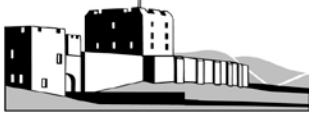


CARLISLE
CITY COUNCIL



www.carlisle.gov.uk

AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 22 JUNE 2009

Title: STATEMENT OF ACCOUNTS 2008/09

Report of: Director of Corporate Services

Report reference: CORP23/09

Summary:

The Council's Statement of Accounts 2008/09 (subject to Audit) is attached to this report. Once approved by Council on 29 June the statements will be subject to audit, which must be concluded by the statutory deadline of 30 September 2009. Key issues included within the 2008/09 Statements are highlighted within the report for Members attention. Members should note that the attached accounts are still subject to an internal quality review process and if any changes are required to the Statements, these will be reported to Members where necessary by way of an addendum to the Audit Committee or Council.

Recommendations:

- (i) The Committee is asked to consider the 2008/09 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.
- (ii) That the Annual Governance Statement be considered and approved separately by the Audit Committee.

Contact Officer: Steven Tickner

Ext: 7281

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 2009

CORP23/09

STATEMENT OF ACCOUNTS 2008/09

1. BACKGROUND INFORMATION AND OPTIONS

- 1.1 The Accounts and Audit Regulations 2003 require that the City Council's Statement of Accounts for 2008/09 be submitted to full Council for approval by 30 June 2009.
- 1.2 The Statements reflect the summarised financial out-turn information which was recently considered by the Executive and Corporate Resources Overview and Scrutiny Committee. To a large extent the format of the Statement of Accounts is prescribed and is therefore presented in a different format from the internal out-turn reports.
- 1.3 The Statements presented are subject to the formal audit process, which will commence on 30 June, and must be completed by 30 September. The auditors will identify any material changes required to the Statements and they will also produce an ISA+260 Statement (Annual Governance Report) which details any unadjusted misstatements found during the course of the audit. Both of these need to be considered by 'those charged with governance', which in respect of the Statements, is the full Council.
- 1.4 Internal Audit carries out annual audits of the authority's business critical systems. This provides the assurances that the information used to prepare the Statement of Accounts is accurate and relevant.

2. OUT-TURN REPORTS

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

	Total Expenditure	Variance as at 31/03/09	Carry Forwards to 2009/10	Carry Forwards to 2010/11	Final Variance
Revenue					
Provisional Out-turn (per CORP14/09)	15,840,220	(3,577,380)	1,005,600	0	(2,571,780)
Final Out-turn (note 1)	15,766,696	(3,650,904)	1,005,600	0	(2,645,304)
Capital					
Provisional Out-turn (per CORP15/09)	5,562,968	(4,073,532)	4,071,000	0	(2,532)
Final Out-turn	5,562,968	(4,073,532)	4,071,000	0	(2,532)

Notes

- (1) After the outturn reports had been produced, there were some minor amendments required that altered the final outturn position. The final interest due on the VAT claims was £33,526 more than had been originally included in the provisional outturn figure. An amendment was required to the Benefit Subsidy owed to the Council once the final subsidy figures had been calculated. This was £9,157.11. There was also the reversal of entries required for a control account code £1,988.

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

3. CHANGES ARISING FROM THE 2008 STATEMENT OF RECOMMENDED PRACTICE

- 3.1 At the Audit Committee meetings of the 14 January 2009 and 8 April 2009 the Director of Corporate Services reported that changes would be required to the format of the 2008/09 Statement of Accounts. Reference was made to the 2008 Statement of Recommended Practice (SORP) which introduced minor changes to the way the Statement of Accounts for 2008/09 would be prepared. The 2008/09

Statement of Accounts now presented incorporates the changes required in accordance with the SORP.

3.2 The main changes are set out below. These changes will impact primarily on the layout of the balance sheet with corresponding entries required to the Income and Expenditure Account where necessary.

- Changes to the Authorised for Issue date used in the accounts to reflect changes to the accounts for post balance sheet events and changes as a result of errors in the accounts.
- Changes to the disclosure of FRS 17 information relating to pensions.
- Changes to the terminology used to describe deferred charges. This will only affect the disclosure note to the balance sheet.

4. KEY ISSUES

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

4.2 The Annual Governance Statement forms part of the Annual Statement of Accounts as presented at **Appendix 2**. It is a requirement of the 2008 SORP that the Annual Governance Statement be considered and approved separately by the Audit Committee.

4.3 Significant issues

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

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

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

Net operating expenditure – an increase of £9.730m over the previous year. This can be explained as a result of an increase in the costs relating to Pension Fund

assets and liabilities (£1.503m); an increase in depreciation and impairment charges of £8.005m, with other smaller items of expenditure making up the balance.

Additional income was received in the year from claims submitted for overpaid VAT and for back rent for the Lanes Shopping Centre.

Due to the current economic climate, a full revaluation of the Council's land and property assets was undertaken in 2008/09. This highlighted that a lot of the Council's assets had decreased in value. Although some of these decreases were able to be charged against the balance on the revaluation reserve, £8m has had to be charged against the Income and Expenditure Account. This charge though does not affect the level of Council tax or the Council's cash balances and is reversed through the Statement of Movement on General Fund.

4.3.2 **Balance Sheet**

The balance sheet records all of the Council's assets and liabilities as at 31 March 2009. The main items of note are as follows:

Long Term Assets – these are assets owned by the authority which are used either in direct service provision or held for investment purposes. The value as at 31 March 2009 is £143m (March 2008 £149m). Fixed assets were all revalued in 2008/09 with the valuation work being undertaken by external valuers in conjunction with the Head of Property. Other long-term investments and long term debtors relate to investments with a maturity date in excess of 12 months from the balance sheet date and debt outstanding on mortgages provided to third parties for the purchase of Council and private dwellings.

Current Assets – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2009 and short-term investments. Investments have increased by £6.7m over the year and the Council currently has £26.3m invested in a variety of banks and building societies. Debtors have decreased by £4.113m to £8.652m in the past year. This is due to a decrease in the debtor for PRTB receipts of £2.012m and a decrease in other capital debtors of £1.4m. There is also a decrease in amounts owed for LABGI included as debtors to the value of £0.531m.

Current liabilities – this is the amount of money owed by the Council to its suppliers and contractors which totalled £5m as at 31 March 2009 (£5m as at 31 March 2008).

Long term liabilities – this section is made up of several different items. Long term borrowing and the value of the pension liability makes up approximately 80% of the total. Long term borrowing (£15m) remains fairly static over the year as the Council has no need to undertake any prudential borrowing due to the level of capital receipts generated. The Pension Liability amounts to £27.467m as at March 2009 (£28.266m March 2008). This is the value placed on the Council liability by the Pension Fund Actuary and is offset in the balance sheet by a corresponding credit on the Pension Reserve.

Financed by – the total of all the items within this section is the value of the net worth of the Council. It shows the reserves and balances held as at 31 March 2009.

Job Evaluation Reserve

As part of the Job Evaluation exercise, an earmarked reserve was established and in 2008/09 £883,000 has been transferred into this reserve as a contribution to fund the future estimated cost of implementing the scheme. A Reserve has been established as no formal agreement has yet taken place as to the potential costs of the scheme. Once Council makes a formal decision on the implementation of the scheme consideration will need to be given to the impact this will have on the accounting treatment. If any decision is made prior to 30 September, this will be classed as a Post Balance Sheet Event and require the Statement of Accounts to be amended to reflect the change in accounting treatment. It is the intention that approval be sought from Council on 14th July to carry out a full consultation with staff on any proposals. Once this consultation has been carried out, Council will be asked to make a decision on the implementation of the scheme and this is not likely to occur until October at the earliest.

5. CONSULTATION

5.1 Consultation to Date.

None

5.2 Consultation proposed.

Notice will be given in the local press for any interested person to inspect, and make copies of the accounts of the Council for the year ended 31 March 2009 and certain documents (comprising books, deeds, contracts, bills, vouchers and receipts)

between 6 July and 3 August 2009. Interested persons will also be able to question the Auditor about the accounts and make objections to the same with effect from 3 August 2008 (s15 date) until the completion of the audit.

