

# **REPORT TO EXECUTIVE**

## **PORTFOLIO AREA: GOVERNANCE AND RESOURCES**

---

**Date of Meeting:** 28 June 2010

---

**Public**

---

**Key Decision:** No

**Recorded in Forward Plan:**

**No**

---

**Inside Policy Framework**

---

**Title:** STATEMENT OF ACCOUNTS 2009/10

**Report of:** THE ASSISTANT DIRECTOR [RESOURCES]

**Report reference:** RD18/10

### **Summary:**

The Council's Statement of Accounts 2009/10 (subject to Audit) is attached to this report. Once approved by Council on 29 June the statements will be subject to audit, which must be concluded by the statutory deadline of 30 September 2010. Key issues included within the 2009/10 Statements are highlighted within the report for Members attention.

The Statement of Accounts have been based on all carry forward requests (£1,552,000) considered within the Revenue Outturn report (RD09/10) being approved. If all of the requested carry forwards are not approved, then the Statement of Accounts will require amending.

### **Recommendations:**

The Executive is asked to consider the 2009/10 Statement of Accounts, which have been scrutinised by the Audit Committee, for recommendation to Council, noting that the Statements will then be subject to audit.

**Contact Officer:** Steven Tickner

**Ext:** 7280

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

## CITY OF CARLISLE

To: The Executive  
28 June 2010

RD 18/10

### **STATEMENT OF ACCOUNTS 2009/10**

#### **1. BACKGROUND INFORMATION AND OPTIONS**

- 1.1 The Accounts and Audit Regulations 2003 require that the City Council's Statement of Accounts for 2009/10 be submitted to full Council for approval by 30 June 2010.
- 1.2 The Statements reflect the summarised financial out-turn information which was recently considered by the Executive and Resources Overview and Scrutiny Panel. To a large extent the format of the Statement of Accounts is prescribed and is therefore presented in a different format from the internal out-turn reports.
- 1.3 The Statements presented are subject to the formal audit process, which will commence on 30 June, and must be completed by 30 September. The auditors will identify any material changes required to the Statements and they will also produce an ISA+260 Statement (Annual Governance Report) which details any unadjusted misstatements found during the course of the audit. Both of these need to be considered by 'those charged with governance', which in respect of the Statements, is the full Council.
- 1.4 Internal Audit carries out annual audits of the authority's business critical systems. This provides the assurances that the information used to prepare the Statement of Accounts is accurate and relevant.

#### **2. OUT-TURN REPORTS**

The Revenue and Capital Provisional Out-turn reports have recently been considered by the Executive and Resources Overview and Scrutiny Panel. However, there have been some minor changes to the figures included in those reports as detailed in the table below.

	Total Expenditure	Variance as at 31/03/10	Carry Forwards to 2010/11	Final Variance
<b>Revenue</b>				
Provisional Out-turn (per RD09/10)	22,010,666	(2,367,534)	1,552,000	(815,534)
Final Out-turn ( <b>note 1</b> )	22,043,737	(2,334,463)	1,552,000	(782,463)

#### Notes

- (1) After the outturn reports had been produced, there were two minor amendments required that altered the final outturn position. Two credit notes which amounted to £11,288 and an invoice for £44,359 which related to an item purchased in 2009/10 for Information Technology were required to be accounted for in 2009/10. These have now been accrued back into the 2009/10 accounts.

As mentioned above, the Statement of Accounts are based upon these final out-turn figures. However, because of the different way in which the Accounts must be produced, it is very difficult to see the out-turn figures within the Income and Expenditure Account. A reconciliation between the out-turn figures and the net operating expenditure on the Income and Expenditure Account has been prepared and is attached at **Appendix 1** for information.

### **3. CHANGES ARISING FROM THE 2009 STATEMENT OF RECOMMENDED PRACTICE**

- 3.1 At the Audit Committee meetings of the 14 January 2010 and 9 April 2010 the Assistant Director (Resources) reported that changes would be required to the format of the 2009/10 Statement of Accounts. Reference was made to the 2009 Statement of Recommended Practice (SORP) which introduced minor changes to the way the Statement of Accounts for 2009/10 would be prepared. The 2009/10 Statement of Accounts now presented incorporates the changes required in accordance with the SORP.
- 3.2 The main changes are set out below. These changes will impact primarily on the layout of the balance sheet with corresponding entries required to the Income and Expenditure Account where necessary.

- Accounting for local taxes was not covered in detail in previous SORPS, but is now included specifically. There is a change in the way that the SORP views the relationship between the Council as a billing Authority and the major preceptors for which the Council collects Council Tax (i.e. Cumbria County Council and Cumbria Police Authority). Previously in relation to Council Tax the billing authority (e.g. Carlisle City) showed all Council tax debtors in the balance sheet, the SORP 2009 includes detailed requirements which include showing the appropriate shares in the billing and major preceptors balance sheets. Carlisle City will therefore have to show only a percentage of council tax debtors at year end, with Cumbria County and Cumbria Police Authority amounts shown in their own balance sheets. The changes also have an impact on the Income and Expenditure Account and the Cash Flow Statement. Details can be found in the Statement of Accounts on Pages 17, 21, 50 and 51
- As with Council Tax, previously the Council as a billing authority showed all National Non-Domestic Rates debtors in the balance sheet at year end. The SORP 2009 now contains detailed requirements for accounting for NNDR which include a the requirement to recognise a creditor or debtor for cash collected from NNDR debtors as agent of the government but not paid to government or overpaid to the government at balance sheet date. The changes in treatment will also have an impact on the Cash Flow Statement on page 21 of the Statements.
- The requirement to disclose information in 5 of the notes to the Income and Expenditure Account has been removed. These were: section 137 expenditure; expenditure on publicity; Business Improvement District Schemes; and Income under the Local Authority Goods and Services Act.
- The Accounts and Audit Regulations 2003 (amended) have required further detailed information to be provided with regard to Senior Officers remuneration. This can be found in Note 5.7 on page 25-27 of the Statements. This note also includes one-off costs associated with the Senior Management Team restructure as well as the basic remuneration.

#### **4. KEY ISSUES**

- 4.1 As part of the Council's training programme, a training session was programmed for 16 June to Members, and substitutes, of the Audit Committee on the Role of the Audit Committee and scrutiny of the Statement of Accounts process. Key issues and the practical implications for scrutinising the Statement of Accounts were provided.

4.2 The Annual Governance Statement forms part of the Annual Statement of Accounts as presented at **Appendix 2**. It is a requirement of the 2009 SORP that the Annual Governance Statement be considered and approved separately by the Audit Committee.

#### 4.3 **Significant issues**

Key issues within the Statement of Accounts to which Members attention is drawn are as follows:

##### 4.3.1 **Income & Expenditure Account (including Movement on General Fund Balance and Statement of Total Recognised Gains and Losses)**

These statements summarise the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day to day expenses and related income on an accruals basis. The main items of note are as follows:

**Net operating expenditure** – a decrease of £4.430m over the previous year. This can be explained as a result of an increase in the costs relating to Pension Fund assets and liabilities (£0.970m); an decrease in depreciation and impairment charges of £6.379m; a decrease in interest receivable of £1.781m with other smaller items of expenditure making up the balance.

##### 4.3.2 **Balance Sheet**

The balance sheet records all of the Council's assets and liabilities as at 31 March 2010. Overall, the Council's Net Worth on its Balance Sheet has decreased from £116million in 2008/09 to £102million in 2009/10. However, this can be explained by the movement (£16.7million) on the Pension Fund valuation which is a notional entry and is held both as a liability and a reserve. Although the value of the Council's fixed assets have increased by approximately £10million, there have been reductions in the level of investments of £5million, increased temporary borrowing of £2million, provisions have decreased by £1.4million due to implementation of Job Evaluation, deferred government grants have increased by £2million, and reserves have decreased by £3million.

Although reserves have decreased, this was not as much as expected due to an under spend on the outturn position of £782,000. Plans have been put in place as part of the Transformation process to replenish the Council's reserves through making savings over the next 3 years.

**Long Term Assets** – these are assets owned by the authority which are used either in direct service provision or held for investment purposes. The value as at 31 March 2010 is £153m (March 2009 £143m). Other long-term investments and long term debtors relate to investments with a maturity date in excess of 12 months from the balance sheet date and debt outstanding on mortgages provided to third parties for the purchase of Council and private dwellings.

**Current Assets** – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2010 and short-term investments. Investments have decreased by £5m over the year and the Council currently has £21.2m invested in a variety of banks and building societies. Debtors have increased by £1.097m to £8.065m in the past year. This is due to an increase in the amounts owed in connection with capital projects funding still outstanding at the end of the year.

**Current liabilities** – this is the amount of money owed by the Council to its suppliers and contractors which totalled £5.8m as at 31 March 2010 (£5.4m as at 31 March 2009).

**Long term liabilities** – this section is made up of several different items. Long term borrowing and the value of the pension liability makes up approximately 80% of the total. Long term borrowing (£15m) remains fairly static over the year as the Council has no need to undertake any prudential borrowing due to the level of capital receipts generated. The Pension Liability amounts to £44.182m as at March 2010 (£27.467m March 2009). This is the value placed on the Council liability by the Pension Fund Actuary and is offset in the balance sheet by a corresponding credit on the Pension Reserve.

**Financed by** – the total of all the items within this section is the value of the net worth of the Council. It shows the reserves and balances held as at 31 March 2010.

## **5. CONSULTATION**

### **5.1 Consultation to Date.**

None

### **5.2 Consultation proposed.**

Notice will be given in the local press for any interested person to inspect, and make copies of the accounts of the Council for the year ended 31 March 2010 and certain

documents (comprising books, deeds, contracts, bills, vouchers and receipts) between 2 July and 29 July 2010. Interested persons will also be able to question the Auditor about the accounts and make objections to the same with effect from 30 July 2010 (s15 date) until the completion of the audit.

The Statement of Accounts (subject to audit) will be published on the Council's website following approval by Council.

## 6. RECOMMENDATIONS

The Executive is asked to consider the 2009/10 Statement of Accounts, which have been scrutinised by the Audit Committee, for recommendation to Council, noting that the Statements will then be subject to audit.

## 7 IMPACT ASSESSMENTS

**Does the change have an impact on the following?**

<b>Equality Impact Screening</b>	<b>Impact Yes/No?</b>	<b>Is the impact positive or negative?</b>
Does the policy/service impact on the following?		
Age	<b>No</b>	<b>N/A</b>
Disability	<b>No</b>	<b>N/A</b>
Race	<b>No</b>	<b>N/A</b>
Gender/ Transgender	<b>No</b>	<b>N/A</b>
Sexual Orientation	<b>No</b>	<b>N/A</b>
Religion or belief	<b>No</b>	<b>N/A</b>
Human Rights	<b>No</b>	<b>N/A</b>
Social exclusion	<b>No</b>	<b>N/A</b>
Health inequalities	<b>No</b>	<b>N/A</b>
Rurality	<b>No</b>	<b>N/A</b>

**If you consider there is either no impact or no negative impact, please give reasons:**

This report summarises the 2009/10 provisional out-turn for the General Fund revenue budget and gives reasons for variances and has no direct impact on the above.

PETER MASON  
Assistant Director (Resources)

**Contact Officer:** Steven Tickner

**Ext:** 7280



## APPENDIX 1

Item	£	£
<b>Provisional Out-turn (table at paragraph 2)</b>		<b>22,043,737</b>
Capital Receipts generated on the disposal of assets		(352,232)
Net book value of disposals written out of balance sheet		301,875
Parish Precepts		424,808
Actuary Reports on Pension Costs (FRS17)		
- Expected return on pension assets	(4,349,000)	
- Interest Costs	6,885,000	2,536,000
Net changes re FRS17 current and past service costs		(749,168)
Depreciation and Impairment Charges		3,858,175
Capital Expenditure on revenue expenditure funded from capital under statute (assets not owned by the Council) chargeable to the I&E account less grants and contributions received towards these costs		93,313
Minimum Revenue Provision		(76,200)
Direct Revenue Financing		(80,882)
Capital Government Grants and Contributions, credited to the I&E account to offset the depreciation charge		(1,799,716)
Transfers to earmarked reserves shown elsewhere		
- Lanes Capital Fund	(14,900)	
- Transformation Reserve	(1,479,157)	
- Job Evaluation Reserve	(939,000)	(2,433,057)
LABGI, Area Based Grant & Housing Planning Delivery Grant (shown as a funding source)		142,032
<b>Net operating cost on the I&amp;E account</b>		<b>23,908,685</b>

**CARLISLE  
CITY COUNCIL**



[www.carlisle.gov.uk](http://www.carlisle.gov.uk)

**STATEMENT OF ACCOUNTS**

**2009/10**

**SUBJECT TO AUDIT**

# STATEMENT OF ACCOUNTS

2009/10

## CONTENTS

Section		Page
1.	Foreword	1
2.	Statement of Accounting Policies	6
3.	Statement of Responsibilities for the Statement of Accounts	16
4.	Financial Statements:	
	Income and Expenditure Account	17
	Statement of Movement on the General Fund Balance	18
	Statement of Total Recognised Gains and Losses	18
	Balance Sheet	19
	Cash Flow Statement	21
5.	Notes to the Financial Statements	22
6.	Supplementary Financial Statements – Collection Fund	55
7.	Annual Governance Statement	58

## SECTION 1 – FOREWORD

### 1.1 Introduction

The City Council must prepare and publish a Statement of Accounts annually. Its purpose is to give electors, local taxpayers, Council Members, employees and other interested parties clear information about the Council's finances.

The aim is to provide information on:

- the cost of providing Council services in 2009/10;
- how these services were paid for;
- what assets the Council owned at the end of the financial year; and
- what was owed, to and by, the Council at the end of the financial year.

This foreword gives a guide to the most important matters included in the Statement of Accounts. The Statement for the year ended 31 March 2010 has been produced by the Assistant Director (Resources) and consists of the following: -

- (i) **The Statement of Accounting Policies**  
This summarises the accounting rules used to prepare the accounts.
- (ii) **The Statement of Responsibilities for the Statement of Accounts**  
This sets out the respective responsibilities of the Council and the Assistant Director (Resources) for preparing the Statement of Accounts.
- (iii) **The Income and Expenditure Account**  
This summarises the amounts the Council spent on its services and how this spending was paid for.
- (iv) **The Statement of Movement on the General Fund Balance**  
This shows the value of all the amounts affecting the movement in the balance held in Council's General Fund during the year.
- (v) **The Statement of Total Recognised Gains and Losses**  
The Council is required to disclose details of all gains and losses incurred in the year. This statement shows the gains and losses on the Income and Expenditure Account, the revaluation of fixed assets, and the pension fund assets and liabilities.
- (vi) **The Balance Sheet**  
This shows information on the financial position of the Council at the 31 March 2010, including the level of balances and reserves at the authority's disposal, its long term indebtedness and the value of the assets held by the Council.
- (vii) **The Cash Flow Statement**  
This shows the cash movements in and out of the Council due to transactions with third parties for revenue and capital purposes.
- (viii) **Notes to the Financial Statements**  
These explain in more detail a number of entries in the core financial statements.
- (ix) **The Collection Fund**  
This shows the total income received by the Council from council tax and business rates and how this has been distributed to all the authorities it is collected for, including the Council.

