Transfers							
Gross book value as at 31 March 2006	157,540	46,422	5,672	23,328	4,897	23,667	261,526

Depreciation as at 01 April 2005	(13,767)	(3,232)	(3,506)	(3,006)	--	(722)	(24,233)
Depreciation for year (on straight line basis)	(2,184)	(584)	(276)	(709)		(46)	(3,799)
Depreciation on assets sold / transferred		57	2,021			34	2,112
Balance as at 31 March 2006	(15,951)	(3,759)	(1,761)	(3,715)	--	(734)	(25,920)

<b>Net book value as at 31 March 2006</b>	<b>141,589</b>	<b>42,663</b>	<b>3,911</b>	<b>19,613</b>	<b>4,897</b>	<b>22,933</b>	<b>235,606</b>
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## 3 CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year was £17.642M. The following table sets out how this was funded.



2005/06	£000
<b>Opening Capital Financing Requirement</b>	<b>43,133</b>
<b>Capital Investment</b>	
Intangible Assets	51
Operational Assets	6,558
Non Operational Assets	6,049
Deferred Charges	3,373
Fixed Asset Restatement Account	1,611
<b>Sources of Finance</b>	
Capital Receipts	(555)
Government Grants, Contributions and Deferred Charges	(10,224)
Revenue Provision	(4,437)
<b>Closing Capital Financing Requirement</b>	<b>45,559</b>
<b><u>Explanation of Movements in Year</u></b>	
Increase in underlying need to borrow (supported by Government financial assistance)	(2,018)
Increase in underlying need to borrow (unsupported by Government financial assistance)	(408)
<b>Increase in Capital Financing Requirement</b>	<b>(2,426)</b>

#### 4 CAPITAL COMMITMENTS

As at 31 March 2006 the Council was contractually committed to capital works, which amounted to approximately £14.285M. Major contracts included the following schemes:-

Capital Projects	£000
Poulton Homezone	750
Kitchen Renewals	631
Ryelands Regeneration	324
Morecambe Coastal Defence Works	11,163

#### 5 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 31/03/05	Number as at 31/03/06
<b>COUNCIL DWELLINGS</b>	3,916	3,881
<b>OPERATIONAL BUILDINGS</b>		
Town Halls	2	2
Other Offices	9	10
Sports Centres with Pool	1	1
Depots	3	3
Surfaced Car Parks	17	17
Multi-Storey Car Parks	2	2
Cemeteries	7	7
Museums	3	0
Public Conveniences	11	9

	Number as at 31/03/05	Number as at 31/03/06
<b>OPERATIONAL EQUIPMENT</b>		
Vehicles	14	10
Heavy Plant	7	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

Following a review of asset values and de minimis levels for asset recognition there has been a reduction in the number of assets identified in the above table.

## 6 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.

A number of public conveniences have suffered impairment in value due to a change in operational circumstances. The assets in question are the public conveniences at the Arndale Centre and Bare Promenade in Morecambe; the remaining value is the land value. This loss has been recognised in the relevant service revenue account, the Asset Management Revenue Account and against Fixed Assets.

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	--	--	--	--	--	--	--
Valued at Current Value in :-							
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
<b>TOTAL CHANGE</b>	<b>19,375</b>	<b>15,487</b>	<b>(3)</b>	<b>126</b>	<b>519</b>	<b>3,409</b>	<b>38,913</b>

## 7 FINANCE LEASES

As at 31 March 2006 there were no assets held under finance leases.

## 8 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 2006.

## 9 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. It should be noted that the latter has been consolidated into the General Fund for 2005/06, in line with the move away from operating trading accounts (see Note 2 to the Consolidated Revenue Account for more details).

	31/03/05	31/03/06
	£000	£000
General Fund	17,864	37,773
Housing Revenue Account	142,515	131,861
	<b>160,379</b>	<b>169,634</b>
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	(253)	(338)
	<b>160,126</b>	<b>169,296</b>

## 10 RELATED 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

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. Consequently no Group Accounts are required to be prepared for the 2005/06 financial year.