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

6. RECOMMENDATIONS

- (i) The Committee is asked to consider the 2008/09 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.
- (ii) That the Annual Governance Statement be considered and approved separately by the Audit Committee.

ANGELA BROWN
Director of Corporate Services

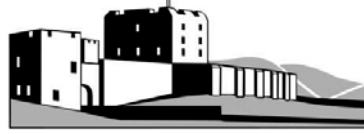
Contact Officer: Steven Tickner

Ext: 7280

APPENDIX 1

Item	£	£
Provisional Out-turn (table at paragraph 2)		15,766,696
Capital Receipts generated on the disposal of assets		(299,393)
Net book value of disposals written out of balance sheet		319,856
Parish Precepts		404,950
Actuary Reports on Pension Costs (FRS17)		
- Expected return on pension assets	(5,473,000)	
- Interest Costs	7,039,000	1,566,000
Net changes re FRS17 current and past service costs		218,171
Depreciation and Impairment Charges		10,414,764
Capital Expenditure on revenue expenditure funded from capital under statute (assets not owned by the Council) chargeable to the I&E account less grants and contributions received towards these costs		3,993
Capital Government Grants and Contributions, credited to the I&E account to offset the depreciation charge		(562,714)
Transfers to earmarked reserves shown elsewhere		
- Lanes Capital Fund	(14,900)	
- Job Evaluation Reserve	(873,000)	(887,900)
Finance Lease Written Out		16,414
LABGI (shown as a funding source)		194,173
Net operating cost on the I&E account		27,155,010

**CARLISLE
CITY COUNCIL**



www.carlisle.gov.uk

STATEMENT OF ACCOUNTS

2008/09

SUBJECT TO AUDIT

STATEMENT OF ACCOUNTS

2008/09

CONTENTS

Section		Page
1.	Foreword	1
2.	Statement of Accounting Policies	7
3.	Statement of Responsibilities for the Statement of Accounts	16
4.	Financial Statements:	
	Income and Expenditure Account	17
	Statement of Movement on the General Fund Balance	18
	Statement of Total Recognised Gains and Losses	18
	Balance Sheet	19
	Cash Flow Statement	21
5.	Notes to the Financial Statements	22
6.	Supplementary Financial Statements – Collection Fund	51
7.	Annual Governance Statement	54

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 2008/09
- 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 2009 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 Movement on the General Fund Balance
This shows the value of all the amounts affecting the movement in the balance held in Council's General Fund during the year.
- (v) The Statement of Total Recognised Gains and Losses
The Council is required to disclose details of all gains and losses incurred in the year. This statement shows the gains and losses on the Income and Expenditure Account, the revaluation of fixed assets, and the pension fund assets and liabilities.
- (vi) The Balance Sheet
This shows information on the financial position of the Council at the 31 March 2009, including the level of balances and reserves at the authority's disposal, its long term indebtedness and the value of the assets held by the Council.
- (vii) The Cash Flow Statement
This shows the cash movements in and out of the Council due to transactions with third parties for revenue and capital purposes.
- (viii) Notes to the Financial Statements
These explain in more detail a number of entries in the core financial statements.
- (ix) The Collection Fund
This shows the total income received by the Council from council tax and business rates and how this has been distributed to all the authorities it is collected for, including the Council.

(x) The Annual Governance Statement

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

1.2 Revenue Expenditure and Financing

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

Summary Income and Expenditure Account

The table below shows a comparison of the Council's revised budget with its performance for 2008/09. More detailed information is shown in the Income and Expenditure Account on page 17.

	General Fund 2008/09	
	Revised Budget £000	Actual £000
Net Cost of Services (excluding Trading Operations)	21,905	26,856
Parish Precepts	405	405
Interest Payable	1,325	1,298
Interest and Investment Income	(1,911)	(2,625)
Trading Activities	(1,599)	(361)
(Gains)/Losses on disposal of Fixed Assets	0	16
FRS17 Pension interest costs & expected return on pension Assets	0	1,566
Net Operating Expenditure	20,125	27,155
Precept on Collection Fund	(6,683)	(6,683)
Government Grants:		
LABGI	0	(194)
NNDR	(9,014)	(9,014)
RSG	(1,255)	(1,255)
Area Based Grant	(26)	(49)
Council Tax Surplus	(32)	(33)
Total Income	(17,010)	(17,228)
(Surplus)/Deficit on Income & Expenditure Account	3,115	9,927

The total reserves held by the Council total £117.281m as at 31 March 2009 (£124.038m at 31 March 2008). Further details can be found at paragraph 5.29.

A revenue out-turn report for 2008/09 has been prepared which provides additional information on the year end position. This is available upon request from the Director of Corporate Services. During the year, additional one-off income was received in respect of backdated rental income from the Lanes (£637,000), and claims for overpaid VAT (£1,184,699). These amounts contributed to an underspend on the General Fund outturn, but other items then contribute to the deficit shown above on the overall Income and Expenditure Account.

1.3 Capital Expenditure and Financing

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

(i) Capital Expenditure

The Council's revised capital programme for 2008/09 was approved at £9.7 million. Overall capital spending for 2008/09, however, totalled £5.6 million, resulting in slippage of £4.1 million to future years. The overall programme can be summarised as follows:

	£000	£000
<u>Revenue Expenditure funded from Capital Under Statute</u>		
Renovation Grants	89	
Disabled Facilities Grants	1,644	
Longtown MTI Business Grants	10	
Housing Strategy	56	
Environmental Improvements	99	
OPDM Flood Grant	57	
Other Minor projects	80	
		2,035
<u>Capital Investment on Assets</u>		
Recycling Scheme	112	
Leisuretime Investment	363	
Planned Major Repairs	259	
Renaissance Schemes	84	
Sheepmount (including drainage)	30	
Cremators	23	
Equipment, Vehicles & Plant	712	
City Council Buildings (including Community Centres)	396	
Industrial Estates	63	
IT Projects	269	
Ghyll Bank Gypsy & Travellers Site	589	
Engine Lonning Gas Venting Trench	84	
Riverbank Protection/Flood Defence expenditure	48	
Historic Quarter	65	
Eden Bridge Garden	51	
Chances Park	25	
Housing and Planning Delivery grant scheme	85	
Other Schemes	270	
		3,528
		5,563

The programme has been financed as follows:

	£000
Capital Receipts	299
Specified Capital Grant	610
Other Capital Grants and Contributions	2,668
Reserves	(8)
Unfinanced Capital Expenditure **	1,994
	5,563

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

A capital out-turn report for 2008/09 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 four mortgages with a value of £59,000 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. During 2007/08, the Council transferred the balance of its Capital Receipts to the Capital Adjustment Account in order to reduce its Capital Financing Requirement. The cash from these receipts is still available to pay for future capital expenditure and the value of these receipts was £14.5m at the start of 2008/09. The Council has seen a significant reduction in the amount of capital receipts generated in 2008/09 due to difficult economic conditions throughout the year. Receipts from Carlisle Housing Association were less than anticipated due to a downturn in the number of qualifying properties sold.

1.4 Significant Issues

(i) Statement of Recommended Practice (SORP) 2008

There have been changes to the Statutory Statements included within this set of accounts following the implementation of the 2008 SORP. These changes include:

- Changes to the Authorised for Issue date used in the accounts to reflect changes to the accounts for post balance sheet events and changes as a result of errors in the accounts.
- Changes to the terminology used to describe deferred charges, which are now shown under the heading of Revenue Expenditure funded from Capital Under Statute.
- Changes to the disclosure notes and valuation bases for pensions.

(ii) Pensions

The full implementation of FRS17 (Retirement Benefits) in 2004/05 necessitated the introduction of revised accounting policies in relation to the treatment of pensions. The 2008 SORP has incorporated changes to the bases for valuing pension fund assets and this has resulted in changes to the required disclosure notes found at 5.8 and 5.32 to the core financial statements. The changes to the valuation bases resulted in the opening pension fund asset values changing from those disclosed in the 2007/08 Statement of Accounts and the revised values are reflected in the note 5.32 to the accounts.

