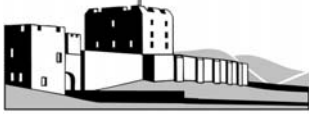


CARLISLE
CITY COUNCIL



www.carlisle.gov.uk

AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 22 JUNE 2007

Title: STATEMENT OF ACCOUNTS 2006/07

Report of: Director of Corporate Services

Report reference: CORP32/07

Summary:

The Council's Statement of Accounts 2006/07 (subject to Audit) is attached at Appendix 1. Once approved by Council on 28 June the statements will be subject to audit, which must be concluded by the statutory deadline of 30 September 2007. The results of the local performance indicators monitored by Financial Services are also included for information.

Recommendations:

The Committee is asked to consider the 2006/07 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.

Contact Officer: Alison Taylor

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 Audit Committee
22 June 2007

CORP32/07

STATEMENT OF ACCOUNTS 2006/07

1. BACKGROUND INFORMATION AND OPTIONS

- 1.1 The Accounts and Audit Regulations 2003 require that the City Council's Statement of Accounts for 2006/07 be submitted to full Council for approval by 30 June 2007.
- 1.2 The Statements reflect the summarised financial out-turn information which has recently been considered by the Executive and Corporate Resources Overview and Scrutiny Committee. However 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 2 July, 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 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 currently 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. LOCAL PERFORMANCE INDICATORS

- 2.1 The results of the local performance indicators for 2006/07 are shown below:

LP88 – General Fund Reserve as a % of net revenue expenditure

Target: £3.8m based upon £1m plus 20% of net revenue expenditure

Result: £3.8m

LP90 – Budget out-turn including slippage as a % of original gross budget

Target: +/-1%

Result: 0.41%

3. CHANGES ARISING FROM THE 2006 STATEMENT OF RECOMMENDED PRACTICE

- 3.1 At the Audit Committee meetings of the 21 January 2007 and 18 April 2007 the Director of Corporate Services reported that changes would be required to the format of the 2006/07 Statement of Accounts. Reference was made to the 2006 Statement of Recommended Practice (SORP) which considerably changed the way the Statement of Accounts would be presented. A presentation explaining the key changes was provided at the 18 April Audit meeting. The 2006/07 Statement of Accounts now presented incorporates the changes required in accordance with the SORP.
- 3.2 The 2005 SORP required the Council to prepare a Consolidated Revenue Account which summarises the amount the Council spends on its services and how this spending was paid for. This has been replaced by the 2006 SORP which requires:
- ◆ an Income and Expenditure Account, which provides information on the net cost of service provision;
 - ◆ a Statement of Movement on the General Fund, showing details of all transactions affecting the movement on the General Fund in the year;
 - ◆ a Statement of Total Recognised Gains and Losses.

These, together with the Balance Sheet and Cash Flow Statement, are now presented as the core financial statements of the Council for 2006/07. The core financial statements as defined above are now grouped together in one section and are followed by the explanatory notes to the financial statements, the Collection Fund (and associated notes) and other statements such as the Statement of Responsibilities for the Statement of Accounts and the Statement of Internal Control.

4. KEY ISSUES

- 4.1 As part of this meeting, a training session is being provided by IPF to members of the Audit Committee on the Role of the Audit Committee and the Final Accounts process. Key issues and the practical implications of scrutinising the Statement of Accounts will be provided.
- 4.2 An explanatory paper highlighting significant issues contained within the 2006/07 accounts will be provided as an addendum to this report. This will provide an interpretation of the main items within the accounts to which members attention is drawn.

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 Statement of Accounts and other documents between 2 July and 29 July 2007. Interested persons will also be able to question the Auditor about the accounts and make objections to the same with effect from 30 July 2007 (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.

It is intended that a summarised Statement of Accounts will again be produced to offer interested parties an easily understandable guide to the most significant matters reported in the accounts once the Statements have been audited. A set of Summarised Accounts for 2005/06 will be circulated for your comments and any feedback will inform the production of the 2006/07 summary accounts.

6. RECOMMENDATIONS

The Committee is asked to consider the 2006/07 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.

ANGELA BROWN
Director of Corporate Services

Contact Officer: Alison Taylor

Ext: 7280

**CARLISLE
CITY COUNCIL**



www.carlisle.gov.uk

STATEMENT OF ACCOUNTS

2006/07

SUBJECT TO AUDIT

STATEMENT OF ACCOUNTS

2006/07

CONTENTS

<u>Section</u>		<u>Page</u>
1.	Foreword	2
2.	Statement of Accounting Policies	6
3.	Statement of Responsibilities for the Statement of Accounts	13
4.	Core Financial Statements:	
	Income and Expenditure Account	14
	Movement on the General Fund	15
	Statement of Total Recognised Gains and Losses	15
	Balance Sheet	16
	Cash Flow Statement	18
5.	Notes to the Core Financial Statements	20
6.	Supplementary Financial Statements – Collection Fund	40
7.	Statement on Internal Control	43

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 2006/07.
- How these services were paid for.
- What assets the Council owned at the end of the financial year.
- 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 2007 has been produced by the Director of Corporate Services 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 Director of Corporate Services 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 the 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 & Expenditure Account, on the revaluation of fixed assets and on the pension fund assets and liabilities.
- (vi) The Balance Sheet
This shows information on the financial position of the Council at the 31 March 2007, 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) 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.
- (ix) The Statement of Internal Control
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 2006/07. More detailed information is shown in the Income and Expenditure Account on page 14.

	<u>General Fund</u> <u>2006/07</u>	
	<u>Revised</u> <u>Budget</u> £000	<u>Actual</u> £000
Net Expenditure on Services (including Trading Operations)	17,871	15,578
Parish Precepts	335	335
Interest Payable	1,324	1,293
Interest Receivable	(1,600)	(1,664)
Sub total	<hr/> 17,930	<hr/> 15,542
Transfers to/(from) Specified Reserves	(1,938)	450
Other transfers	0	(1,065)
Net Operating Expenditure	<hr/> 15,992	<hr/> 14,927
Statutory items on Income & Expenditure Account		
- to be excluded	0	(2,806)
- to be included	0	2,778
- other items	0	1,093
Total	<hr/> 15,992	<hr/> 15,992
Precept on Collection Fund	(6,076)	(6,076)
Government Grants		
- NNDR	(8,190)	(8,190)
- RSG	(1,581)	(1,581)
Council Tax Surplus	(145)	(145)
Sub total	<hr/> 15,992	<hr/> 15,992
Surplus / (Deficit) for the Year	<hr/> 0	<hr/> 0
General Fund Balance brought forward 1 st April 2006	(3,800)	(3,800)
Other transfers (to)/from the General Fund	0	0
General fund balance carried forward 31 st March 2007	<hr/> 3,800	<hr/> 3,800

The total reserves held by the Council total £119.992m as at 31 March 2007 (£110.087m at 31 March 2006). Further details can be found at paragraph 5.34.

A Revenue out-turn report for 2006/07 has been prepared which provides additional information on the year end position. This is available upon request from the Director of Corporate Services.

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 a deferred charge, because the spending does not generate an asset to the Council.

(i) Capital Expenditure

The Council's revised capital programme for 2006/07 was approved at £11.6 million. Overall capital spending for the year, however, totalled £9.3 million in 2006/07, resulting in slippage of £2.3 million to future years. The overall programme can be summarised as follows:

	<u>£000</u>	<u>£000</u>
<u>Deferred Charges</u>		
Renovation Grants	899	
Disabled Facilities Grants	466	
Energy Efficiency	25	
Housing Strategy	1,994	
DCLG Flood Grant	303	
Other Minor projects	462	
	<hr/>	4,149
<u>Capital Investment on Assets</u>		
Recycling Scheme	575	
Leisuretime Investment	75	
Planned Major Repairs	354	
Disability Discrimination Act	47	
IEG/Customer Contact Centre	175	
Sheepmount (including bridge)	132	
Talkin Tarn	978	
Cremators	212	
Equipment, Vehicles & Plant	951	
Play & Multi-Use Games Areas	422	
Flood related expenditure	582	
Civic Centre Building	203	
Energy Efficiency Schemes	70	
Back Lanes	106	
Other Schemes	259	
	<hr/>	5,141
		<hr/>
		9,290

The programme has been financed as follows:

Capital Receipts	6,171	
Specified Capital Grant	279	
Other Capital Grants and Contributions	2,344	
Revenue/Renewals Reserve	496	
	<hr/>	9,290
		<hr/>

A Capital out-turn report for 2006/07 has been prepared which provides additional information on the year end position. This is available upon request from the Director of Corporate Services.

(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 £15 million and a series of local bonds and mortgages with a value of £66,000 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 Carlisle Housing Association as part of the housing stock transfer agreed in 2002. At 31 March 2007, the value of capital receipts available to finance capital expenditure was £12.5m.