### 10.1 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 2006. Consequently the information below differs slightly from the other financial information in this summary. The City Council provided revenue grant support of £158,900 and capital grant support of £15,000 to the Company during the Council's 2005/06 financial year (2004/05 £180,556).

	31/01/05	31/01/06
	£	£
Net assets	95,582	99,391
Profit/(Loss) before taxation	6,597	(3,841)
Profit/(Loss) after taxation	6,450	(3,841)

## 10.2 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 £156,100 to the Company during the 2005/06 financial year (2004/05 £155,800). This included the provision of grant in lieu of rent free accommodation to the value of £13,500 (2004/05 £13,200).

	31/03/05	31/03/06
	£	£
Net Assets	337,877	323,834
Profit/(Loss) before taxation	36,175	17,312
Profit/(Loss) after taxation		

The 2004/05 profit was previously stated as £913 based on draft accounts, however the final audited accounts now show a profit of £36,175, which has been reflected in the above table.

## 10.3 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.

	31/03/05	31/03/06
	£	£
Net Assets	355,112	Accounts not yet received
Profit/(Loss) before taxation	110,831	With Auditors
Profit/(Loss) after taxation		

## 11 LONG TERM INVESTMENTS

The Council holds one small investment consisting of :

	Cost Price	Nominal Value	Value at 31/03/06
	£	£	£
3% Lincoln Redeemable Stock	606	700	418
<b>BALANCE SHEET VALUE OF ASSETS</b>	<b>606</b>	<b>700</b>	<b>418</b>

## 12 LONG TERM DEBTORS

Long term debtors represent the value of long term loans granted by the Council to external organisations. The main element comprises mortgages granted to occupiers of council dwellings under the council house "right to buy" scheme, and mortgages granted to housing associations.

Also included within this item is a loan of £112,000 to the Buildings at Risk Trust (BART) approved by the Council on 26 April 1995 to enable the Victoria Pavilion (Winter Gardens) to be renovated. Under the

terms of the loan agreement the money would be repayable from grant monies received by BART on the Phase II redevelopment of the complex.

In addition, the Council approved on 03 July 1998 a £200,000 loan repayable over 10 years to Morecambe Football Club, to assist in the development of a new stand. The balance outstanding at 31 March 2006 was £40,000.

### 13 STOCKS AND WORK IN PROGRESS

At 31 March 2006 the City Council held stocks and work in progress to the value of £255,000 (£409,000 2004/05), after allowing for the provision of £149,000 for obsolescence / reductions in value, and excluding internal work in progress of £165,000.

### 14 ANALYSIS OF DEBTORS

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2006), there are outstanding monies owed to the Council in respect of the 2005/06 financial year which at that date were yet to be received as cash. The amount in the Consolidated Balance Sheet therefore, represents amounts owed **to** the Council, which had not been received at 31 March 2006.

The Council makes provision for outstanding monies which it anticipates will not be recovered. The amount in the Consolidated Balance Sheet is net of such provisions. The Debtors balance as at 31 March 2006 is analysed as follows.

	31/03/05	31/03/06
	£000	£000
Government Departments	3,227	2,700
Other Local Authorities	1,039	856
Commercial Ratepayers	740	775
Council Taxpayers	4,631	4,693
Housing Rents	378	310
Sundry Debtors and Accruals	3,259	5,496
Provisions for Bad Debts	(3,028)	(3,262)
<b>Total</b>	<b>10,246</b>	<b>11,568</b>

### 15 ANALYSIS OF CREDITORS

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2005), there are outstanding monies owed by the Council in respect of the 2005/06 financial year which at that date were yet to be paid. The amount in the Consolidated Balance Sheet therefore, represents amounts owed **by** the Council, which had not yet been paid as at 31 March 2006. The Creditors balance as at 31 March 2006 is analysed as follows.