(iii) Usable Capital Receipts

During 2007/08, £14.5m of unapplied usable capital receipts was transferred into the Capital Adjustment Account. The effect of this transfer reduced the Council's Capital Financing Requirement to a negative figure as at 31 March 2008 which in turn reduced the Council's Minimum Revenue Provision (MRP) liability for 2008/09 to nil. The balance on the Usable Capital Receipts reserve is nil as at 31 March 2009 with a cash figure of £12,544,633 held in the Capital Adjustment Account which is available to fund future capital expenditure. In 2008/09 £1.994m of this cash was used to fund capital expenditure and this has resulted in the Council's capital financing requirement increasing (Note 5.20).

(iv) Economic Climate

The current economic downturn has impacted on the Council's financial position in a number of areas. The reduction in interest rates from 5% in April 2008 to 0.5% by March 2009 saw interest on the Council's investments drop in the latter part of the year. However, this was partly mitigated by enhanced returns achieved in the first part of the year. The Council saw income decrease in other areas such as car parking, licensing and building control. The Council has also had to provide for an increased bad debt provision as a prudent approach to the possibility of non-payment of debts.

The economic downturn has also affected the value of the Council's assets and for this reason a full revaluation of the Council's land and property assets was undertaken. This led to net downward revaluations of £8m being charged to the Income and Expenditure Account. This does not have an impact on the level of council tax or revenue reserves as this is then reversed through the Statement of Movement on General Fund.

(v) Additional Income received

During 2008/09 the Council received additional one-off income in respect of back-rent in relation to the Lanes shopping centre and successful claims for overpaid VAT. These amounts are shown in the Income and Expenditure account and have been added to the Council's reserves at the end of the year.

1.5 Accounting Policy Information

The accounts of the Council comply with the relevant accounting practices laid down by the Accounting Standards authorities. The changes in 2008/09 to accounting policies relate to changes to the Authorised for Issue date after consideration of the impact of Post Balance Sheet Events, changes to the terminology of expenditure on capital items not owned by the Council from Deferred Charges to Revenue Expenditure funded from Capital under Statute and changes to the disclosure notes and valuation bases for pension costs.

1.6 Further Information

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

SECTION 2 – STATEMENT OF ACCOUNTING POLICIES

2.1 General

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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

2.2 Fixed Assets

(i) Tangible Fixed Assets

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

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

De-minimis levels have been set at:

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

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

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

Net current replacement cost is assessed as:

- Non specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value
- Vehicles, plant and equipment – depreciated historic cost (as a proxy for market value)

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

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

(ii) Intangible Assets

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

(iii) Impairment

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

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

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

(iv) Sales

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

2.3 Depreciation

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

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

Under the 2008 SORP, depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

2.4 Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Reductions in asset values that are not covered by a balance in the Revaluation Reserve.
- Amortisation of intangible fixed assets attributable to the service.

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

2.5 Leases

(i) Finance Leases

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

(ii) Operating Leases

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

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

2.6 Revenue Expenditure Funded from Capital Under Statute

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

2.7 Capital Receipts

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

2.8 Accruals of Income and Expenditure

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

- Fees and charges and other receipts from customers are accounted for as income at the date the Council provides the relevant goods or services.
- 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.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest paid or received is accrued and accounted for in the period to which it relates on the basis of the effective interest rate for the relevant financial instrument that reflects the overall effects of the borrowing or investment generating the interest.
- Where income and expenditure has been recognised, but cash has not yet been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

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

2.9 Stocks and Work in Progress

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

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

2.10 Overheads and Support Services

The costs of overheads and support services are apportioned to services using the principles contained in CIPFA's Best Value Accounting Code of Practice 2008. 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.

2.11 Provisions

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

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

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

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

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

2.12 Reserves

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

The level of Council reserves is shown in the Balance Sheet and details of the individual reserves are shown in note 5.29 (Summary of Movement in Reserves) to the core statements.

2.13 Retirement Benefits

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

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

- The liabilities of the Cumbria County Council Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.
- Liabilities are discounted to their value at current prices using a real discount rate of 6.1%
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unlisted securities – current bid price
 - property – market value

Around 90% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into seven components and recognised in the Statements as follows:
 - Current service cost – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Income and Expenditure Account.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Income and Expenditure Account.
 - Interest cost – the expected increase in the value of liabilities during the year as they move one year closer to being paid is charged to Net Operating Expenditure within the Income and Expenditure Account.
 - Expected return on assets – the annual investment return on fund assets attributable to the Council, based on an average of the expected long-term return is credited to Net Operating Expenditure within the Income and Expenditure Account.
 - Gains and losses on settlements and curtailments – the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are charged to Non-Distributed Costs within Net Operating costs in the Income and Expenditure Account.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their

assumptions are charged to the Statement of Recognised Gains and Losses.

- Contributions paid to the Cumbria County Council Pension Fund – cash paid as employers' contributions to the pension fund

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 5.32 to the Accounts.

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

Discretionary Benefits

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

2.14 Financial Instruments

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2008 SORP. The following items meeting the new definition are contained within the Council's balance sheet.

(i) Financial Liabilities

Borrowing

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

Creditors

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

(ii) Financial Assets

Loans and Receivables

(a) Investments

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all the investment that the Council has made, this means that the amount shown in the balance

sheet is the amount of principal due to be repaid to the Council and the interest credited to the Income and Expenditure Account is the amount receivable by the Council under the loan agreement.

(b) Debtors (including mortgages)

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

(c) Car Loans

Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2008 SORP. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note 5.24 to the Financial Statements.

2.15 Gains and Losses on Debt Restructuring

The Council does not currently hold any balances in relation to gains and losses arising from debt restructuring. The Council nevertheless has adopted the principles contained within the 2008 SORP and will therefore reflect any such gains or losses within its accounts using the following policies: -

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

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

2.16 Government Grants

Revenue grants are recognised as income at the date the grant conditions are met, giving reasonable assurance that the grant will be paid by the funding body. Grant income is therefore accrued and credited to the Income and Expenditure Account in the same period in which the related revenue expenditure has been charged. Grants and contributions used to finance the acquisition of a fixed asset are credited to the Deferred Government Grant Account and written off to the Income and Expenditure Account over the life of the asset, thereby off-setting the depreciation charge for the asset. Grants in respect of revenue expenditure funded from capital under statute are written down over the same period as the expenditure.

2.17 Value Added Tax

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

2.18 Group Accounts

The authority has reviewed its interests with external bodies in 2008/09 as required by the SORP. The Council's analysis has concluded that it does not have any interests in subsidiaries, associated companies and joint ventures that are material both individually and in aggregate and therefore there is no requirement to produce a set of Group Accounts.

2.19 Prior Period Adjustments

There are no adjustments to the accounting policies adopted by the Council as a result of the 2008 SORP that require significant changes to the 2008/09 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 Service

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 2009.

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;

Signed:

Date:

AD Brown – Director of Corporate Services

SECTION 4 – FINANCIAL STATEMENTS

4.1 Income and Expenditure Account

2007/08 Net Expenditure £000	Service	Note	2008/09 Gross Expenditure £000	2008/09 Gross Income £000	2008/09 Net Expenditure £000
	Continuing Operations				
14,044	Cultural, Environmental & Planning Services	5.15	31,148	(13,215)	17,933
2,241	Highways, Roads & Transport		6,926	(4,707)	2,219
1,665	Housing Services		26,678	(25,329)	1,349
643	Central Services		9,082	(7,836)	1,246
3,832	Corporate & Democratic Core		3,786	(205)	3,581
775	Non Distributed Costs		616	(84)	532
0	Exceptional Items	5.16	0	0	0
23,200	Total Continuing Operations		78,236	(51,376)	26,860
(1)	Discontinued Operations				
	Services Transferred to CHA	5.3	0	(4)	(4)
23,199	Net Cost of Services		78,236	(51,380)	26,856
	Other Items				
(2,209)	(Gains)/Losses on the sale of fixed assets	5.5			16
391	Precepts paid to Parish Councils				405
(1,867)	(Surplus)/Deficit from Trading Undertakings & Other Operations	5.4			(361)
1,294	Interest Payable				1,298
(3,446)	Interest & Investment Income				(2,625)
63	Pension Interest Cost and Expected return on Pension assets	5.8			1,566
17,425	Net Operating Expenditure				27,155
(6,390)	Precept demanded from the Collection Fund				(6,683)
(11)	Council Tax Surplus				(33)
(1,453)	Revenue Support Grant				(1,255)
(675)	Local Authority Business Growth Incentive				(194)
0	Area Based Grant				(49)
(8,658)	National Non Domestic Rate Pool				(9,014)
(17,187)	Amount provided from Government grants and local taxpayers				(17,228)
238	(Surplus)/Deficit for the Year				9,927