1.4 Significant Issues

(i) Flood and Storm Damage

The insurance flood claim was settled in May 2006 at a value in excess of £6.6m and the total cost of the flood was in excess of £7.9m. Spending on capital items is shown within the fixed assets on the balance sheet and revenue spending is shown as an exceptional item in the Income and Expenditure Account.

(ii) Statement of Recommended Practice (SORP) 2006

Significant changes to the Statutory Statements included within this set of accounts have been necessary following the implementation of the 2006 SORP. The Consolidated Revenue Account has been disaggregated into three separate statements: the Income and Expenditure Account, Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. To comply with proper accounting practice, it also been necessary to restate the 2005/06 accounts into the new format. Other changes as a result of the 2006 SORP result in a re-ordering of the Statements and supporting notes to the accounts.

1.5 Accounting Policy Information

The accounts of the Council comply with the relevant accounting practices laid down by the accounting standards authorities. As mentioned above, the 2005/06 accounts have been re-stated to reflect changes to accounting practices brought in by the 2006 Statement of Recommended Practice and the changes are reflected in these financial statements.

1.6 The Euro

The City Council has nominated a lead Officer to co-ordinate preparations for the Euro. It is intended that the first stages in the preparations for the Council will be to conduct a Euro Audit and set up an officer working group to co-ordinate work across the authority at the appropriate time.

1.7 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 Director of Corporate Services, Civic Centre, Rickergate, Carlisle.

SECTION 2 – STATEMENT OF ACCOUNTING POLICIES

2.1 General

The statement of accounts summarises the Council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2005 (the SORP). The accounting convention adopted is historic 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

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This includes 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
- £20,000 for expenditure on land, buildings and other structures.

Fixed assets are valued and included in the balance sheet on the basis recommended by the CIPFA Code of Practice and in accordance with the Practice Statements in the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual:

- Operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.
- Non-operational assets are valued and included in the balance sheet on the basis of open market value.
- Infrastructure and community assets are included in the balance sheet at historic cost for any acquisitions since 1 April 1994.

In accordance with the CIPFA recommended practice on capital accounting, assets are re-valued on a cyclical basis over 5 years.

(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 e.g. computer software programmes. 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.

(iii) Impairment

Every asset category that is depreciated, and material individual assets that are not being depreciated, is reviewed annually for evidence of reductions in value, or impairment. 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:

- Charging the relevant service where there is clear evidence of the consumption of economic benefits or,
- Charging the Fixed Assets Restatement Account with the loss in value in all other cases.

(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. All assets sold or disposed of are re-valued at the time of sale to correctly identify the gain or loss arising from the transaction and the value of the fixed assets held by the Council adjusted accordingly. If the value is reduced, the policy in place for impairment is followed.

2.3 Capital Charges

The 2006 SORP required changes to the treatment of capital charges for the use of assets by services. With effect from 1 April 2006, the requirement to charge services with a notional interest charge to reflect the use of council assets as part of the cost of service delivery was withdrawn. Services are now only charged with the cost of depreciation on the basis outlined in paragraph 2.4 below.

2.4 Depreciation

Depreciation is a charge that reflects the reduction in value of an asset as it gets older and its economic life reduces. It is calculated by apportioning the value of an asset over its finite useful life and therefore is only charged on those assets that have a finite useful life.

The useful life and methods of calculating depreciation for the various classes of assets held by the Council are as follows:-

<u>Asset Category</u>	<u>Rate</u>	<u>Basis</u>
Operational Land & Buildings	10-80 years	Straight-line
Infrastructure Assets	40-80 years	Straight-line
Operational Vehicles & Plant	3-25 years	Straight-line
Intangible Assets	3-20 years	Straight-line

Services and Trading Operations are charged annually with depreciation to reflect the use of assets owned by the Council in the delivery of their activities and these charges are therefore reflected in the Income and Expenditure Account.

2.5 Minimum Revenue Provision

The Council charges its Income and Expenditure account with amounts for depreciation, impairment losses and the write-off of government grants associated with capital spending. However 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 equals 4% of the Council's underlying capital financing requirement. The Council

has also decided to pay additional voluntary contributions to repay its outstanding borrowing. These sums are not reflected in the Income and Expenditure Account but in the Movement on the General Fund Balance and in the Capital Financing Account.

2.6 Leases

(a) Finance Leases

Rental payments under finance leases are apportioned between the finance charge, which is charged annually to the income and expenditure account, and the outstanding liability in respect of the capital value of the asset, which reduces as the lease payments are made.

(b) Operating Leases

Rentals payable under operating leases are charged directly to the Council's income and expenditure account on a straight-line basis over the life of the lease.

(c) Property Leases

The Council acts in the capacity as lessor for the lease of land and property it owns. Rents due under these leases are accounted for as they become due on an accruals basis. Lease arrangements are reviewed regularly by Property Services 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.

2.7 Deferred Charges

Some capital spending does not result in the creation of an asset and this spending is known as a deferred charge. It is Council policy to write off the value of deferred charges to services and reflect them in the income and expenditure account in the year they arise. The income and expenditure account is then adjusted to neutralise the effect of the write off on the amounts to be raised through Council Tax in the year.

2.8 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. They are known as usable capital receipts and the value held at 31 March 2007 is shown in note 5.34 to the accounts. Receipts from the sale of assets with a value of less than £10,000 are not treated as capital receipts but are reflected as revenue income and included in the Income and Expenditure Account.

2.9 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. Particularly: -

- Fees and charges and other receipts from customers are accounted for as income at the date the Council provides the relevant goods and services.
- 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.

- Interest paid or received is accrued and accounted for in the period to which it relates on a basis 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.
- Where there is an uncertainty that all the income accrued and accounted for will be collected, a provision for bad debts is created by a charge to the income and expenditure account, reflecting the value of the income that might not be collected

Significant debtors include provision for income receivable from HM Revenue and Customs (£0.102m) and a sum due from Cumbria County Council for Highways Claimed Rights work (£0.197m). Creditor provisions have been provided for outstanding income tax due to the Inland Revenue (£0.375m), and interest due on the Stock issue (£0.471m).

A bad debt provision has been established for the non-payment of outstanding debtors amounting to £1.641m.

2.10 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 actual cost or net realisable value, if lower. Stock values reflect a provision for obsolescence.

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

2.11 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. 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.
- 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.

2.12 Provisions

The Council maintains provisions for future liabilities or losses likely or certain to be incurred but whose amounts or timings cannot be determined accurately. The level of provisions is reviewed annually and adjusted where necessary to reflect current needs. Provisions are created by a charge to services and contributions are therefore contained in the net cost of services within the Income and Expenditure Account

2.13 Reserves

The Council maintains certain reserves for the purpose of meeting general, rather than specific, future-spending requirements. Reserves can either be earmarked to specific services or be of a more general nature to meet cash-flow or unexpected increases in spending.

Two further reserve accounts have been established in the Balance Sheet:

- The Fixed Asset Restatement Account represents principally the balance of the surpluses or deficits arising from the periodic revaluation of fixed assets
- The Capital Financing Account represents amounts set aside from revenue resources or capital receipts for the repayment of external loans and certain other capital financing transactions.

Neither the Fixed Asset Restatement Account nor the Capital Financing Account represent usable resources for the Council.

Total movements in the level of reserves are shown in the Statement of Total Gains and Losses and details of the individual reserves held by the Council are shown in note 5.34 to the Accounts.

2.14 Pension Costs

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:

- Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.
- It is accounted for by recognising liabilities as benefits are earned (i.e. employees' qualifying years of service), matching them with the Council's share of the assets of the scheme.
- The net position can either be an asset or liability matched by a pension reserve.
- The liabilities of the Cumbria County Council Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis. 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 4.9%

The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value. Around 90% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 5.39 to the Accounts.

The change in the defined benefit asset or liability (other than that arising from contributions to the Scheme) is analysed into the following components and recognised in the Statements as follows:

(a) Periodic costs

- Current service cost - included within Net Cost of Services.
- Interest cost and expected return on assets- included within Net Operating Expenditure
- Actuarial gains and losses - recognised in the Statement of Total Movements in Reserves. These charges or credits are taken directly to the Pensions Reserve and do not impact on the Income and Expenditure Account.

(b) Non-periodic costs

- Past service costs and gains and/or losses on settlements and curtailments - recognised in Net Cost of Services within Non-Distributed Costs.

As a result of the full implementation of FRS17 the pension costs charged to the Council's service revenue accounts are equal to the current service costs, rather than the contributions paid to the pension fund. The contributions paid into the fund on behalf of current employees together with costs arising in respect of pensions paid to retired employees are offset against the current service cost, and any compensating adjustment is shown as an appropriation to or from the Pensions Reserve. Any unpaid contributions to the scheme are presented in the balance sheet as a creditor due within one year.

Pension Reserve

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing the particular pension schemes or funds in which the Authority participates.