**(x) The Annual Governance Statement**

This explains the framework within which internal control has been managed and reviewed by the Council during the year of account.

**1.2 Revenue Expenditure and Financing**

Revenue expenditure generally relates to resources which are used within a year and which are paid for from council tax, non-domestic rates, government grants, fees and charges for services and other income received by the Council.

**Summary Income and Expenditure Account**

The table below shows a comparison of the Council's revised budget with its performance for 2009/10. More detailed information is shown in the Income and Expenditure Account on page 17.

	<b>General Fund 2009/10</b>	
	<b>Revised Budget £000</b>	<b>Actual £000</b>
Net Cost of Services (excluding Trading Operations)	23,856	22,316
Parish Precepts	425	425
Interest Payable	1,327	1,295
Interest and Investment Income	(870)	(844)
Trading Activities	(1,717)	(1,662)
(Gains)/Losses on disposal of Fixed Assets	0	(157)
FRS17 Pension interest costs & expected return on pension Assets	0	2,536
<b>Net Operating Expenditure</b>	<b>23,021</b>	<b>23,909</b>
Income from Council Tax	(6,915)	(6,960)
Government Grants:		
LABGI & PDG	(33)	(71)
NNDR	(8,385)	(8,385)
RSG	(1,935)	(1,936)
Area Based Grant	(49)	(71)
<b>Total Income</b>	<b>(17,317)</b>	<b>(17,423)</b>
<b>(Surplus)/Deficit on Income &amp; Expenditure Account</b>	<b>5,704</b>	<b>6,486</b>

Although there is a deficit on the income and expenditure account, many of the items that are included are notional such as depreciation and pension fund movements. These are further explained in Note 5.2 on page 23. The total reserves held by the Council are £101.681million as at 31 March 2010 (£115.919million at 31 March 2009). Further details can be found at note 5.28.

A revenue out-turn report for 2009/10 has been prepared which provides additional information on the year end position. This is available upon request from the Assistant Director (Resources).

## 1.3 Capital Expenditure and Financing

Capital expenditure relates to spending on the acquisition, creation and enhancement of fixed assets that generally have a life in excess of one year. This spending is usually paid for from borrowing, the sale of assets, specific government and other grants, and occasionally from revenue balances. Spending on assistance to the private sector for renovation grants, disabled facilities grants and other housing improvement schemes is also classed as capital expenditure and is known as Revenue Expenditure funded from capital under statute, because the spending does not generate an asset to the Council.

### (i) Capital Expenditure

The Council's revised capital programme for 2009/10 was approved at £11.0million. Overall capital spending for 2009/10, however, totalled £9.5million, resulting in slippage of £1.5million to future years. £712,700 expenditure on Highways Claimed Rights capital work was also incurred for which £712,700 income was also received. This revises the total capital expenditure for 2009/10 to £10.262million. The overall programme can be summarised as follows:

	£000	£000
<b>Revenue Expenditure funded from Capital Under Statute</b>		
Disabled Facilities Grants	1,122	
Capitalisation of Redundancies	1,198	
Improvement Grants	85	
Highways Claimed Rights	713	
Other Minor projects	109	
		3,227
<b>Capital Investment on Assets</b>		
Recycling Scheme	47	
Planned Major Repairs	238	
Renaissance Schemes	21	
Sheepmount (including drainage)	58	
Equipment, Vehicles & Plant	1,896	
Belah Community Centres	5	
Industrial Estates	57	
IT Projects	146	
Low Harker Dene Gypsy & Traveller Site	1,425	
Roman Gateway	131	
Riverbank Protection/Flood Defence expenditure	41	
Historic Quarter	41	
Chances Park	560	
Sub Regional Employment Sites	1,518	
Energy Efficiency - Carbon Trust	156	
Play & Multi-Use Games Areas	203	
RBS Shared Service	83	
Connect 2 Cycleway	62	
Other Schemes	347	
		7,035
		<b>10,262</b>

The programme has been financed as follows:

	£000
Capital Receipts	352
Specified Capital Grant	781
Other Capital Grants and Contributions	6,232
Direct Revenue Financing	81
Reserves	13
Unfinanced Capital Expenditure **	2,803
	<b>10,262</b>

\*\* The balance of usable capital receipts as at 31 March 2008 was transferred to the Capital Adjustment Account to reduce the Council's Capital Financing Requirement, and thus its MRP liability for 2008/09. Therefore, the Council had no Usable Capital Receipts reported in its Balance Sheet as from 1 April 2008. However, the cash resource is still available and this has been used to pay for capital expenditure in 2009/10, this is known as unfinanced capital expenditure.

A capital out-turn report for 2009/10 has been prepared which provides additional information on the year end position. This is available upon request from the Assistant Director (Resources).

## (ii) Borrowing

The Council has powers to borrow money for capital purposes under Section 1 of the Local Government Act 2003. The Council currently has a stock issue of £15million and four mortgages with a value of £56,000 as its external borrowing liabilities. The Council has not yet taken advantage of the Prudential Borrowing regime introduced in April 2004, although this position will be reviewed in the longer-term in the light of total available capital resources.

## (iii) Capital Receipts

The Council is dependent on capital receipts generated from the sale of its assets to pay for a significant proportion of its capital spending. This includes capital receipts arising from the sale of former council houses now owned by Riverside as part of the housing stock transfer agreed in 2002. During 2007/08, the Council transferred the balance of its Capital Receipts to the Capital Adjustment Account in order to reduce its Capital Financing Requirement. The cash from these receipts is still available to pay for future capital expenditure and the value of these receipts was £12.5million at the start of 2009/10. The Council has seen a significant reduction in the amount of capital receipts generated in 2009/10 due to difficult economic conditions throughout the year. Receipts from Riverside were less than anticipated due to a downturn in the number of qualifying properties sold. All receipts received in 2009/10 were utilised in financing capital expenditure in the year.

# 1.4 Significant Issues

## (i) Statement of Recommended Practice (SORP) 2009

There have been changes to the Statutory Statements included within this set of accounts following the implementation of the 2009 SORP. These changes include:

- Accounting for local taxes (National Non-domestic Rates and Council Tax). These are now accounted for as agency arrangement between the Council and

Government (NNDR) and the major precepting bodies (Council Tax), the change in treatment has led to a Prior Period Adjustment being required in the financial statements; and

- A reduction in the number of required disclosure notes, those concerning section 137 expenditure, expenditure on publicity, income under the Local Authorities Goods and Services Act are no longer included. A note on the building control account, although not required under the SORP is still included; and
- The long term portion of financial liabilities due to be settled in 12 months after the Balance Sheet Date which are now to be presented in current liabilities; and
- The note disclosing officers' remuneration has been expanded to comply with the Accounts and Audit regulations that have been revised in 2009.

## **(ii) Usable Capital Receipts**

The Council has previously transferred its balance of unapplied usable capital receipts into the Capital Adjustment Account. The effect of this transfer reduced the Council's Capital Financing Requirement which in turn reduced the Council's Minimum Revenue Provision (MRP) liability. The balance on the Usable Capital Receipts reserve is nil as at 31 March 2010 with a cash figure of £9,741,303 held in the Capital Adjustment Account which is available to fund future capital expenditure. In 2009/10 £2,803,059 of this cash was used to fund capital expenditure and this has resulted in the Council's capital financing requirement increasing (Note 5.19).

## **1.5 Accounting Policy Information**

The accounts of the Council comply with the relevant accounting practices laid down by the Accounting Standards authorities. There are no major changes in accounting policies that are required under the 2009 SORP other than the change to the way that local taxes are accounted for in the financial statements. The impact of these changes is outlined in note 5.33.

## **1.6 Further Information**

As part of the Council's policy of providing full information about the Council's affairs, further information regarding the accounts is available on request from the Assistant Director (Resources), Civic Centre, Rickergate, Carlisle. In addition, members of the public have a statutory right to inspect the accounts before the audit and to have a copy of the Statement of Accounts after the audit has been completed.



## SECTION 2 – STATEMENT OF ACCOUNTING POLICIES

### 2.1 General

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the ***Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP)***. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

This section discloses the specific accounting policies adopted by the Council for the completion of the accounts.

### 2.2 Fixed Assets

#### (i) Tangible Fixed Assets

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

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis provided that it yields benefit to the Council for more than one financial year. All other expenditure on assets is charged to revenue as it is incurred. Tangible fixed assets also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at a value reflecting the Council's obligation to meet future rental payments.

De-minimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant and equipment; and
- £20,000 for expenditure on land, buildings and other structures.

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value;
- dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use; and
- infrastructure and community assets – depreciated historic cost.

Net current replacement cost is assessed as:

- non specialised operational properties – existing use value;
- specialised operational properties – depreciated replacement cost;
- investment properties and surplus assets – market value; and
- vehicles, plant and equipment – depreciated historic cost (as a proxy for market value).

Assets included in the balance sheet at current value are revalued where there have been material changes in the value but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

**(ii) Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and provide benefit to the Council for periods of more than one year is also capitalised. These assets are held at cost and written off over their economic lives, subject to a maximum of 20 years, dependent on the type of asset. Software development costs that are directly attributable to bringing a computer system or other computer operated machinery into working condition for its intended use are treated as part of the cost of the related hardware rather than as a separate intangible asset.

**(iii) Impairment**

The values of each category of assets and of material individual assets that are not being depreciated, or where their remaining useful life exceeds 50 years, are reviewed annually for evidence of reductions in value. Where impairment is identified as a result of this review or as a result of changes arising from annual valuations, this is accounted for by:

- where attributable, to the clear consumption of economic benefits – the loss is charged to the relevant service account; or
- written off against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

Impairment losses are not a charge against council tax. The balance on the Income and Expenditure Account arising from an impairment loss is appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance

**(iv) Sales**

The Council now has to account for gains and/or losses incurred on the sale or disposal of its assets through its Income and Expenditure Account. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the assets at the time of the disposal). The net gain/loss on disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. The net carrying value of assets disposed is therefore appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance. Sales proceeds meeting the definition of capital receipts are appropriated from the General Fund and credited to the Usable Capital Receipts Account via an adjustment within the Statement of Movement on the General Fund balance. These are then used to finance capital expenditure.

**2.3 Depreciation**

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated on the following bases:

Asset Category	Rate	Basis
Operational Buildings	10-80 years	Straight Line
Infrastructure Assets	40-80 years	Straight Line
Non Operational Surplus Assets	3 years	Straight Line
Operational Vehicles & Plant	3-25 years	Straight Line
Intangible Assets	3-20 years	Straight Line

Under the 2009 SORP, depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **2.4 Charges to Revenue for Fixed Assets**

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

- depreciation attributable to the assets used by the relevant service;
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service;
- reductions in asset values that are not covered by a balance in the Revaluation Reserve; and
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its outstanding borrowing. This is known as the Minimum Revenue Provision and is calculated as 4% of the Council's capital financing requirement at the start of the financial year. Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **2.5 Leases**

### **(i) Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Rental payments are apportioned between a charge for the acquisition of the interest in the asset, which is recognised as a liability in the balance sheet at the start of the lease and matched with a tangible fixed asset and liability written down as the rent becomes payable, and a finance charge (debited to the Income and Expenditure account as the rent becomes payable). Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets.

### **(ii) Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals are charged directly to the Council's income and expenditure account on a straight-line basis over the life of the lease.

The Council also acts in the capacity as lessor for the lease of land and property it owns. Rents due under operating leases are accounted for on an accruals basis as they become due. Lease arrangements are reviewed regularly by the Property Services section and where increases in rent are agreed, the additional income is accounted for in the year the lease review is completed and the revised rent becomes due. Where the Council acts as lessor, land and property leased under operating leases are held as a fixed asset within the Balance Sheet and valued in accordance with the measurement bases set out in note 2.2.

## **2.6 Revenue Expenditure Funded from Capital Under Statute**

Some capital spending does not result in the creation of an asset and this spending is known as revenue expenditure funded from capital under statute. This was previously known as Deferred Charges. This includes items of expenditure such as Renovation Grants and Disabled Facilities Grants. It is Council policy to write off the value of revenue expenditure it funded from capital under statute to services and reflect in the Income and Expenditure account in the year it arises. The Statement of Movement on General Fund Balance is then adjusted to neutralise the effect of the write off on the amounts to be raised through council tax in the year.

This capital spending is now shown in Net Cash (Inflow)/Outflow from Revenue activities line within the Cash Flow statement, having previously being shown in the Capital Activities section.

## **2.7 Capital Receipts**

Capital receipts are generated from the sale of Council assets and can be used to pay for capital spending or be set aside to repay debt. Receipts from the sale of assets with a value of less than £10,000 are included in the Income and Expenditure Account as part of the gain or loss on disposal of assets. They are not reversed out through the Statement of Movement on the General Fund Balance and remain as a credit to the General Fund.

## **2.8 Accruals of Income and Expenditure**

Income and expenditure is accounted for in the year it relates to, not simply when cash is either received or paid. In particular:

- fees and charges and other receipts from customers are accounted for as income at the date the Council provides the relevant goods or services;
- works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet;
- interest paid or received is accrued and accounted for in the period to which it relates on the basis of the effective interest rate for the relevant financial instrument that reflects the overall effects of the borrowing or investment generating the interest;
- where income and expenditure has been recognised, but cash has not yet been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet; and
- supplies and services are accrued and accounted for in the period they are received or used. An exception occurs in respect of payments for energy and other similar quarterly payments that are charged at the meter reading date rather than being apportioned between financial years. This process is consistently applied each year and therefore does not have a material effect on the accounts.

Where there is an uncertainty that all the income accrued and accounted for will be collected, a provision for bad debts is charged to the income and expenditure account, reflecting the value of the income that might not be collected.

## 2.9 Stocks and Work in Progress

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and SSAP9, which requires stocks to be shown at the lower of cost or net realisable value. Stock values reflect a provision for items becoming obsolete.

Work in progress is valued at cost in the balance sheet.

## 2.10 Overheads and Support Services

The costs of overheads and support services are apportioned to services using the principles contained in CIPFA's Best Value Accounting Code of Practice 2009. The main methods of apportionment are as follows:

- support services have been fully recharged to services based on time allocations completed by members of staff; and
- the running costs of the Civic Centre have, with the exception of telephone costs, been apportioned to services on the basis of floor area occupied. Telephone costs have been apportioned on the basis of system usage.

The exceptions to these methods of apportionment relate to the costs for the Corporate and Democratic Core, which recognise the Council's status as a multi-functional democratic organisation, and certain non-distributed costs in relation to pension benefits. These costs are separately identified in the Income and Expenditure account as part of the Net Cost of Services.