4.2 Statement of Movement on the General Fund Balance

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

2007/08 £000	Description	2008/09 £000
238	(Surplus)/Deficit on the Income & Expenditure Account for the year	9,927
(238)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(9,927)
0	Movement on the General Fund for the Year	0
(3,800)	General Fund Balance at the start of the year	(3,800)
(3,800)	General Fund Balance at the end of the year	(3,800)

4.3 Statement of Total Recognised Gains and Losses

2007/08 £000	Description	2008/09 £000
238	(Surplus)/Deficit on the Income & Expenditure Account for the year	9,927
(23)	Collection Fund	57
11,729	Actuarial (Gain)/Loss on the Pension Fund	(2,583)
(16,383)	Gains on the Revaluation of Fixed Assets	(644)
73	Other Gains and Losses	0
(4,366)	Total Recognised (Gains) and Losses for the year	6,757

4.4 Balance Sheet

31 March 2008 £000		Note	31 March 2009	
			£000	£000
31	Intangible Assets		98	
	Tangible Assets	5.18		
	Operational Assets			
214	Dwellings		201	
33,920	Other Land & Building		36,689	
2,512	Infrastructure Assets		2,473	
1,946	Community Assets		2,574	
7,675	Vehicles & Plant		7,469	
	Non Operational Assets			
89,635	Investment		79,106	
13,321	Surplus		13,198	
161	Assets Under Construction		1,011	
149,415	Total Fixed Assets			142,819
3,153	Long Term Investments	5.24a	1,053	
	Long Term Debtors			
367	Transferred Debt - Cumbria County Council		332	
2	Mortgages & Other	5.24b	1	
3,522				1,386
152,937	Total Long Term Assets			144,205
	Current Assets			
197	Stocks & Work in Progress	5.25	211	
12,765	Debtors	5.24b	8,652	
444	Payments in Advance		248	
443	Cash at Bank		914	
19,647	Investments	5.24b	26,306	
33,496				36,331
	Current Liabilities			
(5,003)	Creditors	5.24a	(5,065)	
(972)	Temporary Loans	5.24a	(26)	
(3,171)	Receipts in Advance		(3,506)	
(9,146)				(8,597)
177,287	Total Assets Less Current Liabilities			171,939
	Long Term Liabilities			
(15,533)	Long Term Borrowing		(15,530)	
(27)	Deferred Liabilities		0	
(578)	Provisions		(830)	
(8,660)	Deferred Government Grant	5.33	(9,344)	
(185)	Capital Grants Unapplied		(1,487)	
(28,266)	Pension Liability		(27,467)	
(53,249)				(54,658)
124,038	Total Assets Less Liabilities			117,281

31 March 2008 £000	Balance Sheet (Cont.)	Note	31 March 2009	
			£000	£000
	Financed by:			
21	Deferred Credits	5.29	20	
0	Usable Capital Receipts	5.29	0	
21				20
	Reserve Balances:			
3,800	General Fund Reserve Balance		3,800	
7,339	General Reserves		9,024	
(28,266)	Pension Reserve		(27,467)	
125,194	Capital Adjustment Account		115,330	
15,950	Revaluation Reserve		16,574	
124,017				117,261
124,038	Total Net Worth			117,281

Certified as presenting fairly the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

Signed:

Date:

AD Brown – Director of Corporate Services

Approved by Council on 29 June 2009

Signed:

Date:

Chair of meeting approving accounts

4.5 Cash Flow Statement

2007/08 £000		2008/09	
		£000	£000
2,587	Net Cash (Inflow)/Outflow before Financing (Note 5.36)		(1,517)
	RETURNS ON INVESTMENT & SERVICING OF FINANCE		
	Cash Outflows		
1,294	Interest Paid	1,298	
	Cash Inflows		
(1,841)	Interest Received	(1,894)	
(547)	Returns on Investment & Servicing of Finance Net Cash Flow		(596)
	CAPITAL ACTIVITIES		
	Cash Outflows		
5,736	Purchase of Fixed Assets	3,470	
3,143	Other Capital Payments	1,916	
3,000	Purchase of Long Term Deposits	1,000	
	Cash Inflows		
(5,245)	Sale of Fixed Assets	(2,829)	
(6,000)	Repayment of long term deposits	(2,000)	
(2,499)	Capital Grants Received	(5,787)	
(469)	Other Capital Receipts	(492)	
(2,334)	Capital Activities Net Cash Flow		(4,722)
(294)	Net Cash (Inflow)/Outflow before Financing		(6,835)
	MANAGEMENT OF LIQUID RESOURCES		
1,000	Net increase/(decrease) in short term deposits		4,800
	FINANCING		
	Cash Outflows		
12	Loans Repaid	958	
23	Finance Lease repayments	16	
	Cash Inflows		
(916)	New Loans Raised	(10)	
(881)	Financing Net Cash Flow		964
(175)	Net (Increase)/Decrease in Cash		(1,071)

SECTION 5 - NOTES TO THE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

5.1 Overall Position for the Year

The revised budget for 2008/09 including parish precepts of £405,000 was £19,822,600. This is paid for by local taxpayers and government grants totalling £17,010,000, with the balance of £2,812,600 coming from Council Reserves. Any increases or reductions in spending directly affects the level of reserves held by the Council. In 2008/09, the forecast use of reserves decreased by £3,651,000 with the main reasons for the decrease being: -

	£000
Carry Forward requests from 2008/09 to 2009/10	(1,005)
Increase in available reserves in 2009/10	(2,646)
Total	(3,651)

In line with the Council's policy on the use of reserves any gains as a result of the out-turn position are returned to the Projects Reserve once the level on the General Fund Balance has been maintained (£3.8m). The Summary of Movement in Reserves (note 5.29) shows the movement on all of the Reserves maintained by the Council.

The Council received additional income during the year that has helped to increase balances. These have been as a result of successful claims for overpaid VAT (£1,184,699), and back rent for the Lanes (£637,000).

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

2007/08 £000	Description	2008/09 £000
	Amounts included in the Income & Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year	
(2,410)	Depreciation & Impairment of fixed assets	(10,415)
218	Amortisation of Deferred Government Grants	563
2,202	Net Gains/(Losses) on the sale of fixed assets	(20)
1,581	Differences between statutory debits/credits and amounts recognised as income and expenditure in relation to Financial Instruments	0
(443)	Revenue Expenditure Funded from Capital under Statute	(4)
(3,164)	Net charges made for retirement benefits in accordance with FRS17 (note 5.8)	(4,499)
(2,016)		(14,375)
	Amounts not included in the Income & Expenditure account but required to be included by statute when determining the movement on the General Fund Balance for the year	
340	Minimum Revenue Provision for capital financing	0
811	Direct revenue funding of capital spending	0
2,492	Employer's Contributions payable to the Pension Fund (note 5.8)	2,715
3,643		2,715
	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	
266	Voluntary Revenue Provision for repayment of debt	0
(2,131)	Contributions to/(from) Earmarked Reserves	1,733
(1,865)		1,733
(238)	Net Additional Amount to be credited/(debited) to the General Fund Balance for the year	(9,927)

5.3 Discontinued Operations

(i) Housing Revenue Account

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

5.4 Trading Operations

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

(Surplus)/ Deficit 2007/08 £000	Activity	Gross Income 2008/09 £000	Gross Expenditure 2008/09 £000	(Surplus) / Deficit 2008/09 £000
(79)	Corporate Properties	(370)	1,446	1,076
(2,128)	Industrial Estates	(2,883)	683	(2,200)
401	Community Services Trading	(4,298)	5,138	840
(61)	Market	(106)	29	(77)
(1,867)	Total	(7,657)	7,296	(361)