	31/03/05	31/03/06
	£000	£000
Government Departments	1,526	3,148
Other Local Authorities	673	899
Commercial Ratepayers	1,539	303
Council Taxpayers	510	685
Housing Rents	92	92
Sundry Creditors and Accruals	5,524	6,165
<b>Total</b>	<b>9,864</b>	<b>11,292</b>

## 16 BORROWING

The following tables show the Council's Capital Related Longer Term Borrowing by lender and maturity.

<b>ANALYSIS OF LOANS BY TYPE</b>	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Public Works Loan Board	41,795	44,974

<b>LOAN MATURITY ANALYSIS</b>	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Maturing in 1 - 2 years	174	--
Maturing in 2 - 5 years	--	--
Maturing in 5 - 10 years	--	--
Maturing in 10 - 15 years	--	4,000
Maturing in more than 15 years	41,300	40,800
<b>TOTAL BORROWING (DUE AFTER ONE YEAR)</b>	<b>41,474</b>	<b>44,800</b>
Maturing within one year	321	174
<b>TOTAL BORROWING (DUE WITHIN ONE YEAR)</b>	<b>321</b>	<b>174</b>

It should be noted that loan repayments due within one year have been classified on the balance sheet under Current Liabilities – Borrowing (Amounts due within one year).

## 17 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

The balance on this account represents, in general terms, the value of capital grants and contributions that have been applied to finance the acquisition or enhancement of fixed assets held in the asset register. A proportion of the balance on this account is released to revenue in line with any depreciation charges on such assets. Where no depreciation charges are to be made for assets financed by grants and contributions, the related financing has been transferred to the capital financing account.

## 18 PROVISIONS SUMMARY

	<b>Balance 01/04/05 £000</b>	<b>Expenditure £000</b>	<b>Transfers £000</b>	<b>Income £000</b>	<b>Balance 31/03/06 £000</b>
<b>Revenue Provisions:</b>					
Insurance	400	(327)	252	53	378
Car Parking Deficit	80	--	--	--	80
Vehicle Replacements	--	--	41	--	41
<b>Capital Provisions:</b>					
General Fund Clawback	57	--	--	--	57
<b>TOTAL</b>	<b>537</b>	<b>(327)</b>	<b>293</b>	<b>53</b>	<b>556</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 2005/06 there was a total of 299 claims outstanding with an estimated value of £837,000, of which it is anticipated 45% will fall on the Council. As a result the provision has been set at £378,000 with a further £110,000 in an insurance reserve.

The car parking deficit provision relates to the element of car parking income which could potentially be clawed back as part of the new decriminalised parking enforcement agreement with Lancashire County Council and Parkwise. At the present time the exact allocation of surpluses and deficits generated by on-street and off-street parking enforcement have still to be agreed.

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

The 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 during 2006/07, however the exact date has not been agreed as yet

## 19 CONTINGENT ASSETS AND LIABILITIES

Under the decriminalisation of parking arrangements with Lancashire County Council and Parkwise, it is also possible that the Council may be able to recover some of the deficits incurred on the on-street parking account, although as highlighted earlier, the exact arrangements have not been finally agreed. This has therefore been treated as a contingent asset as at 31 March 2006. There were no other contingent assets or liabilities as at that date.

## 20 EURO COSTS

The adoption of operational and information systems to accommodate the Euro continues to be considered by the Council as part of its computing strategy. Undertakings from software suppliers are requested to the effect that systems upgrades will be received when the exact criteria for the operation of the Euro are resolved.

At present no expenditure has been specifically incurred or committed in respect of the Euro and no specific provision has been made for estimated future costs relating to its possible introduction. The Council will continue to monitor this position.

## 21 RETIREMENT BENEFITS

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these will not actually be payable until the employees retire, the Authority has a commitment to make payments that need to be disclosed on an ongoing basis as employees earn their future entitlement.