## 2.11 Provisions

Provisions are required for any liabilities of uncertain timing or amount in circumstances where:

- the Council has a present legal or constructive obligation as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made, taking into account the risks and uncertainties surrounding the obligation.

A transfer of economic benefits is regarded as being probable if it is more likely than not to occur.

Provisions are charged to the appropriate revenue account of the Council and expenditure related to the provision is charged directly to that provision.

The value of provisions is reviewed at each balance sheet date to reflect current best estimates.

## 2.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and these do not represent usable resources for the Council.

The level of Council reserves is shown in the Balance Sheet and details of the individual reserves are shown in note 5.28 (Summary of Movement in Reserves) to the core statements.

## 2.13 Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS), administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a deferred benefit scheme it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria County Council Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.
- Liabilities are discounted to their value at current prices using a real discount rate of 7.1%.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

Around 80% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into seven components and recognised in the Statements as follows:
  - **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Income and Expenditure Account.
  - **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Income and Expenditure Account.
  - **Interest cost** – the expected increase in the value of liabilities during the year as they move one year closer to being paid is charged to Net Operating Expenditure within the Income and Expenditure Account.
  - **Expected return on assets** – the annual investment return on fund assets attributable to the Council, based on an average of the expected long-term return is credited to Net Operating Expenditure within the Income and Expenditure Account.

- **Gains and losses on settlements and curtailments** – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are charged to Non-Distributed Costs within Net Operating costs in the Income and Expenditure Account.
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions are charged to the Statement of Recognised Gains and Losses.
- **Contributions paid to the Cumbria County Council Pension Fund** – cash paid as employers' contributions to the pension fund

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 5.31 to the Accounts.

Statutory provisions allow the Council to increase council tax to cover the amounts paid by the Council to the pension fund in the year. This therefore means that within the Statement of Movement on the General Fund Balance, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year.

### **Discretionary Benefits**

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

## **2.14 Financial Instruments**

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2009 SORP. The following items meeting the definition are contained within the Council's balance sheet.

### **Financial Liabilities**

#### **(i) Borrowing**

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12 month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Income and Expenditure Account is the amount payable in the year under the loan agreement.

#### **(ii) Creditors**

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

## **Financial Assets**

### **(i) Loans and Receivables**

#### **(a) Investments**

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all investments, this means that the amount shown in the balance sheet is the amount of principal due to be repaid to the Council and the interest credited to the Income and Expenditure Account is the amount receivable by the Council under the loan agreement.

#### **(b) Debtors (including mortgages)**

Debtors are recognised when a contractual arrangement is entered into between the council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the balance sheet represents the current value of the outstanding debts owed to the Council at 31 March as a proxy for amortised cost.

#### **(c) Car Loans**

Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2009 SORP. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note 5.23 to the Financial Statements.

## **2.15 Gains and Losses on Debt Restructuring**

The Council does not currently hold any balances in relation to gains and losses arising from debt restructuring. The Council nevertheless has adopted the principles contained within the 2009 SORP and will therefore reflect any such gains or losses within its accounts using the following policies: -

Gains and losses associated with discounts and premiums on the repurchase or early settlement of borrowing will normally be recognised in Net Operating Costs within the Income and Expenditure Account in the period in which the repurchase or settlement is made. The Statement of Movement on General Fund Balance will then be adjusted to neutralise the effect on the amounts to be raised through council tax in the year, by charging or crediting the Financial Instruments Adjustment Account. This reserve will in turn be written off over the remaining life of the new loan to the Statement of Movement on the General Fund Balance as permitted by statute.

Where a loan with the same lender is modified, i.e. where the net present value of the replacement or modified loan varies by no more than 10% of the original loan and the exchange of loans takes place on the same day, then the effect of the resulting premium or discount can be charged to Net Operating Costs over the term of the replacement loan, rather than in the year the premium or discount arises.

## **2.16 Government Grants**

Revenue grants are recognised as income at the date the grant conditions are met, giving reasonable assurance that the grant will be paid by the funding body. Grant income is therefore accrued and credited to the Income and Expenditure Account in the same period in



which the related revenue expenditure has been charged. Grants and contributions used to finance the acquisition of a fixed asset are credited to the Deferred Government Grant Account and written off to the Income and Expenditure Account over the life of the asset, thereby off-setting the depreciation charge for the asset. Grants in respect of revenue expenditure funded from capital under statute are written down over the same period as the expenditure.

## **2.17 Value Added Tax**

Value Added Tax is only included as income and expenditure received or paid by the Council if it is classed as irrecoverable by HM Revenue and Customs.

## **2.18 Group Accounts**

The authority has reviewed its interests with external bodies in 2009/10 as required by the SORP. The Council's analysis has concluded that it does not have any interests in subsidiaries, associated companies and joint ventures that are material both individually and in aggregate and therefore there is no requirement to produce a set of Group Accounts.

## **2.19 Accounting Estimates and Judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the notes for:

- Fixed assets
- Provisions
- Contingent Assets
- Contingent Liabilities

## **2.20 Events after the Balance Sheet Date**

Post Balance Sheet Events are considered up until the date that the financial statements are authorised for issue.

## **2.21 Area Based Grant**

Area Based Grant (ABG) is a non-ringfenced general grant. ABG is received directly by the Council from government. ABG is accounted for in the Income and Expenditure Account along with other general income sources.

## **2.22 Contingent Assets and Liabilities**

Contingent assets and liabilities are not recognised in the financial statements but are disclosed as a note to the accounts, unless the possibility of inflow/outflow of resources is remote. They are assessed continually to determine if the inflow/outflow is probable. In the case of a contingent liability if the outflow becomes probable a provision is recognised, except in the extremely rare circumstances in which a reliable estimate cannot be made. A contingent liability shall still be disclosed in the rare case where a liability exists but a reliable estimate cannot be made. If the inflow from a contingent asset becomes probable and can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change occurs.

## **2.23 Agency Arrangements**

In the Council's capacity as Billing Authority it acts as an agent in collecting and distributing Council Tax income on behalf of the major preceptors and itself. Only the Council's share of income and expenditure and balance sheet items is included in the financial statements. The Council also acts as an agent in collecting National Non-Domestic Rates (NNDR) on behalf of the Government. Only the income received in NNDR redistribution is recognised in the Income and Expenditure Account and only a creditor or debtor for cash collected from NNDR debtors but not paid over to the Government, or overpaid to the Government is recognised in the Balance Sheet.

## **2.24 Prior Period Adjustments**

There is one adjustment to the accounting policies adopted by the Council as a result of the 2009 SORP that requires significant changes to the 2008/09 comparative information shown in the financial statements. This adjustment is due to the way that the Council Tax and NNDR income and balances are treated by the Council. The detailed changes required to the 2008-09 comparative information are detailed in note 5.33.

## SECTION 3 - STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 3.1 The Responsibilities of the Council

The Council 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 Council, that officer is the Assistant Director (Resources);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the statement of accounts.

### 3.2 The Responsibilities of the Assistant Director (Resources)

The Assistant Director (Resources) is responsible for the preparation of the Statement of Accounts for the Council, which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the SORP"), is required to give a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing this statement of accounts, the Assistant Director (Resources) has:

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

The Assistant Director (Resources) has also:

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

Signed: .....

Date: .....

P Mason – Assistant Director (Resources)

## SECTION 4 – FINANCIAL STATEMENTS

### 4.1 Income and Expenditure Account

Restated 2008/09 Net Expenditure £000	Service	Note	2009/10 Gross Expenditure £000	2009/10 Gross Income £000	2009/10 Net Expenditure £000
	<b>Continuing Operations</b>				
18,517	Cultural, Environmental & Planning Services	5.12	23,805	(11,345)	12,460
2,487	Highways, Roads & Transport		7,615	(5,193)	2,422
1,510	Housing Services		30,216	(28,851)	1,365
1,295	Central Services		9,866	(8,527)	1,339
3,610	Corporate & Democratic Core		3,743	(240)	3,503
532	Non Distributed Costs		2,246	(1,012)	1,234
27,951	Total Continuing Operations		77,491	(55,168)	22,323
(4)	<b>Discontinued Operations</b>				
	Services Transferred to CHA	5.3	0	(7)	(7)
27,947	<b>Net Cost of Services</b>		77,491	(55,175)	22,316
	<b>Other Items</b>				
16	(Gains)/Losses on the sale of fixed assets	5.5			(157)
405	Precepts paid to Parish Councils				425
(268)	(Surplus)/Deficit from Trading Undertakings & Other Operations	5.4			(1,662)
1,298	Interest Payable				1,295
(2,625)	Interest & Investment Income				(844)
1,566	Pension Interest Cost and Expected return on Pension assets	5.6			2,536
<b>28,339</b>	<b>Net Operating Expenditure</b>				<b>23,909</b>
(6,659)	Income from Council Tax				(6,960)
(1,255)	Revenue Support Grant				(1,936)
(194)	Local Authority Business Growth Incentive				(38)
0	Housing Planning Delivery Grant				(33)
(49)	Area Based Grant				(71)
(9,014)	National Non Domestic Rate Pool				(8,385)
(17,171)	<b>Amount provided from Government grants and local taxpayers</b>				<b>(17,423)</b>
<b>11,168</b>	<b>(Surplus)/Deficit for the Year</b>				<b>6,486</b>

## 4.2 Statement of Movement on the General Fund Balance

This statement summarises the differences between the out-turn on the Income and Expenditure Account and the General Fund Balance. Further details of the statutory and non-statutory items can be found at note 5.2 to the core statements.

Restated 2008/09 £000	Description	2009/10 £000
11,168	(Surplus)/Deficit on the Income & Expenditure Account for the year	6,486
(11,168)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(6,486)
<b>0</b>	<b>Movement on the General Fund for the Year</b>	<b>0</b>
(3,800)	General Fund Balance at the start of the year	(3,800)
(3,800)	General Fund Balance at the end of the year	(3,800)

## 4.3 Statement of Total Recognised Gains and Losses

Restated 2008/09 £000	Description	2009/10 £000
11,168	(Surplus)/Deficit on the Income & Expenditure Account for the year	6,486
(2,583)	Actuarial (Gain)/Loss on the Pension Fund	14,928
(466)	Gains on the Revaluation of Fixed Assets	(7,176)
<b>8,119</b>	<b>Total Recognised (Gains) and Losses for the year</b>	<b>14,238</b>

## 4.4 Balance Sheet

Restated 31 March 2009 £000		Note	31 March 2010	
			£000	£000
98	Intangible Assets	5.17		161
	Tangible Assets			
	Operational Assets			
201	Dwellings			196
36,689	Other Land & Building			37,122
2,473	Infrastructure Assets			2,633
2,574	Community Assets			3,250
7,469	Vehicles & Plant			8,222
	Non Operational Assets			
79,106	Investment			80,123
13,198	Surplus			20,632
1,011	Assets Under Construction			531
142,819	Total Fixed Assets			152,870
1,053	Long Term Investments	5.23		1,022
332	Long Term Debtors			296
1	Transferred Debt - Cumbria County Council	5.23		0
1,386	Mortgages & Other			1,318
144,205	Total Long Term Assets			154,188
	Current Assets			
914	Cash at Bank		115	
211	Stocks & Work in Progress	5.24	218	
6,968	Debtors	5.23	8,065	
248	Payments in Advance		307	
26,306	Investments	5.23	21,210	
34,647				29,915
	Current Liabilities			
(5,461)	Creditors	5.23	(5,811)	
(26)	Temporary Loans	5.23	(2,541)	
(1,426)	Receipts in Advance		(1,951)	
(6,913)				(10,303)
171,939	Total Assets Less Current Liabilities			173,800
	Long Term Liabilities			
(15,530)	Long Term Borrowing	5.26	(15,000)	
(2,192)	Provisions		(731)	
(9,344)	Deferred Government Grant	5.32	(11,423)	
(1,487)	Capital Grants Unapplied		(783)	
(27,467)	Pension Liability		(44,182)	
(56,020)				(72,119)
115,919	Total Assets Less Liabilities			101,681

31 March 2009 £000	Balance Sheet (Cont.)	Note	31 March 2010	
			£000	£000
	<b>Financed by:</b>			
20	Deferred Credits	5.28	20	
0	Usable Capital Receipts		0	
20				20
	<b>Reserve Balances:</b>			
3,800	General Fund Reserve Balance		3,800	
7,702	Earmarked Reserves		4,888	
(27,467)	Pension Reserve		(44,182)	
115,508	Capital Adjustment Account		113,672	
(40)	Collection Fund Adjustment Account		5	
16,396	Revaluation Reserve		23,478	
115,899				101,661
<b>115,919</b>	<b>Total Net Worth</b>			<b>101,681</b>

Certified as presenting a true and fair view of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Signed: .....

Date: .....

P Mason – Assistant Director (Resources)

Approved by Council on 29 June 2010

Signed: .....

Date: .....

Chair of meeting approving accounts

## 4.5 Cash Flow Statement

Restated 2008/09 £000		2009/10	
		£000	£000
(1,314)	<b>Net Cash (Inflow)/Outflow on Revenue Activities (Note 5.36)</b>		1,821
	<b>RETURNS ON INVESTMENT &amp; SERVICING OF FINANCE</b>		
1,298	Cash Outflows		
	Interest Paid	1,295	
	Cash Inflows		
(1,894)	Interest Received	(1,943)	
(596)	Returns on Investment & Servicing of Finance Net Cash Flow		(648)
	<b>CAPITAL ACTIVITIES</b>		
	Cash Outflows		
3,470	Purchase of Fixed Assets	6,609	
18	Other Capital Payments	19	
1,000	Purchase of Long Term Deposits	1,000	
	Cash Inflows		
(2,829)	Sale of Fixed Assets	(356)	
(2,000)	Repayment of long term deposits	(3,000)	
(3,842)	Capital Grants Received	(2,244)	
(318)	Other Capital Receipts	(195)	
(4,501)	Capital Activities Net Cash Flow		1,833
(6,411)	<b>Net Cash (Inflow)/Outflow before Financing</b>		3,006
	<b>MANAGEMENT OF LIQUID RESOURCES</b>		
4,800	Net increase/(decrease) in short term deposits		(2,000)
(424)	Net increase/decrease in other liquid resources		2,378
	<b>FINANCING</b>		
	Cash Outflows		
958	Loans Repaid	15	
16	Finance Lease repayments	0	
	Cash Inflows		
(10)	New Loans Raised	(2,000)	
964	Financing Net Cash Flow		(1,985)
(1,071)	<b>Net (Increase)/Decrease in Cash</b>		1,399



## SECTION 5 - NOTES TO THE FINANCIAL STATEMENTS

### Income and Expenditure Account

#### 5.1 Overall Position for the Year

The revised budget for 2009/10 including parish precepts of £425,000 was £24,803,200. This is paid for by local taxpayers and government grants totalling £17,317,000, with the balance of £7,486,200 coming from Council Reserves which includes use of Job Evaluation Reserve to fund back pay due in 2009/10. Any increases or reductions in spending directly affects the level of reserves held by the Council. In 2009/10, the forecast use of reserves decreased by £2,334,000 with the main reasons for the decrease being: -

	£000
Carry Forward requests from 2009/10 to 2010/11	(1,552)
Decrease in available reserves in 2010/11	(782)
<b>Total</b>	<b>(2,334)</b>

In line with the Council's policy on the use of reserves any gains as a result of the out-turn position are returned to the Projects Reserve once the level on the General Fund Balance has been maintained (£3.8million). The Summary of Movement in Reserves (note 5.28) shows the movement on all of the Reserves maintained by the Council.