5.5 Gains and Losses from the Sale of Fixed Assets

The Income and Expenditure Account now includes gains and losses from the sale of Council assets. The value of the gains and losses for the year 2008/09 is as follows: -

2007/08 £000		2008/09 £000
(2,287)	PRTB Sales	(275)
78	Other	291
(2,209)	Total	16

5.6 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 2008/09 was as follows: -

2007/08 £000		2008/09 £000
94	Recruitment Advertising	46
445	Tourism	436
51	Promotions & Marketing	45
590	Total	527

5.7 The Local Authority Goods and Services 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 2008/09.

5.8 Pension Costs

In 2008/09, the City Council paid an employer's contribution of £2,418,759 into the Cumbria County Council Pension Fund, representing 17.4% (2007/08 £2,213,055 and 15.9%) of pensionable pay. The contribution rate is based on the triennial actuarial valuation carried out at 31 March 2007 by the Fund's Actuary. This contribution rate is effective for the three-year period commencing 1 April 2008. The Council is also responsible for all pension payments relating to unfunded added years benefits awarded to its employees together with any related increases. In 2008/09 the value of these benefits amounted to £513,783 representing 3.70% of pensionable pay (2007/08 £279,083 and 2.01% respectively). The pension costs charged to the Income and Expenditure Account in accordance with FRS17 are as follows:

2007/08 (Original) £000	2007/08 (as restated) £000		2008/09 £000
2,330	2,330	Current Service Cost	2,627
771	771	Past Service Cost	0
0	0	Curtailment Cost	306
(5,567)	(5,556)	Expected Return on Pension Assets	(5,473)
5,630	5,630	Pension Interest Costs	7,039
3,164	3,175	Total	4,499
2,493	2,493	Contributions paid to Pension Scheme	2,715
(671)	(682)	Contributions to / (from) Pension Reserve	(1,784)

5.9 Officers' Remuneration

The Accounts and Audit Regulations 2003 require that local authorities disclose details of the number of employees whose remuneration, excluding pension contributions, exceeds £50,000 in bands of £10,000.

2007/08		2008/09
4	Between £50,000 and £59,999	7
0	Between £60,000 and £69,999	0
4	Between £70,000 and £79,999	3
1	Between £80,000 and £89,999	1
0	Between £90,000 and £99,999	0
1	Over £100,000	1

5.10 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 2008/09 are as follows:

2007/08 £000		2008/09 £000
	<u>Type of Allowance</u>	
237	Basic Allowance	240
87	Special Responsibility Allowance	86
28	Conference/Other Allowances	21
352	Total	347

5.11 Related Party Transactions

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

All elected members and 28 of the senior officers of the Council were asked to declare any direct financial relationship with the Authority for the financial year 2008/09. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Authority during 2008/09.

Other related party transactions are as follows: -

- Government Grants, which are detailed in note 5.33 to the Financial Statements.
- The City Council's transactions with the Cumbria County Council Pension Fund, which are shown in note 5.8 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.

5.12 Building Control

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities.

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

	Chargeable £000	Non - Chargeable £000	Total £000
<u>Expenditure</u>			
Employee Costs	276	172	448
Transport Expenses	13	6	19
Supplies & Services	7	26	33
Agency & Contracted Services	6	0	6
Central & Support Services	70	43	113
Total Expenditure	372	247	619
<u>Income</u>			
Building Regulation Charges	(370)	0	(370)
Other Income	0	(16)	(16)
Total Income	(370)	(16)	(386)
(Surplus)/Deficit for the Year	2	231	233

5.13 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 £520,355 (104,071 population x £5.00 per head) in 2008/09 under this power but did not incur any spending of this nature in the year.

5.14 Disclosure of Audit Costs

In 2008/09 Carlisle City Council incurred the following fees relating to external audit and inspection:

2007/08 £000		2008/09 £000
122	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	131
7	Fees payable to the Audit Commission in respect of statutory inspection	6
40	Fees payable to the Audit Commission for the certification of grant claims and returns	40
1	Fees payable in respect of other services provided by the appointed auditor	1
170	Total	178

5.15 Pooled Budgets

During 2002/03, the Council agreed with Eden District Council to form the Carlisle and Eden Crime and Disorder Reduction Partnership. The partnership was instigated under the Council's duties to reduce crime and disorder. The Council made a contribution in 2008/09 of £39,900 (2007/08: £38,500) to a pooled budget in this scheme, which is included in Cultural, Environmental and Planning Services in the Income and Expenditure Account.

5.16 Exceptional Items

There were no exceptional items in 2008/09.

5.17 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:

2007/08 £000	Type of Lease	2008/09 £000
4,640	Land & Property Leases	5,748
57	Car Leasing	53
4,697	Total	5,801

The capital value held within the balance sheet at 31 March 2009 in respect of land and property generating leasehold income is £79.106m. This figure represents the gross value of the Investment Properties and as these are non-operational fixed assets, they are not subject to a depreciation charge.

The Council also rents property itself for operational purposes. The value of the rentals paid in respect of its responsibilities as a lessee in 2008/09 is as follows:

2007/08 £000	Leasehold Property	2008/09 £000
101	Denton Holme Trade Centre	102
17	Devonshire Walk Mobile Toilet	18
20	Irthing Centre	20
138	Total	140

BALANCE SHEET**5.18 Fixed Assets**

The table below sets out the transactions relating to fixed assets in 2008/09: -

	OPERATIONAL					NON-OPERATIONAL				Total £000
	Council Dwelling £000	Other Land & Buildings £000	Vehicles & Plant £000	Infra- structure £000	Community Assets £000	Investment Property £000	Surplus Property £000	Intangible Assets £000	Assets under Construc'n £000	
Cost or Valuation										
Valuation as at 1 April 2008	216	34,968	10,719	2,698	1,946	89,635	13,321	34	161	153,698
Additions	0	660	1,208	13	628	63	0	74	882	3,528
Disposals	0	0	(173)	0	0	(1)	(295)	0	0	(469)
Reclassifications	0	0	32	0	0	0	0	0	(32)	0
Revaluations Taken to Revaluation Reserve	(15)	2,223	0	0	0	(3,758)	306	0	0	(1,244)
Revaluations Charged to I&E 2008/09	0	(1,067)	0	0	0	(6,847)	(134)	0	0	(8,048)
Reverse Downward Revaluations Previously Charged to I&E	0	8	0	0	0	14	0	0	0	22
Valuation as at 31 March 2009	201	36,792	11,786	2,711	2,574	79,106	13,198	108	1,011	147,487
Depreciation										
Accumulated Dep'n at 1 April 2008	(2)	(1,048)	(2,908)	(186)	0	0	0	(3)	0	(4,147)
Depreciation Charge to I&E 2008/09	(4)	(684)	(1,389)	(52)	0	0	(253)	(7)	0	(2,389)
Depreciation on Disposals	0	0	116	0	0	0	0	0	0	116
Reval'n – W/Out Dep'n	6	1,629	0	0	0	0	253	0	0	1,888
Accumulated Dep'n at 31 March 2009	0	(103)	(4,181)	(238)	0	0	0	(10)	0	(4,532)
Impairments										
Accumulated Impairment 1 April 2008	0	0	(136)	0	0	0	0	0	0	(136)
Impairments Charge to I&E 2008/09	0	0	0	0	0	0	0	0	0	0
Impairments (W/Out Dep'n)	0	0	0	0	0	0	0	0	0	0
Accumulated Impairments at 31 March 2009	0	0	(136)	0	0	0	0	0	0	(136)
Net Book Value at 31 March 2009	201	36,689	7,469	2,473	2,574	79,106	13,198	98	1,011	142,819
Net Book Value at 31 March 2008	214	33,920	7,675	2,512	1,946	89,635	13,321	31	161	149,415
Revaluation Summary										
Reval'n Gains	(15)	2,223	0	0	0	(3,758)	306	0	0	(1,244)
Reval'n – W/Out Dep'n	6	1,629	0	0	0	0	253	0	0	1,888
Total Revaluation	(9)	3,852	0	0	0	(3,758)	559	0	0	644
Nature of Asset holding										
Owned	201	36,689	7,469	2,473	2,574	79,106	13,198	98	1,011	142,819
Finance Lease	0	0	0	0	0	0	0	0	0	0
PFI	0	0	0	0	0	0	0	0	0	0
	201	36,689	7,469	2,473	2,574	79,106	13,198	98	1,011	142,819

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

Valuations are carried out via a rolling five-year revaluation programme with all assets being re-valued at intervals of not more than five years. Valuations for 2008/09 were carried out by R Simmons (Head of Property Services) ARICS and by external property consultants Hyde Harrington.