The Authority participates in one pension scheme:

*The Local Government Pension Scheme*, administered by Lancashire County Council – this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pension liabilities with investment assets.

In 2005/06, pension costs have been charged to the consolidated revenue account on the basis of benefits earned by employees and the Council's resulting liability to pay those pension benefits at some future time in accordance with FRS 17. The costs of pensions payable in the year to retired officers is also included. As at 31 March 2006, the Authority had the following overall assets and liabilities for pensions as disclosed in the balance sheet :

	<b>Local Government Pension Scheme</b>	
	<b>31 March 2006</b>	<b>31 March 2005</b>
	£000	£000
Estimated liabilities in scheme	(132,216)	(114,767)
Estimated assets in scheme	99,185	79,784
<b>Net asset/(liability)</b>	<b>(33,031)</b>	<b>(34,983)</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 2006, 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 a full valuation of the Pension Fund, which was carried out during 2004/05. 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 2005 and projected the likely position at 31 March 2006. 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 after 06 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this will reduce the value of the Council's pension liabilities by £1.726m and this has been included within the non-distributed costs on the face of the Consolidated Revenue Account.

<b>Local Government Pension Scheme</b>		
<b>Financial Assumptions</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>%</b>	<b>%</b>
Rate of inflation	2.9	2.9
Rate of increase in salaries	4.65	4.65
Rate of increase in pensions	2.9	2.9
Rate of discounting scheme liabilities	4.9	5.4
Proportion of employees opting to take a commuted lump sum	50.0	--

<b>Expected rate of return on assets</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>%</b>	<b>%</b>
Equity investments	7.0	7.5
Government Bonds	4.3	4.7
Other Bonds	4.9	5.4
Property	6.0	6.5
Cash/Liquidity	4.5	4.75
Other assets	7.0	7.5

<b>Split of assets between investment categories</b>	<b>2005/06</b>		<b>2004/05</b>	
	<b>£</b>	<b>%</b>	<b>£</b>	<b>%</b>
Equity investments	63,974	64.5	51,858	65.0
Government Bonds	7,241	7.3	7,181	9.0
Other Bonds	15,572	15.7	11,968	15.0
Property	5,951	6.0	3,989	5.0



Cash/Liquidity	3,769	3.8	2,394	3.0
Other Assets	2,678	2.7	2,394	3.0
	99,185	100	79,784	100

The movement in the net pension liability for the year to 31 March 2006 is as follows :

<b>Movement in Surplus during 2005/06</b>	<b>£000</b>
<b>Surplus / (Deficit) at Beginning of Year</b>	<b>(34,983)</b>
Current Service Costs	(2,657)
Employer Contributions	2,883
Past Service Cost / Curtailment Cost	1,726
Net Interest / Return on Assets	(946)
Actuarial Gain or (Loss)	946
<b>Surplus / (Deficit) at End of Year</b>	<b>(33,031)</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 2006.

<b>Statement of Actuarial Gains &amp; (Losses)</b>	<b>£000</b>	<b>%</b>
Differences between the expected and actual return on assets	13,587	(13.7% of assets)
Differences between actuarial assumptions about liabilities and actual experience	(2,461)	(1.9% of liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(10,180)	(7.7% of liabilities)
	946	(0.7% of liabilities)

## 22 DEFERRED LIABILITIES AND DEFERRED CREDITS

Deferred liabilities consist of liabilities which are payable at some point in the future. The amount in the Balance Sheet represents balances held in respect of shared ownership and leasehold sheltered dwellings where the conditions of the lease include an option for the property to be sold back to the authority at a later point.

Deferred credits represent amounts due, by way of mortgages, from sales of properties in previous years.