## 5.2 Reconciling Items for the Statement of Movement on the General Fund Balance

Restated 2008/09 £000	Description	2009/10 £000
	<b>Amounts included in the Income &amp; Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year</b>	
(10,237)	Depreciation & Impairment of fixed assets	(3,858)
563	Amortisation of Deferred Government Grants	1,800
(20)	Net Gains/(Losses) on the sale of fixed assets	50
(4)	Revenue Expenditure Funded from Capital under Statute	(93)
(4,499)	Net charges made for retirement benefits in accordance with FRS17 (note 5.6)	(6,794)
(57)	Amount by which Council Tax income included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation	45
(14,254)		(8,850)
	<b>Amounts not included in the Income &amp; Expenditure account but required to be included by statute when determining the movement on the General Fund Balance for the year</b>	
0	Minimum Revenue Provision for capital financing	76
0	Direct revenue funding of capital spending	81
2,715	Employer's Contributions payable to the Pension Fund (note 5.6)	5,007
2,715		5,164
	<b>Transfers to or (from) the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance for the year</b>	
371	Contributions to/(from) Earmarked Reserves	(2,800)
371		(2,800)
(11,168)	<b>Net Additional Amount to be credited/(debited) to the General Fund Balance for the year</b>	<b>(6,486)</b>

## 5.3 Discontinued Operations

### (i) Housing Revenue Account

The Housing Revenue Account was formally closed on 1 April 2005. All transactions relating to the former HRA are shown within the Income and Expenditure Account as discontinued operations.

## 5.4 Trading Operations

A number of Council Services are involved in a significant level of trading with third parties. The turnover and (surplus)/deficit of these services are shown below.

(Surplus)/ Deficit 2008/09 £000	Activity	Gross Income 2009/10 £000	Gross Expenditure 2009/10 £000	(Surplus) / Deficit 2009/10 £000
1,076	Corporate Properties	(715)	387	(328)
(2,200)	Industrial Estates	(2,968)	692	(2,276)
933	Community Services Trading	(4,105)	4,991	886
(77)	Market Hall	(10)	15	5
0	Old Town Hall	0	51	51
<b>(268)</b>	<b>Total</b>	<b>(7,798)</b>	<b>6,136</b>	<b>(1,662)</b>

## 5.5 Gains and Losses from the Sale of Fixed Assets

The Income and Expenditure Account now includes gains and losses from the sale of Council assets. The value of the gains and losses for the year 2009/10 is as follows: -

2008/09 £000		2009/10 £000
(275)	Preserved Right To Buy Sales	(307)
291	Other	150
<b>16</b>	<b>Total</b>	<b>(157)</b>

## 5.6 Pension Costs

In 2009/10, the City Council paid normal employer's contributions of £2,560,046 into the Cumbria County Council Pension Fund, representing 17.4% (2008/09: £2,418,759 and 17.4%) of pensionable pay. The contribution rate is based on the triennial actuarial valuation carried out at 31 March 2007 by the Fund's Actuary. This contribution rate is effective for the three-year period commencing 1 April 2008. The Council is also responsible for all pension payments relating to unfunded added years benefits awarded to its employees together with any related increases. In 2009/10 the value of these benefits amounted to £2,066,272 representing 8.07% of pensionable pay (2008/09 £513,783 and 3.70% respectively). The pension costs charged to the Income and Expenditure Account in accordance with FRS17 are as follows:

2008/09 £000		2009/10 £000
2,627	Current Service Cost	1,774
0	Past Service Cost	0
306	Curtailment Cost	2,484
(5,473)	Expected Return on Pension Assets	(4,349)
7,039	Pension Interest Costs	6,885
<b>4,499</b>	<b>Total</b>	<b>6,794</b>
2,715	Contributions paid to Pension Scheme	5,007
<b>1,784</b>	<b>Contributions (to) / from Pension Reserve</b>	<b>1,787</b>

## 5.7 Officers' Remuneration

The Accounts and Audit Regulations 2003 (as amended in 2009) require that local authorities disclose details of the number of employees whose remuneration exceeds £50,000 in bands of £5,000. The requirements have been amended during 2009/10 to reduce the bandings disclosed from £10,000 to £5,000. The table below includes senior employees who are also subject to additional disclosure below. **Remuneration includes any payments made on termination of employment, but does not include pension contributions. As the Council undertook a Senior Management restructure throughout the year, there are costs associated with this included in the remuneration below.**

Remuneration Banding	Number of Employees			
	2009/10	Left During Year	2008/09	Left During Year
Between £50,000 and £54,999	3	0	6	0
Between £55,000 and £59,999	3	3	1	0
Between £60,000 and £64,999	1	1	0	0
Between £65,000 and £69,999	2	2	0	0
Between £70,000 and £74,999	0	0	1	0
Between £75,000 and £79,999	1	0	2	0
Between £80,000 and £84,999	0	0	1	0
Between £85,000 and £89,999	2	1	0	0
Between £90,000 and £94,999	1	1	0	0
Between £95,000 and £99,999	0	0	0	0
Between £100,000 and £104,999	0	0	0	0
Between £105,000 and £109,999	0	0	0	0
Between £110,000 and £114,999	1	0	0	0
Between £115,000 and £119,999	0	0	0	0
Between £120,000 and £124,999	0	0	1	0
Between £125,000 and £129,999	1	1	0	0
Between £130,000 and £134,999	1	1	0	0
<b>Total Number of Employees (Including Senior Employees)</b>	<b>16</b>	<b>10</b>	<b>12</b>	<b>0</b>

The Accounts and Audit Regulations 2003 (as amended 2009) also now requires that local authorities disclose the individual remuneration details of senior employees by job title for a number of categories if their annual salary is above £50,000. For the purpose of disclosure, senior employees are defined by the Council as Assistant Director level and above (or Directors

and above under the previous structure). Note that the Council has undergone a period of restructuring during 2009/10, job titles given are both under the previous and new structure. The table below includes Pension contributions, this also contains any additional early retirement costs for staff that have been subject to redundancy during the year. The information for 2009/10 is given below.

Post	Salaries, fees & allowances	Expenses allowance	Compensation for loss of employment	Benefits in Kind (e.g car allowance)	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	104	0	0	7	111	18	129
Strategic Director - Deputy Chief Exec (Deputy Chief Exec)	79	0	0	7	86	14	100
Strategic Director - started 1/3/10	5	0	0	0	5	1	6
Strategic Director - Interim appointment 23/11/09-3/3/10	21	0	0	0	21	0	21
Assistant Director Governance from 11/11/09	20	0	0	1	21	5	26
Assistant Director Economic Development from 3/2/10	8	0	0	0	8	1	9
Assistant Director Resources from 11/11/09	20	0	0	1	21	4	25
Director of Community Services (left 30/11/09)	46	0	36	7	89	177	266
Director of Legal & Democratic Services (left 30/11/09)	46	0	38	7	91	132	223
Director of Corporate Services (Left 16/12/09)	49	0	78	6	133	9	142
Director Renaissance	72	0	0	5	77	0	77
Head of Economy & Tourism (left 30/11/09) (Acting Director)	40	0	85	2	127	7	134
Head of Planning & Housing (left 30/11/09) (Acting Director)	34	0	33	2	69	95	164
<b>Total</b>	<b>544</b>	<b>0</b>	<b>270</b>	<b>45</b>	<b>859</b>	<b>463</b>	<b>1,322</b>

The figures in the above tables show total remuneration as a result of the Senior Management Restructure which includes one-off costs associated with this transformation of the Council's Management.

The comparative information for 2008/09 is given below. Job titles are given under the previous senior management structure. Senior employees with a salary of above £50,000 in 2008/09 are included.

Post	Salaries, fees & allowances	Expenses allowance	Compensation for loss of employment	Benefits in Kind (e.g car allowance)	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Chief Executive	116	0	0	7	123	20	143
Deputy Chief Exec	78	0	0	6	84	14	98
Director of Community Services	69	0	0	7	76	12	88
Director of Legal & Democratic Services	69	0	0	6	75	13	88
Director of Corporate Services	69	0	0	2	71	12	83
Director of Renaissance (Started 1/7/08)	52	0	0	0	52	0	52
Director of Development Services (left 31/10/08)	41	0	0	4	45	7	52
Head of Planning and Housing (Acting Director from 1/11/08)	25	0	0	1	26	4	30
Head of Economy & Tourism (Acting Director from 1/11/08)	25	0	0	1	26	4	30
<b>Total</b>	<b>544</b>	<b>0</b>	<b>0</b>	<b>34</b>	<b>578</b>	<b>86</b>	<b>664</b>

## 5.8 Members' Allowances

The Code of Practice on Local Authority Accounting requires that Local Authorities disclose details of allowances paid to elected members during the year. Details of allowances paid in 2009/10 are as follows:

2008/09 £000		2009/10 £000
	<u>Type of Allowance</u>	
240	Basic Allowance	246
86	Special Responsibility Allowance	92
21	Conference/Other Allowances	20
<b>347</b>	<b>Total</b>	<b>358</b>

## 5.9 Related Party Transactions

The Council is required to disclose details of transactions with related parties. Related parties are generally either individuals or organisations that could exert direct or indirect control over the other party.

All elected members and 28 of the senior officers of the Council were asked to declare any direct financial relationship through outside bodies or companies with the Authority for the financial year 2009/10. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Authority during 2009/10.

Other related party transactions are as follows:

- Government Grants, which are detailed in note 5.32 to the Financial Statements;
- the City Council's transactions with the Cumbria County Council Pension Fund, which are shown in note 5.6 to the Financial Statements;
- the Council has entered into an agreement with Longtown and District Enterprise Trust, a company established to regenerate the area. Although the Council has no formal interest in the company, it is acting as the accountable body for grant funding provided to the Trust by NWDA; and
- the Council has an agreement with Carlisle Leisure Limited to manage leisure facilities for the Council. The Council has an interest in the company, but no significant control or influence over the company's activities.

## 5.10 Building Control

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. 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 following statement shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities:

	Chargeable £000	Non - Chargeable £000	Total £000
<b>Expenditure</b>			
Employee Costs	273	171	444
Transport Expenses	19	9	28
Supplies & Services	16	13	29
Agency & Contracted Services	5	0	5
Central & Support Services	82	50	132
<b>Total Expenditure</b>	<b>395</b>	<b>243</b>	<b>638</b>
<b>Income</b>			
Building Regulation Charges	(388)	0	(388)
Other Income	(7)	(20)	(27)
<b>Total Income</b>	<b>(395)</b>	<b>(20)</b>	<b>(415)</b>
<b>(Surplus)/Deficit for the Year</b>	<b>0</b>	<b>223</b>	<b>223</b>

## 5.11 Disclosure of Audit Costs

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

2008/09 £000		2009/10 £000
131	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	127
6	Fees payable to the Audit Commission in respect of statutory inspection	8
40	Fees payable to the Audit Commission for the certification of grant claims and returns	37
1	Fees payable in respect of other services provided by the appointed auditor	1
<b>178</b>	<b>Total</b>	<b>173</b>

## 5.12 Pooled Budgets

During 2002/03, the Council agreed with Eden District Council to form the Carlisle and Eden Crime and Disorder Reduction Partnership. The partnership was instigated under the Council's duties to reduce crime and disorder. The Council made a contribution in 2009/10 of £30,000 (2008/09: £39,900) to a pooled budget in this scheme, which is included in Cultural, Environmental and Planning Services in the Income and Expenditure Account.

## 5.13 Exceptional Items

There were no exceptional items in 2009/10

## 5.14 Leases

The Council acts as lessor in respect of land and property owned by it and leased to tenants, and for sub-leases on contract hire cars supplied to its staff. The value of the income from rents associated with these agreements, and included within the Council's Income and Expenditure account, is as follows:



2008/09 £000	Type of Lease	2009/10 £000
5,478 53	Land & Property Leases Car Leasing	4,735 41
<b>5,531</b>	<b>Total</b>	<b>4,776</b>

The capital value held within the balance sheet at 31 March 2010 in respect of land and property generating leasehold income is £80.123million. This figure represents the gross value of the Investment Properties and as these are non-operational fixed assets, they are not subject to a depreciation charge.

The Council also rents property itself for operational purposes. The value of the rentals paid in respect of its responsibilities as a lessee in 2009/10 is as follows:

2008/09 £000	Leasehold Property	2009/10 £000
102	Denton Holme Trade Centre	83
18	Devonshire Walk Mobile Toilet	18
20	Irthing Centre	79
<b>140</b>	<b>Total</b>	<b>180</b>

## 5.15 Restructure Costs

During 2009/10 the Council began its Transformation Programme to achieve significant savings over the next three years. The first stage of this process was to restructure the Senior Management Team and this was completed by 31 March 2010. As a result of this restructure the Council incurred one-off costs of £1.775million. The Council made an application to capitalise these costs and this was granted in January 2010. This has resulted in £1.198million of these one-off costs being funded from capital resources rather than from revenue.

## 5.16 Job Evaluation

Following the introduction of the Pay and Workforce Strategy, the Council implemented its revised Pay structure in March 2010 with the costs associated with back pay being fully accounted for in 2009/10. The Council had previously set aside funds to pay for back pay and protection costs in terms of a provision and an earmarked reserve. The provision has been fully exhausted in 2009/10 and there remains a residual balance on the Job Evaluation reserve of £493,000 which can be used to fund protection costs chargeable in 2010/11, a career training package recently agreed by Council, and any other outstanding issues such as career grades and market factor supplements.