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

	Council Dwellings £000	Other Land & Buildings £000	Vehicles & Plant* £000	Non Operational Investment £000	Non Operational Surplus £000
Valued at Historic Cost	0	25	0	0	0
Valued at Current Value in:					
2008/09	201	36,767	1,241	79,106	13,198
2007/08	0	0	3,115	0	0
2006/07	0	0	2,231	0	0
2005/06	0	0	2,724	0	0
2004/05	0	0	731	0	0
2003/04	0	0	829	0	0
2002/03	0	0	915	0	0
Total	201	36,792	11,786	79,106	13,198

* Vehicles and moveable plant are valued at historic cost as a proxy for current value. These items are shown at the cost paid for the assets in the relevant financial year. This means that there are some items with a valuation greater than 5 years old in the above table.

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

An analysis of fixed assets includes: -

31 March 2008		31 March 2009
1	Civic Centre	1
15	Depots and Workshops	15
15	Off Street Car Parks	15
1	Leisure Centres	1
2	Swimming Pool	2
2	Museums	2
250ha	Parks & Recreation Grounds	250ha
1	Market	1
3	Cemeteries	3
1	Crematorium	1
97	Industrial Units	97
12	Community Centres	12
8	Industrial Estates	8

5.20 Capital Expenditure

Capital Expenditure in 2008/09 was financed as follows:

	£000
Opening Capital Financing Requirement	(19)
<u>Capital Expenditure</u>	
Operational Assets	2,510
Non-Operational Assets	1,018
Deferred Charges	2,035
	5,563
<u>Sources of Finance</u>	
Capital Receipts	(299)
Government Grants and Contributions	(2,895)
Revenue Provision (Including MRP)	8
Transferred Debt	(35)
Contributions from other bodies	(383)
	(3,604)
Closing Capital Financing Requirement	1,940
Increase/(Decrease) in underlying need to borrow	1,959

Significant budget commitments for future capital expenditure contracted for as at 31 March 2009

	£000
Improvement Grant Commitments	437
Vehicle Replacements	1,750

5.21 Leases

(a) Operating Leases

Total operating lease rentals paid in 2008/09 amounted to £684,087. At 31 March 2009 the annual commitment under operating leases and contract hire agreements was as follows:

On Leases expiring:	Leased Cars £000	CS Operating Leases £000	CS Contract Hire £000	Other Leases £000	Total £000
Within 1 year	6	0	0	0	6
2-5 years	88	0	0	18	106
After 5 years	0	0	0	123	123
Total	94	0	0	141	235

(b) Finance Leases

The Council had one refuse collection vehicle that was acquired through a finance lease in 2005/06. The annual lease rental paid in 2008/09 was £19,317 (inclusive of interest). The gross book value of the vehicle was £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. This finance lease was cancelled in 2008/09.

At 31 March 2009, there was no outstanding liability under this finance lease.

5.22 Revenue Expenditure funded from Capital Under Statute

Items of revenue expenditure funded from capital under statute, which are not financed by government grants, are written off to the Income and Expenditure Account during the year. The value for 2008/09 is as follows: -

	Expenditure £000	Grants Received £000	Amounts Written Off £000
Disabled Facilities Grants	1,644	(1,644)	0
Improvement Grants	89	(89)	0
ODPM Flood Grant	57	(57)	0
Other	245	(241)	(4)
Total	2,035	(2,031)	(4)

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.

2007/08 £000		2008/09 £000
63,849	General Fund	61,379
60,189	Trading Accounts	55,902
124,038	Total	117,281

5.24 Financial Instruments

(a) Financial Liabilities held at Amortised Cost

2007/08			2008/09	
Long Term £000	Current £000		Long Term £000	Current £000
15,533	972	Borrowing	15,530	26
0	3,489	Operational Creditors	0	4,665
15,533	4,461	Total	15,530	4,691

(b) Loans and Receivables held at Amortised Cost

2007/08			2008/09	
Long Term £000	Current £000		Long Term £000	Current £000
3,153	19,647	Investments	1,053	26,306
0	8,509	Operational Debtors (Gross)	0	4,443
37	0	Car Loans	23	0
0	443	Cash at Bank	0	914
367	0	Transferred Debt	332	0
2	0	Mortgages	1	0
3,559	28,599	Total	1,409	31,663

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

2007/08			2008/09	
Debtors £000	Creditors £000		Debtors £000	Creditors £000
8,509	3,489	Value as per Note (a) & (b) above	4,443	4,665
37	0	Car Loans	23	0
4,219	1,514	Non-Contractual Items	4,186	400
12,765	5,003	Total per Balance Sheet	8,652	5,065

(d) Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in 2008/09 (and in the Statement of Total Recognised Gains and Losses if appropriate) relating to financial instruments are made up as follows:

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

Comparative information for financial year 2007/08 is as follows:

2007/08	Financial Liabilities (measured at Amortised Cost) £000	Financial Assets (Loans & Receivables) £000	Financial Assets (Available for Sale) £000	Total £000
Interest Paid	1,294	0	0	1,294
Impairment Losses	0	0	0	0
Interest Payable and Similar Charges	1,294	0	0	1,294
Interest Received	0	(1,865)	0	(1,865)
(Gains)/Losses on Derecognition*	0	0	(1,581)	(1,581)
Interest and Investment Income	0	(1,865)	(1,581)	(3,446)
Net (Gain)/Loss for year	1,294	(1,865)	(1,581)	(2,152)

* The gain on derecognition shown above relates to the sale of the Council's shareholding in Kingmoor Park Properties that was completed during 2007/08. The Council received a £2m receipt for its £400,000 shareholding, thus recognising a gain of £1.581m (after costs).

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

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

- Estimated fair values have been calculated using the equivalent market interest rates as at 31 March 2009.
- Early repayment or impairment is not recognised.
- The fair value of operational liabilities and receivables is taken to be the invoiced or billed amount.

31 March 2008			31 March 2009	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
19,994	25,709	Financial Liabilities	20,221	27,255

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

31 March 2008			31 March 2009	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
32,158	32,173	Loans & Receivables	33,072	33,378

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

(f) Risks arising from Financial Instruments

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

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

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

(i) Credit Risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers. Investments are not placed with credit rated banks and other financial institutions unless they have a minimum credit rating of Short-term P1, Support C or equivalent (Based on Moody's Credit Ratings). Some investments are placed with Building Societies that do not have a formal credit rating. This policy is dictated by the size of the Society (minimum £1bn Assets) and is grounded upon the strict regulatory regime with which all building societies must comply. The Council has a policy of not lending more than £3m of its surplus balances to any one institution with no more than 50% held as non-specified investments i.e. investments with a period to maturity of more than one year or placed with an institution without a formal credit rating.

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

	Value at 31 March 2009 £000	% Default based on previous experience	% default adjusted for current market conditions	Estimated maximum exposure to default £000
Deposits with banks and other financial institutions	27,359	Nil	Nil	0
Customers	4,443	15.08%	44.20%	1,964
				1,964

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

The Council does not generally allow credit to its customers, so £2.4m of the current value at 31 March 2009 of £8.652m is past its due date for payment. The aged-debt analysis of this sum is as follows:

	£000
Less than 3 months	1,963
3-6 months	423
Total	2,386

(ii) Liquidity Risk

As the Council has ready access to borrowing from either the Public Works Loans Board, or from other financial institutions in the money market, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The major risk facing the Council is that it will be bound to refinance nearly all of its borrowing in 2020, when interest rates may be less favourable than at present. However the current policy of the Council is not to refinance any of this debt at the moment due to the significant redemption premium it would be required to pay to the lender. This position will be reviewed as the loan moves nearer to maturity in the light of interest rates prevalent at the time. There are no other identified borrowing requirements in place at 31 March 2009.