## 23 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.

There have been no material post balance sheet events at the date of approval by Audit Committee (28<sup>th</sup> June 2006)

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

The statement of total movements in reserves brings together all the recognised gains and losses of the Authority during the period and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

		2005/06 £000	2004/05 £000
Surplus/(deficit) for the year:			
- General Fund		54	162
- Housing Revenue Account		123	197
<i>add back</i> Movements on specific revenue reserves		1,077	1,131
Deduct Appropriations from pension reserve		1,006	(884)
Appropriation Adjustment re Actual Contributions			(14)
Actuarial gains and (losses) relating to pensions		946	(16,459)
<b>Total increase/(decrease) in revenue resources</b>	<b>Note 1</b>	<b>3,206</b>	<b>(15,867)</b>
Increase/(decrease) in usable capital receipts		273	1,030
Increase/(decrease) in unapplied capital grants and contributions		--	--
<b>Total increase/(decrease) in realised capital resources</b>	<b>Note 2</b>	<b>273</b>	<b>1,030</b>
Gains/(losses) on revaluation of fixed assets		(1,540)	46,103
Impairment losses on fixed assets due to general changes in prices		--	--
<b>Total increase/(decrease) in unrealised value of fixed assets</b>	<b>Note 3</b>	<b>(1,540)</b>	<b>46,103</b>
<b>Value of assets sold, dispose of or decommissioned</b>	<b>Note 4</b>	<b>(685)</b>	<b>(8,759)</b>
Capital receipts set aside		555	1,760
Revenue resources set aside		(1,093)	(1,915)
Movement on Government Grants Deferred		8,421	4,341
Movement on Major Repairs Reserve		(66)	571
<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>	<b>Note 5</b>	<b>7,817</b>	<b>4,757</b>
<b>TOTAL RECOGNISED GAINS AND LOSSES</b>		<b>9,071</b>	<b>27,264</b>

## NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES

### 1 MOVEMENT IN REVENUE RESOURCES DURING 2005/06

	<i>General Fund Balances</i>	<i>HRA Balances</i>	<i>Earmarked Revenue Reserves</i>	<i>Pension Reserve</i>
	£000	£000	£000	£000
Surplus / (deficit) for 2005/06	54	123	--	--
Appropriation to / (from) revenue	--	--	1,077	2,156
Appropriation Adjustment re Actual Contributions	--	--	--	--
Actuarial gains and (losses) relating to pensions	--	--	--	(204)
<b>Total movement on reserve</b>	<b>54</b>	<b>123</b>	<b>1,077</b>	<b>1,952</b>
Balance brought forward at 01 April 2005	2,007	1,029	4,588	(34,983)
Balance carried forward at 31 March 2006	2,061	1,152	5,665	(33,031)

*Earmarked Revenue Reserves* – monies set aside for specific policy purposes.

*Pensions Reserve* – a non-distributable reserve reflecting the net liability of the Council's proportion of the assets and liabilities in the pension scheme.

### 2 MOVEMENT IN REALISED CAPITAL RESOURCES DURING 2005/06

	<i>Usable Capital Receipts</i>	<i>Unapplied Capital Grants and Contributions</i>
	£000	£000
Amounts receivable	1,172	--
Amounts applied to finance new capital investment	(899)	--
<b>Total increase/(decrease) in realised capital resources</b>	<b>273</b>	<b>--</b>
Balance brought forward at 01 April 2005	2,201	--
Balance carried forward at 31 March 2006	2,474	--

The usable capital receipts reserve represents the balance of capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans, and any amounts repayable to Government departments.

The Council does not hold any non-specific, unapplied capital grants and contributions as at 31 March 2006.