## **Balance Sheet**

### **5.17 Fixed Assets**

The table below sets out the transactions relating to fixed assets in 2009/10: -

	OPERATIONAL					NON-OPERATIONAL				Total £000
	Council Dwelling £000	Other Land & Buildings £000	Vehicles & Plant £000	Infra- structure £000	Community Assets £000	Investment Property £000	Surplus Property £000	Intangible Assets £000	Assets under Construc'n £000	
<b>Cost or Valuation</b>										
Valuation as at 1 April 2009	201	36,792	11,786	2,711	2,574	79,106	13,198	108	1,011	147,487
Additions	3	1,876	2,296	198	676	1,575	0	84	327	7,035
Disposals	0	(100)	(389)	0	0	0	(255)	0	0	(744)
Reclassifications	0	620	172	15	0	0	0	0	(807)	0
Revaluations Taken to Revaluation Reserve	(3)	(199)	0	0	0	(313)	7,689	0	0	7,174
Revaluations Charged to I&E 2009/10	0	(1,115)	0	0	0	(245)	0	0	0	(1,360)
Reverse Downward Revaluations Previously Charged to I&E	0	86	0	0	0	0	0	0	0	86
Valuation as at 31 March 2010	201	37,960	13,865	2,924	3,250	80,123	20,632	192	531	159,678
<b>Depreciation</b>										
Accumulated Dep'n at 1 April 2009	0	(103)	(4,181)	(238)	0	0	0	(10)	0	(4,532)
Depreciation Charge to I&E 2009/10	(5)	(836)	(1,669)	(53)	0	0	0	(21)	0	(2,584)
Depreciation on Disposals	0	99	343	0	0	0	0	0	0	442
Reval'n – W/Out Dep'n	0	2	0	0	0	0	0	0	0	2
Accumulated Dep'n at 31 March 2010	(5)	(838)	(5,507)	(291)	0	0	0	(31)	0	(6,672)
<b>Impairments</b>										
Accumulated Impairment 1 April 2009	0	0	(136)	0	0	0	0	0	0	(136)
Impairments Charge to I&E 2009/10	0	0	0	0	0	0	0	0	0	0
Impairments (W/Out Dep'n)	0	0	0	0	0	0	0	0	0	0
Accumulated Impairments at 31 March 2010	0	0	(136)	0	0	0	0	0	0	(136)
<b>Net Book Value at 31 March 2010</b>	<b>196</b>	<b>37,122</b>	<b>8,222</b>	<b>2,633</b>	<b>3,250</b>	<b>80,123</b>	<b>20,632</b>	<b>161</b>	<b>531</b>	<b>152,870</b>
<b>Net Book Value at 31 March 2009</b>	<b>201</b>	<b>36,689</b>	<b>7,469</b>	<b>2,473</b>	<b>2,574</b>	<b>79,106</b>	<b>13,198</b>	<b>98</b>	<b>1,011</b>	<b>142,819</b>
<b>Revaluation Summary</b>										
Reval'n Gains	(3)	(199)	0	0	0	(313)	7,689	0	0	7,174
Reval'n – W/Out Dep'n	0	2	0	0	0	0	0	0	0	2
<b>Total Revaluation</b>	<b>(3)</b>	<b>(197)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(313)</b>	<b>7,689</b>	<b>0</b>	<b>0</b>	<b>7,176</b>
<b>Nature of Asset holding</b>										
Owned	196	37,122	8,222	2,633	3,250	80,123	20,632	161	531	152,870
Finance Lease	0	0	0	0	0	0	0	0	0	0
PFI	0	0	0	0	0	0	0	0	0	0
	<b>196</b>	<b>37,122</b>	<b>8,222</b>	<b>2,633</b>	<b>3,250</b>	<b>80,123</b>	<b>20,632</b>	<b>161</b>	<b>531</b>	<b>152,870</b>

## 5.18 Bases of Valuation

From 1 April 1994 all of the City Council's fixed assets have been valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Details of the valuation bases applied are set out in note 2.2 of Section 2 (Statement of Accounting Policies).

Valuations are carried out with all assets being re-valued at intervals of not more than five years. Valuations for 2009/10 were carried out by R Simmons (Property Services Manager) ARICS.

The following table shows the progress of the Council's rolling programme for the revaluation of fixed assets: -

	Council Dwellings £000	Other Land & Buildings £000	Vehicles & Plant* £000	Non Operational Investment £000	Non Operational Surplus £000
Valued at Historic Cost	0	25	0	0	0
Valued at Current Value in:					
2009/10	0	1,350	2,469	2,132	11,007
2008/09	201	36,585	1,127	77,991	9,625
2007/08	0	0	3,097	0	0
2006/07	0	0	2,208	0	0
2005/06	0	0	2,693	0	0
2004/05	0	0	590	0	0
2003/04	0	0	764	0	0
2002/03	0	0	917	0	0
<b>Total</b>	<b>201</b>	<b>37,960</b>	<b>13,865</b>	<b>80,123</b>	<b>20,632</b>

\* Vehicles and moveable plant are valued at historic cost as a proxy for current value. These items are shown at the cost paid for the assets in the relevant financial year. This means that there are some items with a valuation greater than five years old in the above table.

Community Assets, infrastructure and intangible assets valued at historic cost are excluded from the above analysis.

An analysis of fixed assets includes: -

31 March 2009		31 March 2010
1	Civic Centre	1
15	Depots and Workshops	15
15	Off Street Car Parks	15
1	Leisure Centres	1
1	Swimming Pool	1
2	Museums	2
0	Travellers Site	1
250ha	Parks & Recreation Grounds	250ha
1	Market Hall	1
3	Cemeteries	3
1	Crematorium	1
97	Industrial Units	97
12	Community Centres	11
8	Industrial Estates	8

## 5.19 Capital Expenditure

Capital Expenditure in 2009/10 was financed as follows:

	£000
Opening Capital Financing Requirement	1,906
<b>Capital Expenditure</b>	
Operational Assets	3,708
Non-Operational Assets	3,327
Revenue Expenditure funded from Capital Under Statute	3,227
	10,262
<b>Sources of Finance</b>	
Capital Receipts	(352)
Government Grants and Contributions	(6,128)
Revenue Provision (Including MRP)	(170)
Transferred Debt	(36)
Contributions from other bodies	(884)
	(7,570)
Closing Capital Financing Requirement	4,598
<b>Increase/(Decrease) in underlying need to borrow</b>	<b>2,692</b>

Significant budget commitments for future capital expenditure contracted for as at 31 March 2010

	£000
Improvement Grant Commitments	575
Chances Park	229
Low Harker Dene Gypsy and Traveller Site	86
Sheepmount Drainage	88

## 5.20 Leases

### (a) Operating Leases

Total operating lease rentals paid in 2009/10 amounted to £273,914. At 31 March 2010 the annual commitment under operating leases and contract hire agreements was as follows:

On Leases expiring:	Leased Cars £000	Other Leases £000	Total £000
Within 1 year	15	0	15
2-5 years	46	18	64
After 5 years	0	83	83
<b>Total</b>	<b>61</b>	<b>101</b>	<b>162</b>

(b) Finance Leases

The Council no longer has any finance leases.

## 5.21 Revenue Expenditure funded from Capital Under Statute

Items of revenue expenditure funded from capital under statute, which are not financed by government grants and other contributions, are written off to the Income and Expenditure Account during the year. This shows how grants and contributions have been used to finance revenue expenditure funded from capital and grants and contributions have been fully utilised used to finance these items even though they may not be for the original purpose. The value for 2009/10 is as follows: -

	Expenditure £000	Sources of Finance £000	Amounts Written Off £000
Disabled Facilities Grants	1,122	(1,122)	0
Capitalisation of Redundancy Costs	1,198	(1,105)	(93)
Improvement Grants	85	(85)	0
Highways Claimed Rights Capital Work	713	(713)	0
Other	109	(109)	0
<b>Total</b>	<b>3,227</b>	<b>(3,134)</b>	<b>(93)</b>

## 5.22 Net Assets Employed

The net assets employed represent the total of capital and revenue reserves held by the General Fund and are the total equity of the Council. General Fund Reserves exclude the balance on the Collection Fund.

2008/09 £000		2009/10 £000
60,017	General Fund	44,938
55,902	Trading Accounts	56,743
<b>115,919</b>	<b>Total</b>	<b>101,681</b>

## 5.23 Financial Instruments

### (a) Financial Liabilities held at Amortised Cost

2008/09 Restated			2009/10	
Long Term £000	Current £000		Long Term £000	Current £000
15,530	26	Borrowing	15,000	2,541
0	4,665	Operational Creditors	0	4,849
<b>15,530</b>	<b>4,691</b>	<b>Total</b>	<b>15,000</b>	<b>7,390</b>

### (b) Loans and Receivables held at Amortised Cost

2008/09 Restated			2009/10	
Long Term £000	Current £000		Long Term £000	Current £000
1,053	26,306	Investments	1,022	21,210
0	4,443	Operational Debtors (Gross)	0	4,210
23	0	Car Loans	26	0
0	914	Cash at Bank	0	115
332	0	Transferred Debt	296	0
1	0	Mortgages	0	0
<b>1,409</b>	<b>31,663</b>	<b>Total</b>	<b>1,344</b>	<b>25,535</b>

### (c) Reconciliation of Balance Sheet Debtors and Creditors to Financial Instruments

2008/09 Restated			2009/10	
Debtors £000	Creditors £000		Debtors £000	Creditors £000
4,443	4,665	Value as per Note (a) & (b) above	4,210	4,849
23	0	Car Loans	26	0
2,502	796	Non-Contractual Items	3,829	962
<b>6,968</b>	<b>5,461</b>	<b>Total per Balance Sheet</b>	<b>8,065</b>	<b>5,811</b>

## (d) Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in 2009/10 (and in the Statement of Total Recognised Gains and Losses if appropriate) relating to financial instruments are made up as follows:

2009/10	Financial Liabilities (measured at Amortised Cost) £000	Financial Assets (Loans & Receivables) £000	Financial Assets (Available for Sale) £000	Total £000
Interest Paid	1,295	0	0	1,295
Impairment Losses	0	0	0	0
<b>Interest Payable and Similar Charges</b>	<b>1,295</b>	<b>0</b>	<b>0</b>	<b>1,295</b>
Interest Received	0	(844)	0	(844)
(Gains)/Losses on Derecognition	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(844)</b>	<b>0</b>	<b>(844)</b>
<b>Net (Gain)/Loss for year</b>	<b>1,295</b>	<b>(844)</b>	<b>0</b>	<b>451</b>

Comparative information for financial year 2008/09 is as follows:



2008/09	Financial Liabilities (measured at Amortised Cost) £000	Financial Assets (Loans & Receivables) £000	Financial Assets (Available for Sale) £000	Total £000
Interest Paid	1,298	0	0	1,298
Impairment Losses	0	0	0	0
<b>Interest Payable and Similar Charges</b>	<b>1,298</b>	<b>0</b>	<b>0</b>	<b>1,298</b>
Interest Received	0	(2,625)	0	(2,625)
(Gains)/Losses on Derecognition*	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(2,625)</b>	<b>0</b>	<b>(2,625)</b>
<b>Net (Gain)/Loss for year</b>	<b>1,298</b>	<b>(2,625)</b>	<b>0</b>	<b>(1,327)</b>

## (e) Fair Value of Assets &amp; Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Council has based its fair value report on the borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities. Other assumptions include:

- estimated fair values have been calculated using the equivalent market interest rates as at 31 March 2010;
- early repayment or impairment is not recognised; and
- the fair value of operational liabilities and receivables is taken to be the invoiced or billed amount.

31 March 2009 Restated			31 March 2010	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
20,221	27,255	Financial Liabilities	22,390	28,014

The fair value is more than the carrying amount because the Council's loan portfolio includes a number of fixed rate loans where the interest payable is more than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to the early repayment of the loans.

31 March 2009 Restated			31 March 2010	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
33,072	33,378	Loans & Receivables	26,879	26,980

The fair value is more than the carrying amount because the Council's investment portfolio includes a number of fixed rate investments where the interest receivable is more than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the authority would receive if it agreed to the early repayment of the investments.

(f) Risks arising from Financial Instruments

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

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Council;
- **liquidity risk** – the possibility that the Council might not have funds available to meet its payment commitments; and
- **market risk** – the possibility that a financial loss might arise for the Council as a result of movements in interest rates.

The Council's annual treasury management strategy focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written policies within its treasury management strategy covering interest rate risk, credit risk and the investment of surplus cash balances.

(i) Credit Risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers. Investments are not placed with credit rated banks and other financial institutions unless they have a minimum credit rating of Short-term P1, or F1 (based on Moody's and Fitch ratings respectively). Some investments are placed with Building Societies that do not have a formal credit rating. This policy is dictated by the size of the Society (minimum £1billion Assets) and is grounded upon the strict regulatory regime with which all building societies must comply. The Council has a policy of not lending more than £4million of its surplus balances to any one institution with no more than 50% held as non-specified investments i.e. investments with a period to maturity of more than one year or placed with an institution without a formal credit rating.

The following analysis summarises the Council's potential maximum credit risk exposure, based on the experience gathered over the last five financial years, on the level of default on loans and receivables and adjusted for current market conditions:

	Value at 31 March 2010 £000	% Default based on previous experience	% default adjusted for current market conditions	Estimated maximum exposure to default £000
Deposits with banks and other financial institutions	22,347	Nil	Nil	0
Customers	4,210	1.18%	2.07%	87
				<b>87</b>

The Council does not expect any losses in respect of non-performance by counter-parties in relation to its wholesale deposits.

The Council does not generally allow credit to its customers, so £0.753million of the current value at 31 March 2010 of £8.065million is past its due date for payment. The aged-debt analysis of this sum is as follows:

	£000
Less than 3 months	548
3-6 months	205
<b>Total</b>	<b>753</b>

The Council maintains a bad debt provision to provide for the non payment of trade debtors. The movement in 2009/10 was as follows:

	£000
Opening Balance	121
Write Offs in Year	(3)
Decrease to Provision	(31)
<b>Closing Balance</b>	<b>87</b>

(ii) Liquidity Risk

As the Council has ready access to borrowing from either the Public Works Loans Board, or from other financial institutions in the money market, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The major risk facing the Council is that it will be bound to refinance nearly all of its long term borrowing in 2020, when interest rates may be less favourable than at present. However the current policy of the Council is not to refinance any of this debt at the moment due to the significant redemption premium it would be required to pay to the lender. This position will be reviewed as the loan moves nearer to maturity in the light of interest rates prevalent at the time. There are no other identified borrowing requirements in place at 31 March 2010.

The maturity analysis of loans and borrowings within financial liabilities is as follows:

	£000
Less than 1 year	2,541
1 - 2 years	0
2 - 5 years	0
Over 5 years	15,000
<b>Total</b>	<b>17,541</b>

(iii) Market Risk

The Council is exposed to some risk due to movements in interest rates on its loans and investments. As nearly all of the Council's borrowing and investments have been placed at fixed rates, this risk has to a large extent been minimised. Nevertheless, there remain some risks:

- An increase in interest rates will result in a fall in the fair value of borrowings and investments.
- A decrease in interest rates will result in a rise in the fair value of borrowings and investments.
- The value of interest received from investments will rise or fall depending in increases and decreases in interest rates and will impact on the Income and Expenditure Account.

Borrowings and investments are not carried in the Balance Sheet at fair value, so nominal gains and losses on fixed rate financial instruments have no impact on the Income and Expenditure Account or the Statement of Total Recognised Gains and Losses.

The Council carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections. The Treasury Management Strategy also advises on the limits for new variable and fixed-rate borrowing for the year. No new borrowing was undertaken in 2009/10.