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

	£000
Less than 1 year	29
1 - 2 years	3
2 - 5 years	12
Over 5 years	15,512
Total	15,556

(iii) Market Risk

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

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

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

The Council carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections. The Treasury Management Strategy also advises on the limits for new variable and fixed-rate borrowing for the year. No new borrowing was undertaken in 2008/09.

5.25 Stock and Work in Progress

2007/08 £000		2008/09 £000
11	Work in Progress	27
11		27
49	Stocks:	53
137	Community Services	131
186	Other	184
197	Total	211

5.26 Insurance Provision

The Council has established a provision totalling £260,279 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 2009 and the insurance provision will therefore cover this value in full. However it is expected that £132,556 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 5.27.

5.27 Movement in Provisions

The movement in the level of provisions held by the Council during 2008/09 is as follows: -

	Balance b/fwd at 1 April £000	Received in year £000	Used in year £000	Balance c/fwd at 31 March £000
Cemeteries Perpetuity Fund	86	3	(3)	86
Public Liabilities Claims	291	68	(96)	263
Other Provisions	201	799	(519)	481
Total	578	870	(618)	830

5.28 Trust Funds

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

Bequest	Purpose	2008/09 Income £	2008/09 Expenditure £	Assets at 31 March 2009 £	Liabilities at 31 March 2009 £
Richard Sewell	Established in 1920 to purchase items of interest for Tullie House Museum	4	0	442	0
EB Burton	Established in 1955 to purchase books for the Jackson Library	4	0	185	0
James Walter Brown	Established in 1930 to purchase books, pictures, maps and plans for the Jackson Library	18	0	1,007	0
Parker	Established in 1954 to benefit disabled children and other young residents of the city	18	0	1,327	0
District Nurses Amenity Fund	Established to provide amenities for nurses' homes and retirement allowances to nurses	61	0	7,114	0
Total		105	0	10,075	0

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

Charity	Purpose	2008/09 Income £	2008/09 Expenditure £	Assets at 31 March 2009 £	Liabilities at 31 March 2009 £
Mary Hannah Almshouses	Registered Housing Association	17,324	16,363	266,126	10,825
Carlisle Educational Charity	To provide grants to students	9,954	9,315	211,666	17,324
Total		27,278	25,678	477,792	28,149

5.29 Summary of Movement on Reserves

Description	Balance at 1 April 2008 £000	Gains/ (losses) in period £000	Transfers (to)/from reserves £000	Balance 31 March 2009 £000
Deferred Credits	21	0	(1)	20
Useable Capital Receipts	0	0	0	0
General Fund Reserve Balance	3,800	(9,927)	9,927	3,800
General Reserves				
Capital				
Lanes Capital Fund	281	0	15	296
Renewals Reserve	1,191	0	(1,191)	0
CLL Reserve	0	0	522	522
Asset Investment Reserve	48	0	0	48
Revenue				
Projects Reserve	4,049	0	1,212	5,261
Collection Fund (Carlisle share)	17	(57)	0	(40)
Sure Start Reserve	0	0	134	134
EEAC Reserve	0	0	303	303
Job Evaluation	888	0	873	1,761
Residents Parking	22	0	(101)	(79)
Licensing Reserve	14	0	0	14
Building Control Function	(21)	0	(2)	(23)
Routledge Reserve	42	0	0	42
Sheepmount Reserve	129	0	(23)	106
Conservation Fund	191	0	0	191
LSVT Warranties	488	0	0	488
Total General Reserves	7,339	(57)	1,742	9,024
Other Reserves				
Pension Reserve	(28,266)	2,583	(1,784)	(27,467)
Capital Adjustment Account	125,194	0	(9,864)	115,330
Revaluation Reserve	15,950	644	(20)	16,574
Total Reserves	124,038	(6,757)	0	117,281

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

5.30 Contingent Assets

(a) Carlisle Housing Association (CHA)

At 31st March 2009 £274,666 (31st March 2008 £2,278,006) 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 2008/09 accounts and has been reflected in the total for capital receipts received in the year. Under the terms of the

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

5.31 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 31 March 2009 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 2008/09 in respect of this potential liability. At 31 March 2009 the estimated maximum amount liable to clawback, in the event of the scheme being triggered, was £873,000. The directors of the company do, however, envisage a solvent 'run-off' when MMI Ltd is finally wound up, at which point all outstanding liabilities would be fully discharged.

(c) 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. The Council has insurance cover in place to meet the cost of claims arising from any breach of the environmental warranties in the first 12 years following the date of transfer. An earmarked reserve to the value of £488,000 has also been set up to meet the future cost of insurance premiums in years 13 to 25 (£292,000) and the potential costs of any future claims (£196,000). In the period from the date of the transfer to 31 March 2009, the Council has not received any claims in respect of either environmental or non-environmental warranties.

(d) Single Status/Equal Pay

The Council is progressing Job Evaluation, Single Status and the Equal Pay Review through its Pay and Workforce Strategy (PWS). As at 31 March 2009 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 2009/10 and based upon guidance provided by external bodies a sum of £1m (6% of the total pay bill) has been earmarked from reserves for 2007/08 to 2009/10 in respect of the potential impact. As at 31 March 2009 the reserve balance earmarked for implementation of Job Evaluation is £1.761m. As at 31 March 2009, no agreement has been made with regard to potential costs of implementation and the funding has remained on the balance sheet as a reserve.

5.32 Disclosure of Net Pension Assets/liabilities

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

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

Under the 2008 SORP the council has adopted the amendment to FRS 17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2008 has been restated from £87.458m to £87.282m, a decrease of £176,000, resulting in an increase of the pension deficit of £176,000.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather when the benefits are eventually paid as pensions. However, the charge that is made against council tax is based on the cash payable in the year, resulting in the real cost of providing retirement benefits being reversed out in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during 2008/09.

2007/08 (Original) £000	2007/08 (as restated) £000		2008/09 £000
		<u>Income & Expenditure Account</u>	
		<u>Net Cost of Services</u>	
2,330	2,330	Current Service Costs	2,627
771	771	Past Service Costs	0
0	0	Curtailment Cost	306
		<u>Net Operating Expenditure</u>	
5,630	5,630	Interest cost	7,039
(5,567)	(5,556)	Expected return on assets in the scheme	(5,473)
3,164	3,175	Net Charge to the Income & Expenditure Account	4,499
		<u>Statement of Movement on the General Fund</u>	
		<u>Balance</u>	
3,164	3,175	Reversal of net charge made for retirement benefits in accordance with FRS17	4,499
2,493	2,493	Actual amount charged against the General Fund	2,715
		Balance for pensions in the year	
671	682	Contribution to/(from) Pension Reserve	1,784

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains of £2,583,000 (£11,729,000 loss in 2007/08) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is a £3,524,000 gain.

(a) Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

31 March 2008 (Original) £000	31 March 2008 (as restated) £000		31 March 2009 £000
104,497	104,497	Benefit Obligation at beginning of period (1 April)	115,724
2,330	2,330	Current Service Cost	2,627
5,630	5,630	Interest Cost	7,039
833	833	Member Contributions	898
771	771	Past Service Cost	0
5,299	5,299	Actuarial (gains)/losses on liabilities	(24,195)
0	0	Curtailments	306
(3,636)	(3,636)	Benefits/transfers paid	(4,196)
115,724	115,724	Benefit Obligation at end of period (31 March)	98,203

Reconciliation of Fair Value of the scheme assets:

31 March 2008 £000		31 March 2009 £000
88,454	Fair Value of plan assets at beginning of period (1 April)	87,282
5,556	Expected return on plan assets	5,473
(6,418)	Actuarial (gains)/losses on assets	(21,436)
2,493	Employer Contributions	2,715
833	Member Contributions	898
(3,636)	Benefits/transfers paid	(4,196)
87,282	Fair Value of plan assets at end of period (31 March)	70,736

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

The actual return on scheme assets in the year was a loss of £15,963,000 (2007/08: a surplus of £344,000).