### 3 MOVEMENT IN UNREALISED VALUE OF FIXED ASSETS DURING 2005/06

	<b><i>Fixed Asset Restatement Account</i></b>
	<b>£000</b>
Gains/losses on revaluation of fixed assets	(1,540)
In year capital expenditure not resulting in valuation changes	
Impairment losses on fixed assets due to general changes in prices	
<b>Total increase/(decrease) in unrealised capital resources</b>	<b>(1,540)</b>

### 4 VALUE OF ASSETS SOLD, DECOMMISSIONED OR DISPOSED OF IN 2005/06

<b>Amounts written off fixed asset balances for disposals in 2005/06</b>	<b>(685)</b>
Total movement on reserve	(2,225)
Balance brought forward at 01 April 2005	128,926
<b>Balance carried forward at 31 March 2006</b>	<b>126,701</b>

The Fixed Asset Restatement Account represents mainly the difference between the valuation of assets under the previous capital accounting system, and the revaluation of assets as at 01 April 1994, in accordance with the current system of capital accounting.

In addition, the account is written down by both the net book value of assets as they are disposed of, and indirectly by any capital expenditure incurred on fixed assets which does not materially add to the value of the assets concerned. Also, the account is debited or credited with the deficits or surpluses arising on any other revaluation of assets undertaken, including deficits as a result of impairment. This account cannot be used to finance any revenue or capital expenditure.

	<i>Capital Financing Account</i>	<i>Government Grants Deferred</i>	<i>Total</i>
	£000	£000	£000
Capital receipts set aside:			
- Reserved receipts	--	--	
- Usable receipts applied	555	--	
Less reduction in associated debtors	--	--	
<b>Total net capital receipts set aside</b>	<b>555</b>	<b>0</b>	<b>555</b>
Revenue resources set aside:			
- Capital expenditure financed from revenue	3,493	--	
- Reconciling amount for provisions for loan repayment	(4,335)	--	
- Appropriation for impairment	(251)		
<b>Total revenue resources set aside</b>	<b>(1,093)</b>	<b>0</b>	<b>(1,093)</b>
Grants applied to capital investment	--	10,214	
Less grants applied against deferred charges	--	(1,319)	
Less credits to the asset mgmt. revenue a/c	--	(474)	
<b>Movement on government grants deferred</b>	<b>--</b>	<b>8,421</b>	<b>8,421</b>
<b>Movement on Major Repairs Reserve</b>			<b>(66)</b>
<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>			<b>7,817</b>
Total movement on reserve	(538)	8,421	
Balance brought forward at 01 April 2005	41,050	15,019	
Balance carried forward at 31 March 2006	<b>40,512</b>	<b>23,440</b>	

The capital financing account contains the amounts which are required by statute to be set aside as a Provision for Credit Liabilities, less the amount charged as depreciation. It is also increased by the amount of capital receipts, other reserves and revenue contributions that have been used in the financing of capital expenditure. Again, this account cannot be used to support any other revenue or capital spending.

The Government Grants Deferred balance as at 31 March 2006 represents the amount of capital expenditure that has been financed by grant in recent years, less any amounts that have been applied to offset associated deferred charges or asset depreciation charges.

## 6 EARMARKED RESERVES

These represent monies which have been earmarked for specific spending purposes, and they can be used to meet both revenue and capital expenditure. Most of such reserves held by the Council have relatively small balances, however the major reserves are listed below:-

	<b>Balance as at 31/03/06 £ 000</b>
HRA Major Repairs Reserve	2,099
City Contract Services Reserves	286
Housing Revenue Account Reserves	1,308
Vehicle and Equipment Replacement	65
BEST Centre	94
Industrial Aid	166
Marsh Capital	47
Open Spaces	353
Building Regulations Reserve	150
Storm Damage	47
Job Evaluation	313
Access to Services	413
Insurance	110
Project Implementation	50
Other Minor Reserves	98
	<b>5,599</b>

## 7 PENSION RESERVE MOVEMENTS DURING 2005/06

The actuarial gains identified as movements on the Pension Reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

	<b>2003/04</b>		<b>2004/05</b>		<b>2005/06</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Differences between the expected and actual return on assets	9,574	13.1	3,768	4.7	13,587	13.7
Differences between actuarial assumptions about liabilities and actual experience	--	--	(1,546)	1.3	(2,461)	1.9
Changes in the demographic and financial assumptions used to estimate liabilities	--	--	(18,681)	16.3	(10,180)	7.7
	<b>9,574</b>		<b>(16,459)</b>		<b>(946)</b>	