Where the contributions paid to the pension scheme do not match the change in the authority's recognised asset or liability for the year, the recognised cost of pensions will not match the amount to be raised in taxation. This is represented by an appropriation to or from the Pension Reserve, which equals the net change in the pension liability recognised in the Income and Expenditure Account.

2.15 Investments

Investments are shown in the Balance Sheet at lower of cost or market value. Interest receivable is credited to the Income and Expenditure Account. Further detail can be found in Note 5.25 to the Financial Statements.

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. Capital grants 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 deferred charges are written down over the same period as the deferred charge.

2.17 Gains and Losses on Debt Re-structuring

Gains and losses associated with discounts and premiums on the repurchase or early settlement of borrowing are normally recognised in Net Operating Costs within the Income and Expenditure Account in the period in which the repurchase or settlement is made. The exception to this is where the repurchase is coupled with a restructuring or financing of borrowing, and as a result does not substantially impact on the size of the overall loan portfolio or finance costs. Where one or more of these conditions is met the effect of the resulting premium or discount is deferred and charged to Net Operating Costs over the term of the replacement loan.

2.18 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 2006/07 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 in aggregate and therefore there is no requirement to produce a set of Group Accounts.

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 Director of Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

3.2 The Responsibilities of the Director of Corporate Services

The Director of Corporate Services 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 present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

In preparing this statement of accounts, the Director of Corporate Services has:

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

The Director of Corporate Services has also:

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

.....
Director of Corporate Services

Date:

SECTION 4 – FINANCIAL STATEMENTS

4.1 INCOME AND EXPENDITURE ACCOUNT

<u>2005/06</u> <u>Net</u> <u>Expenditure</u> <u>£000</u>	<u>Service</u>	Note	<u>2006/07</u> <u>Gross</u> <u>Expenditure</u> <u>£000</u>	<u>2006/07</u> <u>Gross</u> <u>Income</u> <u>£000</u>	<u>2006/07</u> <u>Net</u> <u>Expenditure</u> <u>£000</u>
	<u>Continuing Operations</u>				
10,681	Cultural, Environmental & Planning Services		19,694	9,327	10,367
796	Highways, Roads & Transport		5,447	3,354	2,093
2,192	Housing Services		31,676	28,587	3,089
1,640	Central Services		6,966	3,953	3,013
3,101	Democratic Representation & Management		3,404	155	3,249
(1,425)	Non Distributed Costs		8	(214)	222
(2,476)	Exceptional items		232	1,689	(1,457)
14,509	Total Continuing Operations		67,427	46,851	20,576
	<u>Discontinued Operations</u>				
(79)	Services transferred to CHA	5.3	6	34	(28)
14,430	Net Cost of Services		67,433	46,885	20,548
	<u>Other Items</u>				
(4,053)	(Gains)/Losses on the sale of fixed assets				(3,596)
317	Precepts Paid to Parish Councils				335
(2,332)	(Surplus)/Deficit from Trading Undertakings & Other Operations	5.4			(2,318)
1,285	Interest payable				1,293
(1,426)	Interest receivable				(1,664)
667	Pensions interest costs & expected return on pension assets				329
(83)	Gains/Losses on early repayment of borrowing				0
8,805	Net Operating Expenditure				14,927
(5,708)	Precept demanded from the Collection Fund				(6,076)
(66)	Council Tax Surplus				(145)
(5,694)	Revenue Support Grant				(1,581)
(2,942)	National Non-Domestic Rate Pool				(8,190)
(14,410)	Amount provided from Government grants and local taxpayers				(15,992)
(5,605)	(Surplus)/Deficit for the Year				(1,065)

4.2 STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

<u>2005/06</u> <u>£000</u>	<u>Description</u>	<u>2006/07</u> <u>£000</u>
(5,605)	Surplus on the Income and Expenditure Account for the year	(1,065)
5,258	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	1,065
(347)	Movement on the General Fund for the year	0
(3,453)	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

<u>2005/06</u> <u>£000</u>	<u>Description</u>	<u>2006/07</u> <u>£000</u>
(5,605)	Surplus on the Income and Expenditure Account for the year	(1,065)
6	Collection Fund	101
(741)	Actuarial Gain on the Pension Fund	(5,622)
(27,018)	Gains on the Revaluation of Fixed Assets	(3,370)
(51)	Other Movements	51
(33,409)	Total Recognised (Gains) and Losses for the year	(9,905)

4.4 BALANCE SHEET

<u>31 March</u> <u>2006</u> £000		Note	<u>31 March</u> <u>2007</u> £000 £000	
	Tangible Assets	5.17		
	Operational Assets:			
204	Dwellings		200	
32,403	Other Land & Buildings		32,421	
2,296	Infrastructure Assets		2,201	
1,322	Community Assets		2,143	
4,142	Vehicles & Plant		5,651	
	Non-Operational Assets:			
79,902	Investment		81,548	
7,060	Surplus		7,131	
189	Assets under construction		31	
127,518	Total Fixed Assets			131,326
	Long Term Investments	5.23	400	
	Long Term Debtors			
434	Transferred Debt – Cumbria CC		401	
4	Mortgages and Other		2	
838	Total Long Term Assets			803
128,356				132,129
	Current Assets			
165	Stocks & Work in Progress	5.25	227	
12,031	Debtors	5.26	9,510	
400	Payments in Advance		458	
20,750	Investments	5.24	25,200	
33,346				35,395
	Current Liabilities			
(4,404)	Creditors	5.27	(4,027)	
(59)	Temporary Loans		(64)	
(2,420)	Receipts in Advance		(3,583)	
(166)	Cash Overdrawn		(732)	
(7,049)				(8,406)
154,653	Total Assets less Current Liabilities			159,118
	<u>Long Term Liabilities</u>			
(15,068)	Long Term Borrowing	5.28	(15,066)	
(72)	Deferred Liabilities	5.20	(50)	
(883)	Provisions	5.31	(672)	
(6,860)	Deferred Government Grant	5.33	(7,005)	
(760)	Capital Grants Unapplied	5.33	(467)	
(20,923)	Pension Liability	5.33	(15,866)	
(44,566)				(39,126)
110,087	Total Assets less Liabilities			119,992

<u>31 March</u> <u>2006</u> £000	BALANCE SHEET (contd.)	Note	<u>31 March</u> <u>2007</u>	
			£000	£000
	Financed by:			
25	Deferred Credits	5.29	22	
12,172	Usable Capital Receipts	5.33	12,560	
12,197				12,582
	Reserve Balances			
13,055	General Reserves	5.33	13,313	
(20,923)	Pensions Reserve	5.33	(15,866)	
128,143	Capital Financing Account	5.33	131,985	
(22,385)	Fixed Assets Restatement Account	5.33	(22,022)	
97,890				107,410
110,087	Total Net Worth			119,992

Certified as presenting fairly the financial position of the Authority as at 31 March 2007

Signed
AD Brown - Director of Corporate Services

Approved by Council on

Signed
Chair of meeting approving the accounts

4.5 CASH FLOW STATEMENT

<u>2005/06</u> <u>£000</u>		<u>2006/07</u>	
		<u>£000</u>	<u>£000</u>
	REVENUE ACTIVITIES		
	<u>Cash Outflows</u>		
18,004	Paid on or on behalf of employees	19,202	
17,248	Other operating costs	19,223	
18,014	Housing Benefits	18,900	
30,664	NNDR Payments to the National Pool	28,984	
37,493	Precepts paid	40,961	
121,423			127,270
	<u>Cash Inflows</u>		
(4,281)	Rents (after rebates)	(4,692)	
(37,757)	Council Tax	(40,384)	
(28,240)	Non-domestic rate income	(30,956)	
(5,694)	Revenue Support Grant	(1,581)	
(17,642)	Housing Subsidy	(18,361)	
(8,960)	Other Government Grants	(10,198)	
(16,082)	Cash received for Goods & Services	(16,484)	
(2,942)	NNDR Receipts from the National Pool	(8,190)	
(121,598)			(130,846)
(175)	Net Cash (Inflow)/Outflow before Financing		(3,576)
	RETURNS ON INVESTMENT & SERVICING OF FINANCE		
	<u>Cash Outflows</u>		
1,286	Interest paid	1,292	
	<u>Cash Inflows</u>		
(1,556)	Interest received	(1,293)	
(270)	Returns on Investment & Servicing of Finance Net Cash Flow		(1)
	CAPITAL ACTIVITIES		
	<u>Cash Outflows</u>		
8,167	Purchase of Fixed Assets	5,123	
2,097	Other Capital Payments	3,996	
	<u>Cash Inflows</u>		
(6,951)	Sale of Fixed Assets	(6,973)	
(2,425)	Capital Grants received	(2,112)	
(322)	Other Capital Receipts	(361)	
566	Capital Activities Net Cash Flow		(327)
121	Net Cash (Inflow)/Outflow before Financing		(3,904)