## 5.24 Stock and Work in Progress

2008/09 £000		2009/10 £000
27	Work in Progress	49
<b>27</b>		<b>49</b>
53	Stocks:	49
131	Community Services	120
	Other	
<b>184</b>		<b>169</b>
<b>211</b>	<b>Total</b>	<b>218</b>

## 5.25 Insurance Provision

The Council has established a provision totalling £249,629 to meet insurance claims arising from public liability, employer's liability, motor vehicle and other claims. This figure is based on the estimated gross value of claims against the Council at 31 March 2010 and the insurance provision will therefore cover this value in full. However it is expected that £96,177 will be reimbursed by the Council's insurers and through other third party claims. Details of the movements in the year on the insurance provision are shown in note 5.26.

## 5.26 Movement in Provisions

The movement in the level of provisions held by the Council during 2009/10 is as follows: -

	Balance b/fwd at 1 April £000	Received in year £000	Used in year £000	Balance c/fwd at 31 March £000
Cemeteries Perpetuity Fund	86	0	0	86
Public Liabilities Claims	263	67	(80)	250
Other Provisions	481	615	(701)	395
Job Evaluation Back Pay Provision	1,362	0	(1,362)	0
<b>Total</b>	<b>2,192</b>	<b>682</b>	<b>(2,143)</b>	<b>731</b>

## 5.27 Trust Funds

The City Council holds the accumulated balances of a number of bequests for which it is the sole trustee.

Bequest	Purpose	2009/10 Income £	2009/10 Expenditure £	Assets at 31 March 2010 £	Liabilities at 31 March 2010 £
Richard Sewell	Established in 1920 to purchase items of interest for Tullie House Museum	1	0	443	0
EB Burton	Established in 1955 to purchase books for the Jackson Library	1	0	186	0
James Walter Brown	Established in 1930 to purchase books, pictures, maps and plans for the Jackson Library	2	400	609	0
Parker	Established in 1954 to benefit disabled children and other young residents of the city	2	0	1,329	0
District Nurses Amenity Fund	Established to provide amenities for nurses' homes and retirement allowances to nurses	9	0	7,123	0
<b>Total</b>		<b>15</b>	<b>400</b>	<b>9,690</b>	<b>0</b>

The Council also holds balances for two other charities, which it administers on behalf of the trustees. These balances are: -

Charity	Purpose	2009/10 Income £	2009/10 Expenditure £	Assets at 31 March 2010 £	Liabilities at 31 March 2010 £
Mary Hannah Almshouses	Registered Housing Association	18,809	13,524	265,018	8,432
Carlisle Educational Charity	To provide grants to students	9,017	9,935	210,748	0
<b>Total</b>		<b>27,826</b>	<b>23,459</b>	<b>475,766</b>	<b>8,432</b>

## 5.28 Summary of Movement on Reserves

Description	Restated Balance at 1 April 2009 £000	Gains/ (losses) in period £000	Transfers to/(from) reserves £000	Balance 31 March 2010 £000
Deferred Credits	20	0	0	20
Useable Capital Receipts	0	0	0	0
General Fund Reserve Balance	3,800	(6,486)	6,486	3,800
<b><u>Earmarked Reserves</u></b>				
<b>Capital</b>				
Lanes Capital Fund	296	0	15	311
CLL Reserve	522	0	0	522
Asset Investment Reserve	48	0	0	48
<b>Revenue</b>				
Projects Reserve	5,261	0	(4,210)	1,051
Collection Fund (Carlisle share)	0	0	0	0
Sure Start Reserve	134	0	(134)	0
EEAC Reserve	303	0	(26)	277
Transformation Reserve	0	0	1,479	1,479
Job Evaluation	399	0	94	493
Residents Parking	(79)	0	(18)	(97)
Licensing Reserve	14	0	0	14
Building Control Function	(23)	0	0	(23)
Routledge Reserve	42	0	0	42
Sheepmount Reserve	106	0	(14)	92
Conservation Fund	191	0	0	191
LSVT Warranties	488	0	0	488
<b>Total Earmarked Reserves</b>	<b>7,702</b>	<b>0</b>	<b>(2,814)</b>	<b>4,888</b>
<b><u>Other Reserves</u></b>				
Pension Reserve	(27,467)	(14,928)	(1,787)	(44,182)
Capital Adjustment Account	115,508	0	(1,836)	113,672
Revaluation Reserve	16,396	7,176	(94)	23,478
Collection Fund Adjustment Account	(40)	0	45	5
<b>Total Reserves</b>	<b>115,919</b>	<b>(14,238)</b>	<b>0</b>	<b>101,681</b>

Details of the purpose of each reserve held by the Council and the policy on their use are contained within the Council's Medium Term Financial Plan (MTFP). This document is updated annually and is subject to approval by full Council. The use of each reserve listed above is in accordance with the stated policy. A copy of the MTFP is available upon request from the Assistant Director (Resources).

## 5.29 Contingent Assets

### (a) Riverside (formerly Carlisle Housing Association (CHA))

At 31 March 2010 £306,580 (31 March 2009 £274,666) was due from Riverside under the terms of the Preserved Right to Buy (PRTB) sharing agreement made as part of the transfer of the Council's housing stock in 2002. This has been accrued into the 2009/10 accounts and has been reflected in the total for capital receipts received in the year. Under the terms of the

transfer the City Council will receive an agreed proportion of PRTB receipts for the first 15 years of the contract.

## **5.30 Contingent Liabilities**

### **(a) Home Housing Association**

During 1992/93 the City Council entered into a joint scheme with Home Housing Association to secure the development of two sites at Heysham Nursery and Gelt Road, Brampton to provide houses to rent. To fund the development programme, Home Housing Association have raised a total of £100million through a stock issue, which will mature in 2037. In order to enable Home Housing Association to raise private finance from institutional investors all participating authorities, of which there were 29 in total, were required to enter into a standard form of guarantee in which they jointly and severally guarantee the loan stock raised by Home Housing Association. The maximum liability of each authority under the guarantee is £100million but because the liability is jointly and severally guaranteed, authorities would obviously not be prepared to expose themselves to the risk, however remote, of having to meet the full liability of the stock issue under their individual guarantee. Accordingly there is a counter indemnity and contribution arrangement whereby each participating authority undertakes to reimburse any other authority, or authorities, paying more than their proportionate share of the guarantee. An authority's proportionate share is determined by reference to the estimated development expenditure in that authority's area. If the guarantee were called in, the worst situation for this Council would be that once it had recovered any contribution from other authorities it would be left to fund no more than the cost of the development in its own area. The guarantee figure as at 31 March 2010 was £2,299,000. This cost would be offset wholly, or partly, by the sums recovered from repossessing the units from Home Housing Association and selling them on.

### **(b) Municipal Mutual Insurance Ltd. (MMI)**

The Council may still have a liability under the scheme of arrangement entered into following the transfer of the assets and goodwill of MMI Ltd. to Zurich Municipal on the 1 April 1993. The liabilities of MMI Ltd. were not, however, transferred to Zurich Municipal and the company is exploring ways in which these liabilities can be transferred to another insurance company to enable MMI Ltd. to be wound up. MMI Ltd. did not make a claim in 2009/10 in respect of this potential liability. At 31 March 2010 the estimated maximum amount liable to clawback, in the event of the scheme being triggered, was £874,000. The directors of the company do, however, envisage a solvent 'run-off' when MMI Ltd is finally wound up, at which point all outstanding liabilities would be fully discharged.

### **(c) Riverside (Formerly Carlisle Housing Association (CHA))**

On 9 December 2002 the City Council completed the transfer of its housing stock to Riverside. Under the terms of the transfer the City Council is committed to providing, from the date of transfer, certain environmental and non-environmental warranties in favour of Riverside and lenders to the Association for periods of 25 years and 18 years respectively. The Council has insurance cover in place to meet the cost of claims arising from any breach of the environmental warranties in the first 12 years following the date of transfer. An earmarked reserve to the value of £488,000 has also been set up to meet the future cost of insurance premiums in years 13 to 25 (£292,000) and the potential costs of any future claims (£196,000). In the period from the date of the transfer to 31 March 2010, the Council has not received any claims in respect of either environmental or non-environmental warranties.



### 5.31 Disclosure of Net Pension Assets/liabilities

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

The Council participates in the Local Government Pension Scheme as administered by Cumbria County Council. This is a funded scheme which means that both the Council and employees, who are members of the Scheme, pay contributions into a fund independent of the Authority's own assets. The contributions are calculated at a level estimated to balance the pension liabilities with investment assets.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather when the benefits are eventually paid as pensions. However, the charge that is made against council tax is based on the cash payable in the year, resulting in the real cost of providing retirement benefits being reversed out in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during 2009/10.

2008/09 £000		2009/10 £000
	<b>Income &amp; Expenditure Account</b>	
	<u>Net Cost of Services</u>	
2,627	Current Service Costs	1,774
0	Past Service Costs	0
306	Curtailment Cost	2,484
	Net Operating Expenditure	
7,039	Interest cost	6,885
(5,473)	Expected return on assets in the scheme	(4,349)
<b>4,499</b>	<b>Net Charge to the Income &amp; Expenditure Account</b>	<b>6,794</b>
	<b>Statement of Movement on the General Fund Balance</b>	
4,499	Reversal of net charge made for retirement benefits in accordance with FRS17	6,794
(2,715)	Actual amount charged against the General Fund Balance for pensions in the year	(5,007)
<b>1,784</b>	<b>Contribution (to) / from Pension Reserve</b>	<b>1,787</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £14,928,000 (£2,583,000 gain in 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is an £18,452,000 loss.

**(a) Assets and Liabilities in relation to Retirement Benefits**

Reconciliation of present value of the scheme liabilities:

<b>31 March 2009 £000</b>		<b>31 March 2010 £000</b>
115,724	Benefit Obligation at beginning of period (1 April)	98,203
2,627	Current Service Cost	1,774
7,039	Interest Cost	6,885
898	Member Contributions	929
0	Past Service Cost	0
(24,195)	Actuarial (gains)/losses on liabilities	30,549
306	Curtailments	2,484
(4,196)	Benefits/transfers paid	(5,170)
<b>98,203</b>	<b>Benefit Obligation at end of period (31 March)</b>	<b>135,654</b>

Reconciliation of Fair Value of the scheme assets:

<b>31 March 2009 £000</b>		<b>31 March 2010 £000</b>
87,282	Fair Value of plan assets at beginning of period (1 April)	70,736
5,473	Expected return on plan assets	4,349
(21,436)	Actuarial gains/(losses) on assets	15,621
2,715	Employer Contributions	5,007
898	Member Contributions	929
(4,196)	Benefits/transfers paid	(5,170)
<b>70,736</b>	<b>Fair Value of plan assets at end of period (31 March)</b>	<b>91,472</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £19,970,000 (2008/09: a loss of £15,963,000).

**(b) Scheme History**

	2004/05*	2005/06*	2006/07*	2007/08 (as restated)	2008/09	2009/10
	£	£	£	£	£	£
Present value of liabilities	91,286	104,351	104,497	115,724	98,203	135,654
Fair Value of assets	68,733	83,428	88,631	87,282	70,736	91,472
<b>(Surplus)/Deficit in the scheme</b>	<b>22,553</b>	<b>20,923</b>	<b>15,866</b>	<b>28,442</b>	<b>27,467</b>	<b>44,182</b>

\* The Council has elected not to restate the fair value of scheme assets for 2004/05 to 2006/07 as permitted by FRS 17 (as revised).

The liabilities show the underlying long-term commitments that the Council has to pay in respect of retirement benefits. The total liability of £44.182 million has had a significant effect on the net worth of the authority as shown in the balance sheet, but statutory arrangements to deal with the funding deficit mean that the financial position of the Council remains healthy. The deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, following an assessment by the scheme's actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £2.299million.

**(c) Basis for Estimating Assets and Liabilities**

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 Council's liabilities within the Cumbria County Council Pension Fund have been assessed by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, with estimates being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations are:

2008/09		2009/10
	Long-term expected rate of return on assets in the scheme:	
7.50%	Equity investments	7.5%
4.00%	Government Bonds	4.5%
6.00%	Other Bonds	5.2%
6.50%	Property	6.5%
0.50%	Cash/Liquidity	0.5%
7.50%	Other	7.5%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.20	Men	21.20
24.00	Women	24.10
	Longevity at 65 for future pensioners:	
22.20	Men	22.20
25.00	Women	25.00
3.30%	Rate of Inflation	3.30%
5.05%	Rate of Increase in Salaries	5.05%
3.30%	Rate of increase in Pensions	3.30%
50.00%	Proportion of employees opting to take a commuted lump sum	50.00%
7.10%	Rate of discounting Scheme Liabilities	5.60%

Assets in the County Council Pension Fund are valued at fair value, mainly market value for investments, and consist of the following categories by proportion:

2008/09			2009/10	
%	Expected Return		%	Expected Return
49.7	7.50%	Equity Investments	53.1	7.50%
20.5	4.00%	Government Bonds	20.4	4.50%
8.9	6.00%	Bonds	9.8	5.20%
6.3	6.50%	Property	5.8	6.50%
2.3	0.50%	Cash/Liquidity	2.3	0.50%
12.3	7.50%	Other Assets	8.6	7.50%
<b>100.0</b>			<b>100.0</b>	

#### (d) History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2010.

	2004/05	2005/06	2006/07	2007/08 (as restated)	2008/09	2009/10
	%	%	%	%	%	%
Differences between expected and actual return on assets	3.10	12.70	0.50	7.40	30.30	17.10
Experience gains and losses on liabilities	1.80	1.70	0.00	0.70	0.00	0.00

The movement on the net pension liability during the year is as follows:

2008/09 £000		2009/10 £000
(28,442)	Net Pension Liability at 1 April	(27,467)
	<b>Movements in year:</b>	
(2,627)	Current Service Cost	(1,774)
2,715	Employers Contributions payable to the scheme	5,007
(306)	Past Service Costs/Curtailment Costs	(2,484)
(7,039)	Interest Cost	(6,885)
5,473	Expected Return on assets in the scheme	4,349
2,759	Actuarial Gains / (Losses)	(14,928)
<b>(27,467)</b>	<b>Net Pension Liability at 31 March</b>	<b>(44,182)</b>

The annual report of the Cumbria Pension Fund is available from Cumbria County Council, The Courts, Carlisle.

### 5.32 Government Grants Deferred Account

Grants and contributions used to finance the acquisition of a fixed asset are credited to the Deferred Government Grant Account and written off to the Income and Expenditure Account over the life of the asset, thereby off-setting the depreciation charge for the asset.

2008/09 £000		2009/10 £000
8,660	Opening Balance	9,344
1,003	Grant received in year	3,727
244	Contributions received in year	152
(563)	Grant Amortised to Income & Expenditure Account	(1,800)
<b>9,344</b>	<b>Closing Balance</b>	<b>11,423</b>

### 5.33 Prior Period Adjustment

There is one amendment to the accounting policies adopted by the Council as a result of the 2009 SORP that required significant changes to the 2008/09 comparative information. This

relates to the requirements under the 2009 SORP to classify the Council acting as a Billing Authority for Council Tax and National Non-Domestic Rates as an agency arrangement with the major preceptors and Government respectively. Previously the Balance Sheet included all Local tax debtors and creditors and the Cash Flow Statement all related cash flows. Under the 2009 SORP only the Council's share of these balances, and the amount owed to/due from the major preceptors or Government and the Council's share of cash flows will be included. The change in accounting policy has had a significant impact on the Council's balance sheet and the restatements required are outlined below. Although the impact on the Income and Expenditure Account, Statement of Total Recognised Gains and Losses and Cash Flow Statement were much less significant, the restatements are also outlined below.