## CASH FLOW STATEMENT

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

	Notes	2004/05		2005/06	
		£000	£000	£000	£000
<b>Revenue Activities</b>					
<b>Cash Outflows</b>					
Cash paid to and on behalf of employees		(24,056)		(22,681)	
Other operating cash payments		(49,480)		(52,023)	
Housing Benefit paid out		(32,163)		(32,593)	
Non-Domestic Rates payments to National Pool		(37,093)		(36,902)	
Precepts paid to the County		(45,253)		(47,156)	
<b>TOTAL PAYMENTS</b>			(188,045)		(191,355)
<b>Cash inflows</b>					
Rents (after rebates)		2,028		2,173	
Council Tax receipts		52,722		55,354	
NNDR receipts		38,427		36,603	
NNDR receipts from National Pool		6,503		3,922	
Revenue Support Grant	2	8,613		8,888	
DSS grants for benefits	2	23,336		34,118	
Other government grants	2	115		936	
Cash received for goods and services		33,820		36,519	
Other operating cash receipts / payments		31,451	197,015	21,259	199,772
<b>NET CASH INFLOW FROM REVENUE ACTIVITY</b>	1		<b>8,970</b>		<b>8,417</b>
<b>Returns on Investments and Servicing of Finance</b>					
Cash outflows : Interest paid		(2,478)		(2,476)	
Cash inflows : Interest received		423	(2,055)	660	(1,816)
<b>Capital Activities</b>					
Cash outflows : Purchase of fixed assets		(9,164)		(13,965)	
Other capital cash payments		(3,945)		(3,768)	
<b>TOTAL PAYMENTS</b>		(13,109)		(17,733)	
Cash inflows : Sale of fixed assets		4,635		1,172	
Capital grants received		5,951		9,620	
Other capital cash receipts		0		0	
<b>TOTAL RECEIPTS</b>		10,586		10,792	
<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			(2,523)		(6,941)
<b>NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING</b>	5		<b>4,392</b>		<b>(340)</b>
<b>Management of Liquid Resources</b>					
Net increase / decrease in short term deposits			(4,000)		(3,700)
<b>Financing</b>					
<b>Cash outflows</b>					
Repayments of amounts borrowed		(3,319)		(321)	
<b>Cash inflows</b>					
New Loans Raised		4,000	681	3,500	3,179
<b>NET CASH INFLOW/OUTFLOW(-)</b>			<b>(3,319)</b>		<b>(521)</b>
<b>NET (INCREASE)/DECREASE IN CASH</b>			1,073		(861)

## NOTES TO THE CASH FLOW STATEMENT

### 1 RECONCILIATION OF REVENUE CASH FLOW

The (surplus)/deficit on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue 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 Consolidated 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.

		2004/05		2005/06	
		£000	£000	£000	£000
General Fund Surplus / (Deficit)			162		54
Housing Revenue Account Surplus / (Deficit)			198		123
Collection Fund Surplus / (Deficit)			412		98
ADD					
Provision for Debt Redemption		678		954	
Write Down of Deferred Assets		222		222	
Direct Revenue Financing of Capital Expenditure		2,690		3,483	
Contribution from / (to) Earmarked Provisions		282		19	
Contribution from / (to) Earmarked Reserves		1,131	5,003	1,011	5,689
Decrease / (Increase) in Debtors		(1,003)		230	
Decrease / (Increase) in Stocks		63		154	
Increase / (Decrease) in Creditors		2,080	1,140	253	637
ADD					
Financing items shown elsewhere -					
External Interest Paid		2,478		2,476	
Finance Lease Interest Paid					
Interest Received		(423)	2,055	(660)	1,816
<b>Revenue Activities Net Cash Flow</b>			<b>8,970</b>		<b>8,417</b>

### 2 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 Revenue Account, which is prepared on an accruals basis.

Government grants in cash terms are outlined below.