<u>2005/06</u> <u>£000</u>	CASH FLOW STATEMENT (contd.)	<u>2006/07</u>	
		<u>£000</u>	<u>£000</u>
	MANAGEMENT OF LIQUID RESOURCES		
(450)	Net Increase/(Decrease) in short-term deposits		4,450
	FINANCING		
	<u>Cash Outflows</u>		
31	Loans repaid	3	
19	Finance Lease repayments	23	
	<u>Cash Inflows</u>		
(45)	New loans raised	(6)	
5	Financing Net Cash Flow		20
(324)	Net (Increase)/Decrease in Cash		566

SECTION 5 - NOTES TO THE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

5.1. Overall Position for the Year

The council set its budget for 2006/07 at £15,992,000, including £335,000 for spending requirements of parish councils. This is paid for by local taxpayers, government grants and from the use of Council Reserves. As the first two items are fixed for the year any increases or reductions in spending directly affects the level of reserves held by the Council. In 2006/07, the forecast use of reserves dropped by £2.388m with the main reasons for the reduction being: -

	£000
Carry forward requests from 2006/07 to 2007/08	(1,554)
Reduction in funding allocations	(1,079)
Other minor changes (net)	245
Total	2,388

In line with the Council's policy of 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 (£3.8m). The Statement of Total Movement in Reserves (paragraph 5.34) 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

<u>2005/06</u> <u>£000</u>	<u>Description</u>	<u>2006/07</u> <u>£000</u>
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year	
(714)	Depreciation and impairment of fixed assets	(1,695)
137	Amortisation of Government Grants	207
4,053	Net gains on the sale of fixed assets	3,587
(948)	Deferred charges written off	(1,863)
(1,333)	Net charges for pensions re FRS17	(3,042)
1,195		(2,806)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year	
258	Statutory Minimum Revenue Provision	301
2,866	Direct revenue funding of capital spending	0
2,222	Contributions to Pension Reserve	2,477
5,346		2,778
	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	
189	Voluntary Minimum Revenue Provision	239
(3,497)	Contribution from the HRA	0
2,025	Contributions to earmarked Reserves	854
(1,283)		1,093
5,258	Net Additional Amount to be credited to the General Fund Balance for the year	1,065

5.3 Discontinued Operations

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.

<u>(Surplus)/ deficit</u>	<u>Activity</u>	<u>Gross Income</u>	<u>Gross Expenditure</u>	<u>(Surplus)/ deficit</u>
<u>2005/06</u>		<u>2006/07</u>	<u>2006/07</u>	<u>2006/07</u>
<u>£000</u>		<u>£000</u>	<u>£000</u>	<u>£000</u>
(154)	Corporate Properties	(413)	160	(253)
(1,566)	Industrial Estates	(2,618)	550	(2,068)
(529)	Community Service trading	(5,311)	5,351	40
(83)	Market	(72)	35	(37)
<u>(2,332)</u>	<u>Total</u>	<u>(8,414)</u>	<u>6,096</u>	<u>(2,318)</u>

5.5 Publicity

The Council is required under Section 5 of the Local Government Act 1986 to keep a separate account of its expenditure on publicity. Spending on publicity for 2006/07 was as follows: -

	<u>2006/07</u>	<u>2005/06</u>
	<u>£000</u>	<u>£000</u>
Recruitment Advertising	73	59
Tourism	479	476
Promotions & Marketing	51	32
	<u>603</u>	<u>567</u>

5.6 The Local Authorities Goods and Service Act 1970

The Council is empowered by Section 1 of this Act to provide goods and services to certain other public bodies. No work of this kind was undertaken during 2006/07.

5.7 Pension Costs

In 2006/07 the City Council paid an employer's contribution of £2,061,100 into the Cumbria County Council Pension Fund, representing 15.9% (2005/06 £1,953,180 and 15.9%) of pensionable pay. The contribution rate is based on a triennial actuarial valuation basis carried out at 31 March 2004 by the Fund's Actuary. This contribution rate is effective for the three-year period commencing 1 April 2005. 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 2006/07 the value of these benefits amounted to £416,079 representing 3.21% of pensionable pay (2005/06 £273,379 and 2.23% respectively). The pension costs charged to the Income and Expenditure Account in accordance with FRS17 are as follows:

	<u>2006/07</u> <u>£000</u>	<u>2005/06</u> <u>£000</u>
Current Service cost	2,499	2,092
Past Service cost	0	(1,426)
Settlement gain	0	0
Curtailment cost	214	0
Expected return on Pension assets	(4,783)	(4,255)
Pension Interest costs	5,112	4,922
Total	<u>3,042</u>	<u>1,333</u>
Contributions paid to Pension Scheme	2,477	2,222
Contribution to/(from) Pension Reserve	<u>(565)</u>	<u>889</u>

5.8 Officers' Emoluments

The Accounts and Audit Regulations 2003 require that local authorities disclose details of emoluments for those employees whose remuneration in the financial year exceeds £50,000. Details of the Authority's officers whose remuneration exceeds £50,000 is set out below in bands of £10,000.

Between £50,000 and £59,999	1
Between £60,000 and £69,999	1
Between £70,000 and £79,999	3
Between £80,000 and £89,999	1
Over £90,000	1

5.9 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 2006/07 are as follows:

<u>Type of Allowance</u>	<u>2006/07</u> <u>£000</u>	<u>2005/06</u> <u>£000</u>
Basic Allowance	230	224
Special Responsibility Allowance	83	84
Conference/Other Allowances	20	20
	<u>333</u>	<u>328</u>

5.10 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 122 of the senior officers of the Council were asked to declare any direct financial relationship with the Authority for the financial year 2006/07. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Authority during 2006/07.

Other related party transactions are as follows: -

- Government Grants, which are detailed in note 5.44 to the Financial Statements.
- The City Council has an interest in Kingmoor Park Properties Ltd, which is detailed in note 5.24 to the Financial Statements
- The City Council's transactions with the Cumbria County Council Pension Fund, which are shown in note 5.7 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.
- 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.

5.11 **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:

<u>Expenditure</u>	<u>Chargeable</u>	<u>Non- Chargeable</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Employee Costs	300	176	476
Transport Expenses	18	9	27
Supplies & Services	28	14	42
Agency & Contract Services	12	3	15
Central & Support services	81	49	130
Total Expenditure	<u>439</u>	<u>251</u>	<u>690</u>
<u>Income</u>			
Building Regulation Charges	(389)	0	(389)
Other income	0	(3)	(3)
Total Income	<u>(389)</u>	<u>(3)</u>	<u>(392)</u>
(Surplus)/deficit for Year	<u>50</u>	<u>248</u>	<u>298</u>

5.12 **Section 137 Expenditure**

The Local Government Act 2000 preserved the power of the Council to incur expenditure which is not covered by any other powers but which, in their opinion, is either in the interests of their area, or any part of it, or all or some of its inhabitants. This power was previously contained in Section 137(3) of the Local Government Act 1972. The Council was permitted to spend £196,207 (103,267 population x £1.90 per head) in 2006/07 under this power but did not incur any spending of this nature in the year.

5.13 Disclosure of Audit Costs

In 2006/07 Carlisle City Council incurred the following fees relating to external audit and inspection:

	<u>2006/07</u>	<u>2005/06</u>
	<u>£000</u>	<u>£000</u>
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor		
- Current year	109	105
- Additional fee re previous year	30	40
Fees payable to the Audit Commission in respect of statutory inspection	4	3
Fees payable to the Audit Commission for the certification of grant claims and returns	29	29
Fees payable in respect of other services provided by the appointed auditor	1	9
Total	173	186

5.14 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 £46,500 contribution to a pooled budget in this scheme, which is included in Cultural, Environmental & Planning Services (2005/06: £46,500) in the Income and Expenditure Account.

5.15 Exceptional Items

The insurance flood claim was settled in May 2006 at a value in excess of £6.6m and the total cost of the flood was in excess of £7.9m. Spending on capital items is shown within the fixed assets on the balance sheet and revenue spending is shown as an exceptional item in the Income and Expenditure Account.