### Impact of Accounting Policy Change on the Balance Sheet for 2008-09

	2008/09 £000	C Tax Adjustments £000	NNDR Adjustment £000	Restated 2008/09 £000
Debtors	8,652	(734)	(950)	6,968
<b>Adjustment to Current Assets</b>		<b>(734)</b>	<b>(950)</b>	
Creditors	(5,065)	16	(412)	(5,461)
Receipts in Advance	(3,506)	718	1,362	(1,426)
<b>Adjustment to Current Liabilities</b>		<b>734</b>	<b>950</b>	
<b>Net Adjustments to assets and liabilities</b>		<b>0</b>	<b>0</b>	
<b>Reserves</b>				
Collection Fund Reserve	(41)	41	0	0
Collection Fund Adjustment Account	0	(41)	0	(41)
<b>Adjustments to reserves</b>		<b>0</b>	<b>0</b>	

### Impact of Accounting Policy Change on the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses

There is a change in the amount of income that is recognised in the Income and Expenditure Account under the 2009 SORP.

	2008/09 £000	C Tax Adjustments £000	Restated 2008/09 £000
<b>Restatement of Income and Expenditure</b>			
Precept Demanded From Collection Fund	(6,683)	6,683	0
Council Tax Surplus	(33)	33	0
Council Tax Income	0	(6,659)	(6,659)
<b>Income recognised in I&amp;E</b>	<b>(6,716)</b>	<b>57</b>	<b>(6,659)</b>
<b>Restatement of STRGL</b>			
Collection Fund	57	(57)	0

### Impact of Accounting Policy Change on the Cash Flow Statement

Under the SORP 2009 the Council only includes its own share of Council Tax cash collected under Revenue Activities, the difference between the Council's share of the net cash collected from Council tax payers and the net cash paid to major preceptors and settlement of the previous year's surplus on the Collection Fund is included as a net increase/decrease in other liquid resources. Cash collected from NNDR taxpayers and paid into the national pool is no

longer included under Revenue Activities in the Cash Flow Statement. The difference between the net cash received from NNDR taxpayers and the amount paid into the pool is included in the management of liquid resources as a net increase/decrease in other liquid resources.

	2008/09 £000	C Tax Adjustments £000	NNDR Adjustments £000	Restated 2008/09 £000
Net Cash (Inflow)/Outflow from Revenue Activities	(1,738)	(296)	720	(1,314)
Net (Increase)/Decrease in Other Liquid Resources	0	296	(720)	(424)
<b>Adjustment to Net Increase/Decrease in Cash</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The change in accounting policy has also had a material effect on the 2009-10 Balance Sheet, there would not have been a material impact on the Income and Expenditure Account or the Cash Flow Statement.

#### Impact of Accounting Policy Change on the Balance Sheet for 2009/10

	Actual 2009/10 £000	C Tax Adjustments £000	NNDR Adjustments £000	Under previous policy 2009/10 £000
Debtors	8,065	794	509	9,368
<b>Adjustment to Current Assets</b>	<b>0</b>	<b>794</b>	<b>509</b>	<b>0</b>
Creditors	(5,811)	(37)	(12)	(5,860)
Receipts in Advance	(1,951)	(757)	(497)	(3,205)
<b>Adjustment to Current Liabilities</b>	<b>0</b>	<b>(794)</b>	<b>(509)</b>	<b>0</b>
<b>Net Adjustments to assets and liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Reserves</b>				
Collection Fund Reserve	0	5	0	5
Collection Fund Adjustment Account	5	(5)	0	0
<b>Adjustments to reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 5.34 Events after the Balance Sheet Date

There are no events after the balance sheet date which require disclosure.

### 5.35 Authorisation for Issue

The Statement of Accounts were authorised for issue on 29 June 2010 by the Assistant Director (Resources), Peter Mason CPFA. This is the date up to which post balance sheet events have been considered.

## Cash Flow Statement

The cash flow statement for 2009/10 summarises the inflows and outflows of cash to and from the Council arising from transactions with third parties for both revenue and capital.

### 5.36 Reconciliation of Income and Expenditure Deficit to the Revenue Activities Net Cash Flow

Restated 2008/09 £000		2009/10 £000
11,168	(Surplus) / Deficit for the year	6,486
	<b>Non Cash Transactions</b>	
(10,237)	Depreciation and Impairment charges	(3,858)
563	Amortisation of government grants	1,800
(20)	Gain/(Loss) on sale of fixed assets	50
50	Movement on Capital Grants unapplied to fund revenue expenditure	(3)
(1,784)	Pension (FRS17)	(1,787)
0	Collection Fund (City Council share)	0
(11,428)		(3,798)
	<b>Items on accruals basis</b>	
14	Increase/(decrease) in stocks	7
(1,149)	Increase/(decrease) in debtors	(1,030)
(1,246)	(Increase)/decrease in creditors	607
(2,381)		(416)
	<b>Items shown elsewhere in the Statement</b>	
(1,298)	Interest payable	(1,295)
2,625	Interest receivable	844
1,327		(451)
(1,314)	<b>Net Cash Flow from Revenue Activities</b>	<b>1,821</b>

### 5.37 Reconciliation of Cash Flow to Net Debt

Restated 2008/09 £000		2009/10 £000
1,071	Increase/(Decrease) in cash	(1,399)
4,376	Cash outflow from reduction in liquid resources	378
964	Cash outflow from (increase)/decrease in debt	(1,985)
<b>6,411</b>	<b>Movement in Net Debt</b>	<b>(3,006)</b>
34	Finance Lease Written Out	0
1,979	Net debt at 1 April	8,424
<b>8,424</b>	<b>Net debt at 31 March</b>	<b>5,418</b>



### 5.38 (Increase)/Decrease in Financing and Management of Liquid Resources

	Net (Debt)/ Funds 31 March 2009 £000	Cash Flow in Year £000	Other Movement £000	Net (Debt)/ Funds 31 March 2010 £000
Cash in hand and at bank	914	(799)	0	115
Overnight money market deposits	600	(600)	0	0
	1,514	(1,399)	0	115
<b>Debt:</b>				
Temporary Loans	0	(2,000)	0	(2,000)
Finance Lease	0	0	0	0
Local Bonds and Mortgages	(60)	4	0	(56)
Stock Issue	(15,000)	0	0	(15,000)
	(15,060)	(1,996)	0	(17,056)
Other Borrowing	(26)	11	0	(15)
	(15,086)	(1,985)	0	(17,071)
Short Term Investments (Liquid Resources)	22,000	(2,000)	0	20,000
NNDR receipts over/underpaid to Government	(414)	2,801	0	2,387
Council Tax receipts under/overpaid to major preceptors	410	(423)	0	(13)
	21,996	378	0	22,374
<b>Total Net (Debt)/Funds</b>	<b>8,424</b>	<b>(3,006)</b>	<b>0</b>	<b>5,418</b>

### 5.39 Liquid Resources

Liquid resources include government securities and other short-term cash deposits and movement on NNDR and Council Tax receipts over/under paid to Government or major preceptors.

## 5.40 Analysis of Other Government Grants

2008/09 £000		2009/10 £000
6,170	Council Tax Benefit Grant	6,870
826	Housing Benefit Administration Grant	919
11	Other Grants from Dept. of Work and Pensions	26
76	Homelessness	99
79	Achieving Cumbrian Excellence	0
100	Planning Delivery Grant	132
954	Economic Renaissance	1,114
149	Longtown Market Town Initiative	7
818	Local Authority Business Growth Incentive Scheme	37
462	Concessionary Fares	504
302	Housing	1
0	Growth Point	165
140	Other	110
<b>10,087</b>	<b>Total</b>	<b>9,984</b>

## SECTION 6 – SUPPLEMENTARY FINANCIAL STATEMENTS

### 6.1 The Collection Fund

31 March 2009 £000		Note	31 March 2010	
			£000	£000
	<b>Income</b>			
44,705	Council Tax	6.2(c)	45,948	
33,775	Income from Business Ratepayers		34,449	
6,171	Income from the General Fund - Council Tax Benefit		6,854	
<b>84,651</b>	<b>Total Income</b>			<b>87,251</b>
	<b>Expenditure</b>			
	Precepts and Demands	6.2(d)		
38,288	Cumbria County Council		39,021	
6,179	Cumbria Police Authority		6,445	
6,683	Carlisle City Council		6,899	
51,150				52,365
	Business Rates			
33,594	Payments to National Pool		34,266	
181	Allowance for cost of NNDR collection		183	
33,775				34,449
	Bad and Doubtful Debts - Council Tax			
(78)	Write offs		(57)	
203	Provisions		169	
125				112
	Contribution:			
33	Adjustment of Previous Years' Collection Fund Surplus			(17)
(432)	Movement on Fund Balance			342
<b>84,651</b>	<b>Total Expenditure</b>			<b>87,251</b>
	<b>Collection Fund Balance</b>			
129	Fund Balance at 1 April			(302)
(431)	Surplus/(Deficit) for Year			342
<b>(302)</b>	<b>Fund Balance at 31 March</b>			<b>40</b>

On the basis that surpluses and deficits are shared with the County Council and the Police Authority, the Council has accounted for the Collection Fund balance in its 2009/10 Statement of Accounts as follows:

- The £39,313 surplus is accounted for in line with the SORP2009 guidance, with the Council acting as the major precepting authorities' agent in the collection of Council Tax. The £5,191 Carlisle share of the surplus is shown as a balance on the Collection Fund Adjustment Account. The £29,285 share attributable to the County Council and the £4,837 attributable to the Police Authority is used in the calculation for the difference in cash collected on behalf of the precepting authorities and that paid out to them and the corresponding year end debtor or creditor in the Balance Sheet.

## 6.2 Notes to the Collection Fund

### (a) General

The Collection Fund was established under the Local Government Finance Act 1988 and amended under the Local Government Finance Act 1992 with the introduction of council tax in April 1993. The Fund records the collection and distribution of amounts due for council tax and non-domestic rates. The balance on the Fund is included in the Council's Balance Sheet.

The surplus or deficit on the Collection Fund is distributed between the Council (as billing authority), Cumbria County Council and Cumbria Police Authority on the basis of estimates of the year end balance made on the 15 January each year. Any surplus or deficit on the Collection Fund is carried forward to the following financial year and will affect the level of council tax to be raised for that year.

The surplus on the Fund at 31 March 2010 was £39,313.

### (b) Council Tax base calculation

The council tax base set for 2009/10, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	46.50	5/9	25.84
A	18,346.50	6/9	12231.01
B	9,791.25	7/9	7615.43
C	6,261.00	8/9	5565.34
D	4,589.50	9/9	4589.5
E	2,291.75	11/9	2801.03
F	899.50	13/9	1299.28
G	299.75	15/9	499.61
H	19.75	18/9	39.5
	<b>42,545.50</b>		<b>34,666.54</b>
Second Homes	172.13		172.13
Relevant Amount	<b>42,717.63</b>		<b>34,838.67</b>
Estimated Collection Rate			98.50%
<b>Council Tax Base = Relevant Amount (Band D Equivalent) x Collection Rate</b>			<b>34,316.09</b>

### (c) Income from Business Ratepayers

National Non-Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (46.2p in 2008/09 and 48.5p in 2009/10), and local businesses pay an annual NNDR bill calculated by multiplying the rateable value of their business premises by this annual rate. The Council is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into an NNDR Pool administered by the Government. The

Government then redistributes the sums paid into the Pool back to Local Authorities on the basis of a fixed amount per head of population.

The NNDR income after reliefs and provisions of £34.449 million was based on a total rateable value for the Council's area of £83,618,437 for the year (£82,919,814 in 2008/09). The Council received £8,384,844 from the NNDR Pool in 2009/10.

(d) Billing and Precepting Authorities

Carlisle City Council is the billing authority for council tax and NNDR bills and therefore collects all the income due for the year. The Council pays over to Cumbria County Council and Cumbria Police Authority amounts they have requested to provide their services in the Council area. These sums are known as precepts and for 2009/10 the values were: -

2008/09 £		2009/10 £
6,682,961	Carlisle City Council	6,899,106
38,287,819	Cumbria County Council	39,020,633
6,178,587	Cumbria Police Authority	6,444,794

Included in the amount for the City Council is a precept of £424,808 (2008/09: £404,950) which is collected behalf of Parish Councils. This is paid in full directly from the Council's Income and Expenditure Account.

## SECTION 7 – ANNUAL GOVERNANCE STATEMENT

### Scope of Responsibility

Carlisle 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, 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, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/Solace Framework “*Delivering Good Governance in Local Government*”.

This statement explains how the Council has complied with the Code.

### The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the Statement of Accounts.

### The Governance Framework

The following are the key elements of the systems and processes that comprise the Council's governance arrangements:

#### **The Council's vision of its purpose and intended outcomes**

The Council's vision is proposed by the Executive as part of the draft Corporate Plan which is then debated and agreed by full Council. This vision is then communicated through the Corporate Plan itself, and the Summary Corporate Plan which is working document for staff and members. An annual report will communicate the outcomes and performance of the plan to residents.

## **The Council's vision – implications for governance arrangements**

The Corporate Plan is periodically reviewed with Members to ensure that the vision and priorities are still relevant and constant with Members' aspirations. Arrangements for Overview and Scrutiny are reviewed every year as part of the annual report - thus ensuring consistency with corporate priorities. Portfolios on the Executive are reviewed every year by the Leader of the Council.

## **Measuring the quality of service for users**

The Council's performance management framework ensures that elected Members and officers monitor performance in key service areas on a regular basis. User satisfaction has in the is measured through a variety of channels and media, such as the Place Survey (User and resident) Satisfaction survey every two years (with a tracker survey annually in the intervening years). The Council has identified a number of areas for improvement with regard to profiling of customers and providing accessibility to services - these will be addressed through the Customer Services review and programmed work to reaching Equality Framework 'Achieving' Level.

## **Roles and Responsibilities**

The City Council comprises 52 elected Members and holds elections by thirds in three years out of every four. The Council operates executive arrangements under the Local Government Act 2000 and has done so since September 2001. After consultation, the Council chose to implement the "strong Leader" model authorised by the legislation, whereby the Council appoints the Leader who then nominates his Executive Portfolio Holders and decides the scope of their briefs and the extent of delegated powers to each.

Currently, the Executive comprises the Leader and five additional Executive Members, one of whom the Leader has nominated as Deputy. The operation of the Executive itself is prescribed by the Executive Procedure Rules set out in the Council's Constitution. It meets normally on a four-weekly cycle, with the Leader having oversight over both the agenda and the Forward Plan of key decisions to be considered by the Executive over the coming four months.