	2004/05 £000	2005/06 £000
Revenue Support Grant	8,613	8,888
DSS Grants - Housing Benefits and Council Tax	23,336	34,118
Council Tax Collection		
Council Tax Preparation Grant		
Benefit Fraud Grant		
Benefit Administration Grant		
NNDR Administration		212
Planning Delivery Grant		579
LABGI		145
	<b>31,949</b>	<b>43,942</b>



### 3 MOVEMENT IN LONG TERM BORROWING

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Public Works Loans Board	41,474	44,800	3,326

### 4 MOVEMENT IN OTHER CURRENT ASSETS AND LIABILITIES

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Stocks and Work in Progress	409	255	154
Debtors	9,762	9,532	230
Creditors	(8,686)	(8,939)	253
<b>TOTAL</b>	<b>1,485</b>	<b>848</b>	<b>637</b>

### 5 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 2004/05 and the 2005/06 Consolidated Balance Sheets.

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

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Short Term Borrowing	(320)	(174)	146
Long Term Borrowing	(41,474)	(44,800)	(3,326)
Temporary Investments	6,500	10,200	3,700
Cash in Hand and at Bank	481	(379)	(860)
<b>TOTAL</b>	<b>(34,813)</b>	<b>(35,153)</b>	<b>(340)</b>

## 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 2006 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/05 £	Income £	Expenditure £	Balance c/f 31/03/06 £
<b>Bequests and Endowments</b>				
(a) Council sole trustee				
Ashton Memorial	--	1,333	1,333	--
Williamson Park	--	1,923	1,923	--
Other	1,605	1,142	1,060	1,687
(b) Council not sole trustee	7,577	465		8,042
<b>School etc. Prize Funds</b>				
(a) Council sole trustee	19,145	1,077		20,222
(b) Council not sole trustee	1,539	88		1,627
<b>TOTAL</b>	<b>29,866</b>	<b>6,028</b>	<b>4,316</b>	<b>31,578</b>

	Fund Balances £	Cash and Fund Investments £
<b>Bequests and Endowments</b>		
(a) Council sole trustee		
Capital		
Ashton Memorial	15,602	
Williamson Park	18,343	
Other	14,046	1,962
Revenue	1,687	
Cash and Debtors		47,716
(b) Council not sole trustee		
Capital	2,045	
Revenue	8,042	2,045
Cash and Debtors		8,042
<b>School etc. Prize Funds</b>		
(a) Council sole trustee		
Capital	2,496	
Revenue	20,222	874
Cash and Debtors		21,844
(b) Council not sole trustee		
Capital	358	
Revenue	1,627	
Cash and Debtors		1,985
<b>TOTAL</b>	<b>84,468</b>	<b>84,468</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.

2004/05	Income & Expenditure Account	2005/06	
£		£	£
	<b>Income</b>		
6,000	Interest	6,009	
--	Capital	--	
6,000			6,009
	<b>Expenditure</b>		
1,341	Ashton Memorial	1,333	
287	William Smith Festival	284	
658	Whalley Playground	658	
100	Lune Bank Gardens	97	
1,925	Williamson Park	1,923	
17	War Memorial Fund	16	
4	Other	5	
4,332			4,316
<b>1,668</b>	<b>Excess Income</b>		<b>1,693</b>

2004/05	Balance Sheet	2005/06	
£		£	£
	<b>Assets</b>		
3,836	Investments	3,836	
1,622	Debtors	1,715	
77,298	Bank	78,917	
<b>82,756</b>			<b>84,468</b>
	<b>Represented by:</b>		
81,088	Reserves as at 31.03.2006	82,756	
1,668	Income in 2005/06	1,712	
<b>82,756</b>			<b>84,468</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 ie 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.