5.16 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:

Type of lease	<u>2006/07</u>	<u>2005/06</u>
	<u>£000</u>	<u>£000</u>
Land Property Leases	4,563	4,195
Car Leasing	53	54
Total	4,616	4,249

The capital value held within the balance sheet at 31 March 2007 in respect of land and property generating leasehold income is £81.548m. This figure represents the gross value of the Investment Properties and as these are non-operational fixed assets 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 2006/07 is as follows:

Leasehold Property	<u>2006/07</u> <u>£000</u>	<u>2005/06</u> <u>£000</u>
Denton Holme Trade Centre	102	99
Devonshire Walk Mobile Toilet	16	16
Irthing Centre	20	20
Total	<u>138</u>	<u>135</u>

BALANCE SHEET

5.17 Tangible Assets

The table below sets out the transactions relating to tangible fixed assets in 2006/07: -

	Operational Assets					Non-operational Assets			Total £000
	Council Dwellings £000	Other Land & Buildings £000	Vehicles & Plant £000	Infra- structure £000	Community Assets £000	Investment Property £000	Surplus Property £000	Assets under Construction £000	
Valuation as at 1 April 2006	204	32,403	6,609	2,399	1,322	79,902	7,060	189	130,088
Accumulated Depreciation	0	0	(2,331)	(103)	0	0	0	0	(2,434)
Accumulated Impairment	0	0	(136)	0	0	0	0	0	(136)
Net Book Value 1 April 2006	204	32,403	4,142	2,296	1,322	79,902	7,060	189	127,518
Movement in 2006/07									
Depreciation	(4)	(860)	(830)	(1)	0	0	0	0	(1,695)
Additions	0	2,216	1,953	399	382	16	0	175	5,141
Disposals	0	0	0	0	0	(2,678)	(330)	0	(3,008)
Impairments	0	0	0	0	0	0	0	0	0
Revaluations	0	(1,339)	0	0	0	4,308	401	0	3,370
Reclassifications	0	1	386	(493)	439	0	0	(333)	0
	(4)	18	1,509	(95)	821	1,646	71	(158)	3,808
Valuation as at 31 March 2007	204	33,281	8,948	2,305	2,143	81,548	7,131	31	135,591
Accumulated Depreciation	(4)	(860)	(3,161)	(104)	0	0	0	0	(4,129)
Accumulated Impairment	0	0	(136)	0	0	0	0	0	(136)
Net Book Value 31 March 2007	200	32,421	5,651	2,201	2,143	81,548	7,131	31	131,326

5.18 Intangible Assets

At the 31 March 2007, the Council has identified intangible assets to the value of £587,000, represented by IT software and software licences held by the Council. The value reflected in the financial statements represents the current value at 31 March 2007 which is shown as part of the associated hardware costs within Vehicles and Plant on the face of the balance sheet in accordance with 2006 SORP. The accumulated depreciation charge in respect of these assets in the 2006/07 accounts is £79,566.

5.19 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 Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Details of the valuation bases applied are set in note 2.2 of Section 2 (Statement of Accounting Policies).

Valuations are usually carried out via a rolling five year revaluation program with all assets being re-valued at intervals of not more than five years, however the entire asset portfolio was re-valued in 2005/06. Existing valuations were carried out internally by R. Simmons (Head of Property Services) ARICS and by external property consultants Dixon Webb.

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

	<u>Council Dwellings</u>	<u>Other Land & Buildings</u>	<u>Vehicles & Plant*</u>	<u>Non Operational Investment</u>	<u>Non Operational Surplus</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Valued at historic cost	0	410	0	0	0
Valued at current value in					
2006/07	0	7,672	2,286	32,638	5,695
2005/06	204	25,199	2,557	48,910	1,436
2004/05	0	0	790	0	0
2003/04	0	0	1,163	0	0
2002/03	0	0	174	0	0
2001/02 and prior	0	0	1,978	0	0
	<u>204</u>	<u>33,281</u>	<u>8,948</u>	<u>81,548</u>	<u>7,131</u>

*Vehicles and moveable plant are valued at historical cost as a proxy for current value

Excluded from the above analysis are intangible assets, community assets and infrastructure assets valued at historic cost.

An analysis of fixed assets includes:

	<u>31 March 2007</u>	<u>31 March 2006</u>
Civic Centre	1	1
Depots and Workshops	15	15
Off Street Car Parks	15	15
Leisure Centres	1	1
Swimming Pool	1	1
Museums	2	2
Parks & Recreation Grounds	250 ha	250 ha
Market	1	1
Cemeteries	3	3
Crematorium	1	1
Industrial Units	97	97
Community Centres	12	12
Industrial Estates	8	8

5.20 Capital Expenditure

Capital Expenditure in 2006/07 was financed as follows:	<u>2006/07</u>
	<u>£000</u>
Opening Capital Financing Requirement	15,734
<u>Capital Expenditure</u>	
Operational Assets	4,950
Non-operational assets	191
Deferred Charges	4,149
<u>Source of Finance</u>	
Capital Receipts	(6,171)
Government Grants	(2,623)
Revenue Provision (including MRP)	(1,037)
Transferred debt	(33)
Closing Capital Financing Requirement	<u>15,160</u>
Decrease in underlying need to borrow	(574)

Significant budget commitments for future capital expenditure contracted for as at 31 March 2007 were:

	<u>£000</u>
Improvement Grant Commitments	1,227

5.21 Leases

(a) Operating Leases

Total operating lease rentals paid in 2006/07 amounted to £546,873. At 31 March 2007 the annual commitment under operating leases and contract hire agreements was as follows:

<u>On leases</u> <u>expiring:</u>	<u>Leased</u> <u>Cars</u>	<u>CS</u> <u>Operating</u> <u>Leases</u>	<u>CS</u> <u>Contract</u> <u>Hire</u>	<u>Other</u> <u>Leases</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Within 1 year	5	15	0	0	20
2 – 5 years	124	9	226	16	374
After 5 years	0	0	0	122	122
Total	128	24	226	138	516

(b) Finance Leases

The Council has one refuse collection vehicle that was acquired through a finance lease in 2005/06. The annual lease rental paid in 2006/07 was £26,954 (inclusive of interest). The gross book value of the vehicle is £114,515. Depreciation of £19,086 was charged in the year in respect of this vehicle based on the estimated 5-year life of the vehicle.

At 31 March 2007, the outstanding liability under this finance lease was £73,000, analysed as follows:

<u>On leases expiring:</u>	<u>£000</u>	<u>Shown as:</u>	<u>£000</u>
Within 1 year	27	Current Obligations	23
2 – 5 years	59	Deferred Liabilities	50
Allocated to future periods	(13)		
Total	73		73

5.22 Deferred Charges

Deferred Charges, which are not financed by government grants, are written off to the Income and Expenditure Account during the year. The value for 2006/07 is as follows: -

	<u>Expenditure</u>	<u>Grants</u> <u>Received</u>	<u>Amounts</u> <u>Written Off</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Disabled Facilities Grants	466	(280)	(186)
Improvement Grants	943	0	(943)
Flood Recovery Costs	303	(303)	0
Other	2,437	(1,688)	(749)
	4,149	(2,271)	(1,878)

5.23 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.

	<u>2006/07</u>	<u>2005/06</u>
	<u>£000</u>	<u>£000</u>
General Fund Reserves	107,416	97,794

5.24 Company Interests

At 31 March 2007, the City Council retained a shareholding investment of £400,000 in Kingmoor Park Properties Ltd (KPP Ltd), equivalent to 5% of the Company's issued share capital which can be redeemed on or after 15 March 2005 (refer to paragraph 5.38 for further details).

5.25 Temporary Investments

The Council invests its unused revenue balances and capital receipts on a temporary basis. The value of these investments at 31 March was as follows:

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Notice & Fixed Term Money Market Deposits	25,200	20,750

5.26 Stocks and Work in Progress

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Work in Progress	52	17
Stocks:		
Community Services	58	54
Other	117	94
	<u>175</u>	<u>148</u>
Total	<u>227</u>	<u>165</u>

5.27 Debtors

	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due in one year:		
Government Departments	566	2,476
Other Local Authorities	779	1,407
Local Taxpayers	2,580	2,343
Housing Rents	6	11
Sundry Debtors	7,197	7,575
	<u>11,128</u>	<u>13,812</u>
Provision for doubtful debts	<u>(1,641)</u>	<u>(1,808)</u>
	9,487	12,004
Amounts falling due after one year:		
Car Loans	23	27
	<u>9,510</u>	<u>12,031</u>

5.28 Creditors

	31 March	
	2007	2006
	<u>£000</u>	<u>£000</u>
Government Departments	478	385
Other Local Authorities	391	999
Finance Lease obligations	23	23
Sundry Creditors	3,135	2,997
	<u>4,027</u>	<u>4,404</u>

5.29 Long Term Borrowing

<u>Sources of loan</u>	Range of Interest Rates Payable %	Total Outstanding at 31 March	
		<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Local Bonds & Mortgages	5.75-6.75	66	68
City of Carlisle Stock Issue	8.785	15,000	15,000
		<u>15,066</u>	<u>15,068</u>

The analysis of loans by maturity is:

	<u>Local Bonds and Mortgages</u>	<u>City of Carlisle Stock Issue</u>
	<u>£ 000</u>	<u>£ 000</u>
Maturing within 1 year	3	0
Maturing within 1-2 years	3	0
Maturing within 2-5 years	11	0
Maturing within 5-10 years	22	0
Maturing in more than 10 years	27	15,000
	<u>66</u>	<u>15,000</u>

5.30 Deferred Credits

Deferred credits are anticipated receipts from the sale of assets, which will be paid to the Council in instalments over agreed periods of time. The value at 31 March 2007 is £22,000 and this relates principally to mortgages on Council properties sold under the Right-to-Buy Scheme.