The Leader has set out the powers and responsibilities that he has delegated to both Portfolio Holders and Officers in an extensive Scheme of Delegation, incorporated into the Constitution, that he reviews at least annually and usually more frequently. All decisions made by the Executive, whether collectively or individually, are properly recorded and subject to call in and scrutiny by the Council's Overview and Scrutiny Panels. As a separate notation, the Council's Constitution also sets out a detailed person specification, prescribing the functions and responsibilities which the Council expects of the Leader and Portfolio Holders for the purposes of transparency and accountability.

Under the Executive arrangements, the full Council is responsible for setting the Council's budget and its policy framework within which the Executive must operate. The Council has also established a series of Overview and Scrutiny Panels of which, currently, there are three (Community, Environment & Economy, and Resources). These Committees undertake the statutory scrutiny role set out in the Act and assist with examining and commenting on those policies proposed by the Executive for adoption as part of the policy framework. The three Panels are supported by a dedicated Scrutiny Officer who services solely the scrutiny function of the Council to ensure transparency in the process. Each Panel also has a nominated member of the Council's Senior Management Team to support it in its scrutiny function. The operation of the scrutiny function is set out in the Overview and Scrutiny Procedure Rules in the Council's Constitution.

The executive/scrutiny functions of the Council are supplemented by a number of regulatory Committees, established to deal with development control, licensing and certain non-executive

employment matters. Their powers and Terms of Reference are set out in the Constitution, together with the extensive delegated powers given by the Council to both the Committees and officers in respect of the various matters falling within the responsibility of the Committees. These powers are reviewed and approved by the Council annually.

The Council has an officer structure which changed substantially throughout 2009/10 as part of the transformation process, and which now comprise a Chief Executive, a Deputy Chief Executive, a Strategic Director and five Assistant Directors.

The Chief Executive, Deputy Chief Executive and Directors comprise the Senior Management Team (SMT) which meets on a weekly basis, to discuss corporate issues.

### **Codes of Conduct and Standards**

The Council has formally adopted the statutory Code of Conduct for its elected Members, without modification. It forms part of the Council's suite of constitutional documents and all Members undertake to adhere to its provisions as part of their Declaration of Acceptance of Office when elected.

Oversight of the Members' Code of Conduct, to ensure both compliance and the proper training of Members, rests with the Council's Standards Committee, which currently comprises twelve Members and has an independent Chair. Training on both the Code itself and the ethical principles behind it is provided to all newly elected Members of the Council as part of the standardised induction process. Further training for Members on particular relevant Standards issues is provided by way of follow-up sessions as issues arise and this is supplemented by the production of regular in-year newsletters to Members which highlight topical Standards issues and matters to be aware of.

The Members' Code of Conduct is supplemented by a protocol governing Member and Officer working which was adopted by the Council as an additional guide to the Council's expectations and its cultural approach to the day-to-day working relations between Members and Officers. Training on this is again provided as part of the Member Induction Programme. Other supplemental guidance documents, adopted by the Council to assist with probity and best practice, include the Planning Code of Conduct for those Members serving on the Development Control Committee and the Members' Protocol on the Use of IT provided by the Council. Training is again provided in the Member Induction Programme. In-year training is also given to Members of the Development Control and Licensing Committees on the specialist issues and considerations that arise because of the particular work of those Committees.

At present, the Council does not have a formal "Officer Code of Conduct", however a draft code has been prepared and is currently being considered by SMT and members of the Employment Panel before its formal adoption. There is also a formal Induction procedure for all new staff, supplemented by other information e.g. the Constitution, Disciplinary procedures, etc.

During the year, the Authority participated in the Audit Commission's "Ethical Governance Diagnostic Survey for Members and Officers". Although the level of response was disappointing, it was nonetheless better than many other Authorities. The Audit Commission's report, together with the Action Plan, was referred to the Members' Learning and Development Group and to the Senior Management Team to take the necessary action to improve the level of awareness of Members and officers on ethical governance issues as part of the Authority's training programme. Further training has been provided to the Authority's Management Conference and a training schedule is being developed to raise awareness in Governance issues across the Council.



## **Standing Orders/Financial Procedure Rules**

The Council's Contracts Procedure Rules and Financial Procedure Rules, together with the extent of delegation to officers in these areas, are set out extensively in the Council's Constitution. They define the overarching rules governing procurement by the Council and the powers and constraints on Members and officers in respect of the exercise of financial powers. The core documents, including authorised levels of spend and virement and "key decision" financial limits, are reviewed at least annually (and more frequently if circumstances arise) and updated by the Council.

In terms of risk assessment, this is overseen in the Council by a formal Risk Management Group made up of relevant officers and the Portfolio Holder for Governance and Resources. A representative from Marsh Ltd – the Council's Insurance Brokers/Advisers - is also in attendance. The Group oversees the compilation and updating of both the corporate and operational risk registers maintained by the Council, where the main corporate and directorate-specific risks faced by the Council are scored against an agreed matrix and appropriate steps identified to mitigate such risks as far as possible. All risks are monitored through the management monitoring function of Covalent, the Council's performance management system.

During the year, the Authority participated in the Audit Commission's "Changing Organisational Culture: Fraud Awareness" survey. The results of the survey demonstrated that there is a greater awareness of the Authority's counter fraud and corruption arrangements than the average for other Authorities - and that the level of awareness has improved since the previous survey in January 2007. The report, together with the Action Plan, has been referred to the Senior Management Team in order for them to arrange training and awareness-raising sessions for all staff on conduct issues and the various regulations and policies referred to in the Action Plan.

## **Financial Management Arrangements**

The main controls for financial management are set out in the Constitution – these are the Budget and Policy Framework and the Financial Procedure Rules. These cover the arrangements for Financial Management, Financial Planning, Risk Management and Control of Resources, Financial Systems and Procedures and External arrangements. The Council also complies with the Prudential Framework for Local Authority Finance.

The Council has a Medium Term Financial Planning process (MTFP) which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the Joint Management Team (previously through the Strategic Planning Group), which consists of the Executive Members and SMT. The MTFP for 2011/12 to 2015/16 will be presented to Executive, ROSP and Council between July and September 2010.

Regular meetings are held with identified budget managers, from which budget-monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and Resources Overview and Scrutiny Panel. The Authority is committed to improving the effectiveness of its budget monitoring arrangements and in strengthening the links between budget and performance monitoring.

The annual Statement of Accounts has been produced to statutory deadlines, and year-end actual results are reported against budgets. The Summary Revenue Accounts are shown within the explanatory foreword, comparing actual results against revised budgets. Out-turn reports produced for revenue and capital expenditure are presented to the Audit Committee and are considered by Executive, ROSP and Council. The Authority is committed to making continuous improvements to comply with the Local Authority Statement of Recommended Practice and Financial Reporting Standards.

The Assistant Director (Resources) is the Council's Chief Financial Officer, is an experienced, qualified accountant and is a member of SMT and as such, has direct access to the Chief Executive, Audit Committee and External Audit.

### **Audit Committee**

As a means of ensuring best practice, the Council has established an Audit Committee to oversee the workings of the corporate governance arrangements of the Council and to report to Council on these and related financial probity issues. The Audit Committee operates in accordance with CIPFA's *"Audit Committees – Practical Guidance for Local Authorities"*. This is supplemented by the Council's Standards Committee, established under the Act to be responsible for conduct issues relating to elected Members.

### **Ensuring Compliance with Relevant Laws**

Systems are in place to ensure that appropriate legal and financial advice is provided at relevant points in the decision-making process to ensure the vires of decisions made by the Council. All reports to Members requiring a decision incorporate an addendum from both the Assistant Directors of Governance and Resources (who are the Monitoring Officer and Chief Finance Officer respectively). This ensures that checks are made on the legal and financial consequences of any course of action prior to a decision being made. Both Statutory Officers are also members of the Joint Management Team and the Senior Management Team to ensure that financial and legal advice is available at the inception when any issues relating to the Council's powers and duties are under consideration.

Similar representation by legal and financial officers is provided for on Officer Working Groups dealing with relevant policy issues so that a check is maintained on vires and financial issues at that level. Legal representation and advice is also provided as a matter of course at the Development Control and Licensing Committees to ensure that the quasi-judicial functions carried out by those Committees are undertaken lawfully.

The Council has a variety of methods of receiving updates in legislative changes. In addition to the departmental roles in keeping up to date with legislative, regulatory and guidance changes, the Council subscribes to a corporate legal updating service which provides for daily updates directly to officers. The usual method of direct notification of legislative changes by Central Government also occurs on an ongoing basis.

### **Whistle blowing and complaints**

The Council operates a formal Corporate Complaints System in accordance with best practice recommended by the Local Government Ombudsman, giving members of the public capacity to complain about aspects of the Council's services with which they may be dissatisfied. The objective of the complaints process is to endeavour to resolve the complaint satisfactorily at local level, rather than it being referred to the Ombudsman, although this, of course, is always an entitlement of the complainant if they remain dissatisfied with the Council's handling of the matter.

The basis of the corporate complaints process is that the relevant Directorate deals with the complaint initially but, in the event of the complainant still being dissatisfied, the process provides an internal Right of Appeal to a small panel of three elected Members who review the position. This includes a formal hearing at which the complainant may attend, in an endeavour to resolve the matter.

The Council has a Confidential Reporting Policy that is available to all members of staff on the Intranet.

### **Identifying the development needs of Members and senior officers**

The Council has a formal appraisal scheme, which is mandatory for all officers, including all senior managers. It is carried out each year and is prefaced by clear strategic positioning statement from the Senior Management Team (SMT). There is routine monitoring of compliance by SMT along with an annual report to Members of the Resources Overview and Scrutiny Panel. In addition the Council has opted to measure and report compliance publicly. It does this by asking all its employees in the annual Employee Opinion Survey, and reporting take-up of appraisal as a Local Performance Indicator.

Members also have their equivalent of appraisal known as Personal Development Review, again a formal scheme within a Framework approved by Council. This Framework for Member Learning and Development contains an analysis of all Members' roles including those of a strategic nature which is used to identify training needs for Members holding or aspiring to strategic office.

### **Clear channels of communication**

The City Council has recently revised its Communication Policy and Consultation Policy that clearly set out its commitment to high quality, timely, relevant communications and consultation that encourage feedback from all sections of its local communities. These policies underpin the Council's developing Community Empowerment and Engagement Policies that will ensure local peoples' involvement in the design and delivery of more responsive local services. The Council works closely with local groups representing those that are in a minority in our local communities, including those with a disability and ethnic minorities, to ensure that their communications and consultation needs are met.

### **Good governance in respect of Partnerships**

The Council's key governance arrangements and procedures ensure that partnerships are entered into for the right reasons, all factors/ implications are fully considered as part of the set-up process, the Council's role is clearly defined, expected outputs and outcomes are identified and the appropriate monitoring arrangements are in place. In all, the Council has robust managing arrangements in place and a clear framework in which to operate. It is important to note that whilst these central control mechanisms exist, the actual appliance of and delivery of partnerships is the responsibility of individual service areas. Key control measures are outlined below:

The Council has a robust Partnership Policy in place that provides guidance on the nature and risks of partnerships. This Policy includes a clear definition of a partnership and, more specifically, what constitutes a significant partnership. Responsibilities for setting up, delivering and monitoring partnerships are clearly defined both in the Policy and in general working practices.

The Corporate Partnerships Register, maintained by Financial Services, is the central monitoring tool used to track all partnerships in progress. Consideration is given towards Exit / Succession strategies (if appropriate) at the initial set up and as part of the Annual Review.

A Business Case model, based around good practice measures, is used for all new proposed partnerships. These are considered by SMT. Proposed significant partnerships are also reported to the Executive.

Appendix E of the Council's Financial Procedure Rules contains specific guidance on officers' duties and responsibilities regarding partnerships. A Flowchart provides an aid for officers to guide them through the partnership process. Supplementary guidance notes are also in place as well as the availability of one to one training and support to guide officers setting up new partnerships, through to annual reviews.

Operationally, risk assessments are maintained and shared with partners throughout the life of the partnership. Emerging significant risks are brought to the attention of the Council's Risk Management Group. Strategically, the Council manages the potential risk of new and existing partnerships through the Corporate Risk Register. The Corporate Risk Register is reviewed quarterly by the Risk Management Group and reported to Resources Overview and Scrutiny Panel and the Audit Committee.

Significant partnerships are subject to a robust set of measures. Annual reviews are undertaken for all significant partnerships, the results of which form part of the proposed annual summary reporting on partnership working arrangements. This reporting is co-ordinated by Financial Services and is considered by SMT and Executive.

### **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Audit Service Manager's annual report, and by comments made by the External Auditors and other reviewing agencies and inspectorates.

The following processes have been applied in maintaining and reviewing the effectiveness of the governance framework:

An effective Governance Framework is maintained by ensuring that the Council's Constitution is reviewed and up-dated on a regular basis. This includes both the Council's and the Leader's Schemes of Delegation for Directors and Chief Officers, and encompasses and defines the roles of the Council, the Executive and the standing Committees including Overview and Scrutiny, Standards Committee and the Audit Committee.

Regular meetings of the Council and its Committees are held during each year and all reports to the Executive include comments from the Assistant Director (Resources) (the Council's Chief Financial Officer) and the Assistant Director (Governance) – the latter also being the Council's Monitoring Officer. The aforementioned Assistant Directors also oversee the reports considered by the Council's Regulatory and Audit Committees.

The Council also undertakes a continuous review of its risk-management responsibilities by ensuring that each Directorate maintains an up-to-date Operational Risk Register. Any risks that are considered to affect the Council as a whole are incorporated into the Corporate Risk Register (CRR). This is reviewed and updated by the Corporate Risk Management Group that meets on a regular basis. Progress on the CRR is reported quarterly to Members.

In accordance with the requirements of the CIPFA Code of Practice for Internal Audit, the Audit Service Manager reports to the Audit Committee on a regular basis, to appraise Members of any emerging control/governance/risk issues. The Audit Service Manager also presents an annual report that includes a statement of assurance relating to the Council's overall standard of internal control.

A full review of the Council's Code of Corporate Governance has been undertaken and all of the requirements outlined in the CIPFA/SOLACE document "Delivering Good Governance in Local Government" have been assessed. Any areas where action is required to ensure that the Council meets all of the defined requirements are identified on the Action Plan that forms part of this Statement.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and Executive and a plan to address weaknesses and ensure continuous improvement of the system is in place, and is shown below:

Issue Identified	Target Date
A National Code of Conduct for Officers is still awaited.	No date is known for the publication of the national statutory Code of Conduct and in view of the delay a first draft has been completed which, following the consultation period, will be approved by a future Employment Panel in early 2010/11

## Significant Governance Issues

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

Signed on behalf of Carlisle City Council

..... Leader

..... Chief Executive

..... Date