5.31 Insurance Provision

The Council has established a provision totalling £356,291 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 2007 and the insurance provision will therefore cover all this value in full. However it is expected that £218,500 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 5.32 to the financial statements.

5.32 Movement in Provisions

The movement in the level of provisions held by the Council during 2006/07 is as follows: -

	<u>Balance</u> <u>b/f at</u> <u>1 April</u> <u>£000</u>	<u>Received</u> <u>In Year</u> <u>£000</u>	<u>Used</u> <u>In Year</u> <u>£000</u>	<u>Balance</u> <u>c/f at</u> <u>31 March</u> <u>£000</u>
Cemeteries Perpetuity Fund	86	4	(4)	86
Public Liability Claims	416	56	(116)	356
Other Provisions	381	227	(378)	230
	883	287	(498)	672

5.33 Trust Funds

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

Bequest	Purpose	2006/07 Income £	2006/07 Expenditure £	Assets at 31 March £	Liabilities at 31 March £
Richard Sewell	Established 1920 to purchase items of interest for Tullie House Museum	(5)	0	433	0
E.B.Burton	Established 1955 to purchase books for the Jackson Library	(5)	0	576	0
James Walter Brown	Established 1930 to purchase books, pictures, maps and plans for the Jackson Library	(24)	0	961	0
Parker	Established 1954 to benefit disabled children and other young residents of the city	(24)	0	881	0
District Nurses Amenity Fund	Established to provide amenities for nurses' homes and retirement allowances to nurses	(81)	0	6,960	0
TOTAL		(139)	0	9,811	0

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

Name of Fund	Purpose	2006/07 Income £	2006/07 Expenditure £	Assets @ 31 March £	Liabilities @ 31 March £
Mary Hannah Almshouses	Registered Housing Association	14,755	9,657	247,613	(2,297)
Carlisle Educational Charity	To provide grants to students	8,084	7,100	210,581	0

5.34 STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	<u>Balance 1</u> <u>April</u> <u>2006</u> <u>£000</u>	<u>Net</u> <u>Movement in</u> <u>Year</u> <u>£000</u>	<u>Balance</u> <u>31 March</u> <u>2007</u> <u>£000</u>
OTHER RESERVES			
Fixed Asset Restatement	(22,385)	363	(22,022)
Capital Financing	128,143	3,842	131,985
Deferred credits	25	(3)	22
Useable Capital Receipts	12,172	388	12,560
Pensions Reserve	(20,923)	5,057	(15,866)
CAPITAL RESERVES			
Lanes Capital Fund	251	15	266
Repair & Renewals Fund	1,922	(241)	1,681
Asset Investment Reserve	100	(40)	60
REVENUE RESERVES			
Superannuation Reserve	361	(361)	0
Collection Fund (Carlisle share only)	96	(102)	(6)
CTS	100	(100)	0
General Fund	3,800	0	3,800
Projects Reserve	5,747	905	6,652
Property Reserve	33	(33)	0
Residents Parking	(54)	40	(14)
Building Control Function	20	(50)	(30)
Routledge Reserve	0	75	75
Sheepmount Reserve	0	150	150
Conservation Fund	191	0	191
LSVT Warranties	488	0	488
TOTAL RESERVES	110,087	9,905	119,992

Details of the purpose of each reserve held by the Council and the policy on the use of each 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 Director of Corporate Services.

5.35 Contingent Assets

(a) Carlisle Housing Association (CHA)

At 31 March 2007 £2,766,312 was due from CHA 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 2006/07 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 contact.

(b) The Lovells Partnership Ltd

The Council has entered into an agreement with the Lovells Partnerships Ltd to develop land at Raffles, whereby the Council is entitled to an overage based upon the sale of houses sold by the Company. This agreement commenced on 22 December 2003, which states that the Council is not entitled to receive any receipts until completion of each phase of the development. Phase one was completed in 2006/07 and the receipt has been recognised in the 2006/07 accounts through the Income and Expenditure Account.

5.36 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 £100 million 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 £100 million 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 26 November 1996 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 1st 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 2006/07 in respect of this potential liability and the directors of the company envisage a solvent 'run-off' when all liabilities have eventually been discharged

(c) Carlisle Housing Association (CHA)

On 9 December 2002 the City Council completed the transfer of its housing stock to Carlisle Housing Association (CHA). 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 CHA and lenders to the Association for periods of 25 years and 18 years respectively. An earmarked reserve to the value of £488,000 has 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 2007 the Council has not received any claims in respect of either environmental or non-environmental warranties.

(d) Single Status/Equal Pay Review

The Council is progressing Job Evaluation, Single Status and the Equal Pay Review through its Pay and Workforce Strategy (PWS). As at 31 March 2007 there were no equal pay claims lodged against the Council and the financial implications of the PWS are still being assessed. The majority of the work on single status is now complete with any outstanding issues being resolved as part of the Job Evaluation process. It is envisaged that the Job Evaluation process will be completed during 2007/08 and based upon guidance provided by external bodies a budgetary sum of £1m (6% of the total pay bill) has been earmarked for 2007/08 and future years.

5.37 Authorisation for Issue

The Statement of Accounts was authorised for issue on 14th June 2007 by the Director of Corporate Services, Angela Brown CPFA. This is the date up to which post balance sheet events have been considered.

5.38 Events after the Balance Sheet Date

As at 31 March 2007 the Council has a 5% share in Kingmoor Park Properties Ltd as disclosed at paragraph 5.24. This is valued at £400,000 and is shown as a long-term investment on the Balance Sheet. During 2006/07 KPP exercised their right to give notice to both the City and the County Council of their intention to buy out the two Councils' shareholdings. Following protracted negotiations a settlement was agreed at £2m plus interest which was received on 13 April 2007. The £2m will be accounted for in the 2007/08 accounts with the interest being accrued into the 2006/07 accounts.

5.39 Disclosure of Net Pensions Assets/Liabilities

As part of the terms and conditions of employment of its officers, the City 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. In 2006/07 the pension costs have been charged to the revenue accounts on the basis of current service costs based on a formal actuarial valuation.

The overall assets and liabilities for pensions for the year which have now been included in the balance sheet are as follows:

	<u>31 March</u> <u>2007</u> <u>£000</u>	<u>31 March</u> <u>2006</u> <u>£000</u>
Estimated liabilities in Scheme	(104,497)	(104,351)
Estimated assets in Scheme	88,631	83,428
Net assets/(liabilities)	<u>(15,866)</u>	<u>(20,923)</u>

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. Mercer Human Resource Consulting Ltd, an independent firm of actuaries, has assessed the scheme's liabilities.

The main assumptions used in their calculations are:

	<u>2006/07</u> <u>%</u>	<u>2005/06</u> <u>%</u>
Rate of Inflation	3.1	2.9
Rate of Increase in Salaries	4.85	4.65
Rate of increase in Pensions	3.1	2.9
Proportion of employees opting to take a commuted lump sum	50	50
Rate of discounting Scheme Liabilities	5.4	4.9

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries it has been assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme.

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:

	<u>2006/07</u>	<u>2005/06</u>
	<u>%</u> <u>Expected</u> <u>Return</u>	<u>%</u> <u>Expected</u> <u>Return</u>
Equity Investments	59.5 7.50%	59.5 7.00%
Government Bonds	19.8 4.70%	21.3 4.30%
Bonds	9.7 5.40%	9.5 4.90%
Property	8.4 6.50%	7.5 6.00%
Cash/Liquidity	2.5 5.25%	2.2 4.50%
Other Assets	0.1 7.50%	0.0 7.00%
	<u>100.0</u>	<u>100.0</u>

The movement on the net pension liability for the year to 31 March 2007 is as follows:

	<u>£000</u>
Net Pension Liability at 1 April 2006	(20,923)
Movements in year:	
Current Service cost	(2,499)
Employers contributions payable to scheme	2,477
Past service costs/curtailment costs	(214)
Settlement gain	0
Interest Cost	(5,112)
Expected return in assets in the scheme	4,783
Actuarial gains/(losses)	<u>5,622</u>
Net Pension Liability at 31 March 2007	<u>(15,866)</u>

The actuarial gains can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at March 2006:

	<u>2006/07</u>		<u>2005/06</u>		<u>2004/05</u>		<u>2003/04</u>		<u>2002/03</u>	
	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
Differences between expected and actual return on assets	487	0.50	10,602	12.70	2,163	3.10	7,019	12.80	(15,956)	33.70
Differences between actuarial assumption about liabilities and actual experience	0	0.00	(1,826)	1.70	(1,635)	1.80	0	0.00	0	0.00
Changes in the demographic and financial assumptions used to estimate liabilities	5,135	4.90	(8,035)	7.70	(14,864)	16.30	0	0.00	0	0.00
	<u>5,622</u>		<u>741</u>		<u>(14,336)</u>		<u>7,019</u>		<u>(15,956)</u>	

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

CASH FLOW STATEMENT

The cash flow statement for 2006/07 summarises the inflows and outflows of cash to and from the Council arising from transactions with third parties for both revenue and capital.

5.40 Reconciliation of Income & Expenditure Account Surplus to Net Cashflow

<u>2005/06</u> <u>£000</u>	<u>2006/07</u> <u>£000</u>
(347) (Surplus)/Deficit for the year	0
Non-cash transactions	
(447) Minimum Revenue Provision	(540)
(1,326) Contribution to Reserves	(743)
0 Amortisation of Premiums/Discounts	0
<hr/> (1,690)	<hr/> (1,283)
Items on accruals basis	
(72) Increase/(decrease) in stocks	62
533 Increase/(decrease) in debtors	(2,340)
1,261 (Increase)/decrease in creditors	(386)
<hr/> 1,722	<hr/> (2,664)
Items shown elsewhere in the Statement	
(1,286) Interest payable	(1,293)
1,426 Interest receivable	1,664
<hr/> 140	<hr/> 371
 (175) Net Cash Flow from Revenue Activities	 (3,576)

5.41 Reconciliation of Cash Flow to Net Debt

A reconciliation of cash flows to the Council's net debt is as follows:

<u>£000</u>	<u>£000</u>
324 Increase/(Decrease) in cash	(566)
(450) Cash inflow from reduction in liquid resources	4,450
5 Cash outflow from (increase)/ decrease in debt	20
(114) New finance leases	0
<hr/> (235) Movement in Net Debt	<hr/> 3,904
5,597 Net debt at 1st April 2006	5,362
<hr/> 5,362 Net debt at 31st March 2007	<hr/> 9,266

5.42 (Increase)/Decrease in Financing and Liquid Resources

	<u>Net</u> <u>(debt)/funds</u> <u>31 March 2006</u> <u>£000</u>	<u>Cash-flow</u> <u>in year</u> <u>£000</u>	<u>Other</u> <u>Movements</u> <u>£000</u>	<u>Net</u> <u>(debt)/funds</u> <u>31 March 2007</u> <u>£000</u>
Cash in hand and at bank	(166)	(566)	0	(732)
Debt: -				
Finance Lease	(95)	23	0	(72)
Local Bonds and Mortgages	(68)	2	0	(66)
Stock Issue	(15,000)	0	0	(15,000)
	(15,163)	25	0	(15,138)
Other Borrowing	(59)	(5)	0	(64)
	(15,222)	20	0	(15,202)
Short Term Investments	20,750	4,450	0	(25,200)
Total	5,362	3,904	0	9,266

5.43 Liquid Resources

Liquid resources include certificates of deposit, government securities and other short-term cash deposits.

5.44 Analysis of other Government Grants

2005/06 £000	Grant	<u>2006/07</u> <u>£000</u>
5,474	Council Tax Benefit Grant	
663	Housing Benefit Administration Grant	5,738
274	Other Grants from Dept. of Work and Pensions	943
100	New Deal	0
4	Achieving Cumbrian Excellence	126
209	Planning Delivery Grant	205
1,338	Sure Start	772
410	DCLG – Bellwin Scheme	0
0	Longtown MTI	263
422	Local Authority Business Growth Incentive Scheme	859
66	Other	1,292
8,960		10,198

SECTION 6 - SUPPLEMENTARY FINANCIAL STATEMENTS

6.1 THE COLLECTION FUND

<u>2005/06</u>		<u>2006/07</u>
<u>£000</u>	Note	<u>£000</u> <u>£000</u>
Income		
37,601	Council Tax	40,286
28,646	Income from Business Ratepayers	30,888
	Transfers from General Fund	
5,388	- Council Tax Benefits	5,659
<u>71,635</u>	Total Income	<u>76,833</u>
Expenditure		
	Precepts and Demands	
32,046	- Cumbria County Council	35,023
5,130	- Cumbria Police Authority	5,603
<u>5,708</u>	- Carlisle City Council	<u>6,076</u>
42,884		46,702
	Business Rates	
28,469	- Payments to National Pool	30,709
<u>177</u>	- Allowance for cost of NDR collection	<u>179</u>
28,646		30,888
	Bad and Doubtful Debts - Council Tax	
(99)	- Write offs	(114)
<u>188</u>	- Provisions	<u>(31)</u>
89		(145)
	Contribution:	
66	Adjustment of Previous Years' Collection Fund Surplus	146
(50)	Movement on Fund Balance	(758)
<u>71,635</u>	Total Expenditure	<u>76,833</u>
Collection Fund Balance		
762	Fund Balance at 1 April	712
<u>(50)</u>	Surplus/Deficit(-) for Year	<u>(758)</u>
<u>712</u>	Fund Balance at 31 March	<u>(46)</u>

6.2 Notes to the Collection Fund

(i) 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 deficit on the Fund at 31 March 2007 was £45,770.

(ii) Council Tax Base Calculation

The Council Tax base set for 2006/07, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	41.50	5/9	23.06
A	18,057.50	6/9	12,038.34
B	9,635.50	7/9	7,494.29
C	6,052.00	8/9	5,379.58
D	4,420.00	9/9	4,420.00
E	2,253.25	11/9	2,753.95
F	874.25	13/9	1,262.81
G	292.25	15/9	487.11
H	20.75	18/9	41.50
	41,647.00		33,900.64
Second Homes	173.31		173.31
Relevant Amount	41,820.31		34,073.95
Estimated Collection Rate			98.5%
Council Tax Base = Relevant Amount (Band D Equivalent) x Collection Rate			33,562.83

(iii) Income from Business Rate Payers

National Non Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (42.2p in 2005/06 and 43.3p in 2006/07), 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 £30,887,327 was based on a total rateable value for the Council's area of £83,514,996 for the year (£82,187,053 in 2005/06). The Council received £8,190,430 from the NNDR Pool in 2006/07, which is credited directly to the Income and Expenditure Account.

(iv) 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 2006/07 the values were: -

Carlisle City Council	£6,075,835	(2005/06 £5,707,734)
Cumbria County Council	£35,023,013	(2005/06 £32,046,245)
Cumbria Police Authority	£5,602,764	(2005/06 £5,129,531)

Included in the amount for the City Council is a precept of £335,555 (2005/06 £316,797) which is collected behalf of Parish Councils. This is paid in full directly from the Council's Income and Expenditure Account.

SECTION 7 - STATEMENT ON INTERNAL CONTROL

(DRAFT SUBJECT TO AUDIT COMMITTEE APPROVAL)

SCOPE OF RESPONSIBILITIES

The Authority is responsible for ensuring that:-

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for and used economically, efficiently and effectively;
- it complies with its 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;

To this end Members and senior officers are responsible for ensuring that proper arrangements exist for the governance of the Authority's affairs and stewardship of its resources, including arrangements for the management of risk.

The Authority is committed to the highest standards of Corporate Governance and to ensuring that it complies with the Statement of Recommended Practice (SORP). The Authority is still awaiting the revised "Good Governance Statement" from CIPFA/SOLACE, which will be implemented in due course. This will replace the current Statement on Internal Control and Code of Corporate Governance.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

In September 2001 the Authority adopted the Leader and Executive style of political management under the Local Government Act 2000.

The Authority acknowledges its responsibility for the systems of internal control in operation and for ensuring that these systems maintain the integrity of its accounting records and safeguard its assets. The purpose of these systems is to provide reasonable assurance as to the achievement of the policies and objectives of the Authority including the reliability of financial information and to maintain proper control over its income, expenditure, assets and liabilities.

No system of internal control can, however, provide absolute assurance against material misstatement or loss.

The systems of Internal Control are considered and reviewed on a regular basis by the Senior Management Team. The SIC Action Plan is updated and presented to Members of the Audit Committee on a quarterly basis. The SIC for 2006/07 was presented to the Audit Committee on 22nd June 2007. On a service basis, Heads of Service are accountable for ensuring that their staff are aware of, and consistently apply, the requirements of the system of internal control.

THE INTERNAL CONTROL ENVIRONMENT

Controls and Procedures

The internal control framework within which Carlisle City Council operates encompasses a whole range of structures, systems and procedures. In accordance with this, Service Heads are required annually to undertake a full assessment of their internal control systems, to identify weaknesses and to identify progress made to address such weaknesses. Progress made against the resulting

Action Plan is reported to the Audit Committee quarterly. The main assurance areas are summarised below.

Council Constitution

In accordance with the Local Government Act 2000, the Authority has produced a comprehensive Constitution that governs its actions and decision-making, and which details specific delegations of authority and financial procedure rules. This document is available to the public on the Authority's web-site. It also sets out detailed specific responsibilities of the roles of the Executive, Overview and Scrutiny Committees, other Standing Committees, Members and Officers. The Constitution is reviewed and revised on an annual basis. A revised version of the Constitution, to reflect the 2006 re-organisation, was agreed by Council at its meeting in May 2006.

Internal Audit

The Authority maintains an Internal Audit Service, which operates to the standards set out in the "Code of Practice for Internal Audit in Local Government in the UK" and is responsible for monitoring the quality and effectiveness of systems of internal control. The Head of Audit Services monitors compliance to the Code on a continuous basis.

Financial Control

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 has a Medium Term Financial Planning process which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the Strategic Planning Group, which consists of senior Members and Officers. The MTFP for 2007/08 to 2009/10 will be presented to Executive, CROS and Council during June and July 2007.

Regular meetings are held with identified budget managers, and from this budget monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and Corporate Resources Overview and Scrutiny Committee. 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, CROS and Council. The Authority is committed to making continuous improvements to comply with the Local Authority Statement of Recommended Practice and Financial Reporting Standards.

Performance Monitoring

Performance monitoring to ensure achievement of the Authority's objectives is a high priority for the Authority. The Authority's objectives are derived from the Community Plan, and are identified within the Authority's Corporate Plan. This is updated on an annual basis and the key priorities and targets are reviewed. Directorate Plans are produced annually and set specific targets to achieve the aims set out in the Corporate Plan. The corporate performance monitoring report is considered on a quarterly basis by the Senior Management Team, Executive Members and all Overview and Scrutiny Committees. This report includes monitoring of BVPIs and other performance and financial targets.

Risk Management

The Authority's Risk Management Group examines the major governance, operational, financial, external and compliance risks that the Authority faces. From that the Authority has identified the top corporate risks and each Directorate maintains its own Operational Risk Register.

The Authority's Risk Management Policy ensures that the analysis of risk (and its subsequent management) is reviewed continually to take account of the threat to delivery of corporate priorities.

The Corporate Risk Management Group monitors the arrangements for the identification of risks and the updating and maintenance of Risk Registers.

The Head of Audit Services is a member of the Strategic Risk Management Group. All audit reviews are undertaken using a risk-based approach. Reference is made to the Corporate and Operational Risk Registers when formulating the Strategic Audit Plan. Any risks noted during the reviews which have not been included in the Register/s are highlighted in the audit reports. Full systems notes have been prepared for all material systems in accordance with ISA requirements.

REVIEW OF EFFECTIVENESS

The Authority is responsible for reviewing the effectiveness of the system of internal control on an annual basis. This review is informed by the work of Internal Audit and the senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and by comments made by the external auditors and other review agencies and inspectorates. The Authority appointed an Audit Committee, with effect from May 2006, that meets on a quarterly basis.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- Regular consideration of the overall Statement of Internal Control Action Plan by the Senior Management Team.
- The Head of Legal and Democratic Services (the 'Monitoring Officer') has a duty to monitor and review annually the operation of the Constitution to ensure its aims and principles are given full effect.
- The Financial Procedure Rules are reviewed annually by the Director of Corporate Services. The 2006/07 revision was ratified by Council on 18th July 2006 (FS.18/06 – Minute C.134/06 refers).
- Procedures for handling breaches to the Authority's Contract Procedure Rules were approved in May 2004. Procedures for dealing with general breaches in procedures are covered by the Fraud Theft and Corruption Response Plan, the "Whistle-blowing" Policy, and by the work of Audit Services.
- The Senior Management Team meets weekly to consider strategic issues including performance management.
- Audit Services reports directly to the Director of Corporate Services and carries out its work in line with the approved Audit Plan which has been produced based upon a risk assessment of activities within the Authority. A written report is produced for appropriate senior managers at the completion of each audit review, which contains an audit opinion and key findings together with an agreed action plan for improvement where appropriate. The Head of Audit Services provides a quarterly management report on progress against the annual plan to the Director of Corporate Services, and an Annual Internal Audit Final Report detailing the overall performance and activity of the Service. These reports are also submitted to the Authority's Audit Committee. The audit function provides an independent review of the adequacy and effectiveness of the system of internal control and is governed by the Accounts and Audit

Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. In accordance with the “Managed Audit” arrangement with the Audit Commission, Audit Services undertake a review of all “material” systems every year.

- The Audit Committee held its first meeting on 12th June 2006. The purpose of the Audit Committee, as outlined in its “Rules of Governance” is to provide an independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority’s financial and non-financial performance to the extent that it affects the Authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- The Authority has three Overview and Scrutiny Committees, which can ‘call in’ a decision of the Executive to consider whether the decision is appropriate. This power has been used on a number of occasions.
- The Authority’s Standards Committee is responsible for monitoring the operation of the Members’ Code of Conduct. Following the national consultation relating to an “Officer Code of Conduct”, the final version of this Code is still awaited. A decision will be taken as to which Member body will be responsible for its internal monitoring.
- A quarterly system of reporting, to Members, performance on BVPIs, performance against business plans and financial targets is in place, and has been reviewed to improve the corporate coverage of the reporting and linkages between financial and performance monitoring.

SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified which will be addressed as a matter of priority:

Issue	Current Position
Formal approval of a "Code of Corporate Governance".	The Code of Corporate Governance and a statement of its principles will be included, in due course, as part of the preamble to the Financial Procedure Rules. The CIPFA/SOLACE Working Group on Good Governance issued a draft consultation document in June 2006 entitled "Good Governance in Local Government", which is intended to update the governance framework "Corporate Governance in Local Government: A Keystone for Community Governance". The deadline for responses to the draft was 11th September 2006. The final version is still awaited. The SORP for 2006/07 still refers to the requirement for an SIC, but suggests that we may consider producing a wider-ranging "governance statement" as long as it meets at least the requirements of the SIC. For 2007/08, it seems that the SIC and the COCG will be replaced by/combined into a single "Good Governance Framework".
Further analysis and management of Corporate and Business Risk.	Service Heads are responsible for ensuring that, on a regular basis, Operational Risk Registers are updated, but this action is not being taken in all cases. The Corporate Risk Management Group is currently pursuing this action. The Portfolio Holder sits on the Corporate Risk Management Group. The Audit Committee receives quarterly reports relating to the Corporate Risk Registers, but does not receive information relating to the Operational Risk Registers.
Ensure that adequate training and support are available for the Audit Committee	Training is being provided for new and existing Audit Committee Members as required.
Review effectiveness of Corporate Procurement Policy,	This work is being co-ordinated by the Senior Management Team.
Development and procedural documentation of the Financial Information System and the "business critical" systems as required by the Audit Commission.	<p>Progress has been made to ensure that documentation of systems and processes is made available and continually updated. Responsibilities for particular system/documents have been clarified and assigned. Updates are monitored.</p> <p>Audit Services have asked all Services to identify their Business Critical Systems and to confirm that procedures have been/will be adequately documented – also that there are adequate "back-up" procedures in place.</p>

<p>This Authority has no system of Control Risk Self Assessment in operation.</p>	<p>A report was presented to SMT on 3rd April 2007. This outlined the advantages and disadvantages, to the Authority, of implementing a full system of CRSA. It was agreed that at present, the Authority has progressed as far as in necessary towards the concept of CRSA. We have reached a satisfactory working balance between the requirement for managers to be seen as having "ownership" of their systems and controls, yet maintaining also the concept of, and requirement for, an independent view thereof by Audit Services.</p>
<p>Due to problems experienced with the implementation of the new bank reconciliation system, the authority did not maintain regular bank reconciliations from 1st April 2004.</p>	<p>External Audit assurance was received for 2004/05 and 2005/06. For 2006/07 a full monthly balance is maintained.</p>
<p>S11 recommendation – the Council should improve its financial management arrangements and systems of internal controls, in order that it is able to prepare financial statements, which are free from material error and demonstrate proper stewardship of public money.</p>	<p>An Action Plan has been produced to tackle the weaknesses as set out by the External Auditors for the 2005/06 accounts process. This Action Plan has been used to improve the 2006/07 Final Accounts process.</p>
<p>The former DSO system, Contractor Plus, is difficult to integrate to the main accounting system. Now that the Final Accounts closedown process is significantly shorter - 30th June - there is a significant risk that closedown will not be achieved on time due to problems in reconciling the two systems</p>	<p>A procurement process for a replacement system has been undertaken. Tenders have been returned from potential suppliers and a feasibility study is under way in order to determine the Unit's business requirements before the decision to award the contract is taken.</p>

Statement of the Leader, the Town Clerk and Chief Executive and the Director of Corporate Services

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control and plans to address weaknesses and actions will be monitored regularly through SMT and the Audit Committee to ensure that improvements are actioned in accordance with the time-scales set.

Signed:

Councillor M. R. Mitchelson

Leader of the Council

.....

Maggie Mooney

Town Clerk and Chief Executive

.....

Angela Brown

Director of Corporate Services

.....