(b) Scheme History

	2004/05*	2005/06*	2006/07*	2007/08 (Original)	2007/08 (as restated)	2008/09
	£	£	£	£	£	£
Present value of liabilities	91,286	104,351	104,497	115,724	115,724	98,203
Fair Value of assets	68,733	83,428	88,631	87,458	87,282	70,736
(Surplus)/Deficit in the scheme	22,553	20,923	15,866	28,266	28,442	27,467

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

The liabilities show the underlying long-term commitments that the Council has to pay in respect of retirement benefits. The total liability of £27.4million has had a significant effect on the net worth of the authority as shown in the balance sheet, but statutory arrangements to deal with the funding deficit mean that the financial position of the Council remains healthy. The deficit on the local government pension scheme will be made good by increasing contributions over the remaining working life of employees, following an assessment by the scheme's actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2010 is £2.7m.

(c) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Council's liabilities within the Cumbria County Council Pension Fund have been assessed by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, with estimates being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations are:

2007/08		2008/09
	Long-term expected rate of return on assets in the scheme:	
7.50%	Equity investments	7.50%
4.60%	Government Bonds	4.00%
6.10%	Other Bonds	6.00%
6.50%	Property	6.50%
5.25%	Cash/Liquidity	0.50%
7.50%	Other	7.50%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
21.10	Men	21.20
24.00	Women	24.00
	Longevity at 65 for future pensioners:	
22.20	Men	22.20
25.00	Women	25.00
3.60%	Rate of Inflation	3.30%
5.35%	Rate of Increase in Salaries	5.05%
3.60%	Rate of increase in Pensions	3.30%
50.00%	Proportion of employees opting to take a commuted lump sum	50.00%
6.10%	Rate of discounting Scheme Liabilities	7.10%

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:

2007/08			2008/09	
%	Expected Return		%	Expected Return
54.9	7.50%	Equity Investments	49.7	7.50%
19.9	4.60%	Government Bonds	20.5	4.00%
10.3	6.10%	Bonds	8.9	6.00%
7.3	6.50%	Property	6.3	6.50%
4.6	5.25%	Cash/Liquidity	2.3	0.50%
3	7.50%	Other Assets	12.3	7.50%
100.0			100.0	

(d) History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009.

	2004/05	2005/06	2006/07	2007/08 (Original)	2007/08 (as restated)	2008/09
	%	%	%	%	%	%
Differences between expected and actual return on assets	3.10	12.70	0.50	6.00	7.40	30.30
Experience gains and losses on liabilities	1.80	1.70	0.00	0.03	0.70	0.00

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

2007/08 (original) £000	2007/08 (as restated) £000		2008/09 £000
(15,866)	(15,866)	Net Pension Liability at 1 April	(28,442)
		<u>Movements in year:</u>	
(2,330)	(2,330)	Current Service Cost	(2,627)
2,493	2,493	Employers Contributions payable to the scheme	2,715
(771)	(771)	Past Service Costs/Curtailment Costs	(306)
(5,630)	(5,630)	Interest Cost	(7,039)
5,567	5,556	Expected Return on assets in the scheme	5,473
(11,729)	(11,894)	Actuarial Gains / (Losses)	2,759
(28,266)	(28,442)	Net Pension Liability at 31 March	(27,467)

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

5.33 Government Grants Deferred Account

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

2007/08 £000		2008/09 £000
7,016	Opening Balance	8,660
1,618	Grant received in year	1,003
244	Contributions received in year	244
(218)	Grant Amortised to Income & Expenditure Account	(563)
8,660	Closing Balance	9,344

5.34 Events after the Balance Sheet Date

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

5.35 Authorisation for Issue

The Statement of Accounts were authorised for issue on 29 June 2009 by the Director of Corporate Services, Angela Brown CPFA. This is the date up to which post balance sheet events have been considered.

CASH FLOW STATEMENT

The cash flow statement for 2008/09 summarises the inflows and outflows of cash to and from the Council arising from transactions with third parties for both revenue and capital.

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

2007/08 £000		2008/09 £000
238	(Surplus) / Deficit for the year	9,927
	<u>Non Cash Transactions</u>	
(2,410)	Depreciation and Impairment charges	(10,415)
218	Amortisation of government grants	563
3,783	Gain/(Loss) on sale of fixed assets	(20)
(443)	Deferred charges written off	(4)
(672)	Pension (FRS17)	(1,784)
(23)	Collection Fund (City Council share)	57
453		(11,603)
	<u>Items on accruals basis</u>	
(30)	Increase/(decrease) in stocks	14
2,473	Increase/(decrease) in debtors	(708)
(1,118)	(Increase)/decrease in creditors	(474)
1,325		(1,168)
	<u>Items shown elsewhere in the Statement</u>	
(1,294)	Interest payable	(1,298)
1,865	Interest receivable	2,625
571		1,327
2,587	Net Cash Flow from Revenue Activities	(1,517)

5.37 Reconciliation of Cash Flow to Net Debt

2007/08 £000		2008/09 £000
175	Increase/(Decrease) in cash	1,071
1,000	Cash outflow from reduction in liquid resources	4,800
(881)	Cash outflow from (increase)/decrease in debt	964
294	Movement in Net Debt	6,835
0	Finance Lease Written Out	34
1,265	Net debt at 1st April 2008	1,559
1,559	Net debt at 31st March 2009	8,428

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

	Net (Debt)/ Funds 31 March 2008 £000	Cash Flow in Year £000	Other Movement £000	Net (Debt)/ Funds 31 March 2009 £000
Cash in hand and at bank	443	471	0	914
Overnight money market deposits	0	600	0	600
	443	1,071	0	1,514
Debt:				
Temporary Loans	(900)	900	0	0
Finance Lease	(50)	16	34	0
Local Bonds and Mortgages	(63)	3	0	(60)
Stock Issue	(15,000)	0	0	(15,000)
	(16,013)	919	34	(15,060)
Other Borrowing	(71)	45	0	(26)
	(16,084)	964	34	(15,086)
Short Term Investments (Liquid Resources)	17,200	4,800	0	22,000
Total Net (Debt)/Funds	1,559	6,835	34	8,428

5.39 Liquid Resources

Liquid resources include government securities and other short-term cash deposits.

5.40 Analysis of Other Government Grants

2007/08 £000		2008/09 £000
5,951	Council Tax Benefit Grant	6,170
854	Housing Benefit Administration Grant	826
155	Other Grants from Dept. of Work and Pensions	11
40	Homelessness	76
212	Achieving Cumbrian Excellence	79
196	Planning Delivery Grant	100
481	Economic Renaissance	954
682	Sure Start	0
219	Longtown MTI	149
143	Local Authority Business Growth Incentive Scheme	818
77	Concessionary Fares	462
0	Housing	302
68	Other	140
9,078	Total	10,087

SECTION 6 – SUPPLEMENTARY FINANCIAL STATEMENTS

6.1 The Collection Fund

31 March 2008 £000		Note	31 March 2009	
			£000	£000
	<u>Income</u>			
42,827	Council Tax		44,705	
31,654	Income from Business Ratepayers	6.2(c)	33,775	
5,851	Income from the General Fund - Council Tax Benefits		6,171	
80,332	Total Income			84,651
	<u>Expenditure</u>			
	Precepts and Demands			
36,336	Cumbria County Council	6.2(d)	38,288	
5,808	Cumbria Police Authority		6,179	
6,390	Carlisle City Council		6,683	
48,534				51,150
	Business Rates			
31,473	Payments to National Pool		33,594	
181	Allowance for cost of NNDR collection		181	
31,654				33,775
	Bad and Doubtful Debts - Council Tax			
(89)	Write offs		(78)	
47	Provisions		203	
(42)				125
	Contribution:			
11	Adjustment of Previous Years' Collection Fund Surplus			33
175	Movement on Fund Balance			(432)
80,332	Total Expenditure			84,651
	Collection Fund Balance			
(46)	Fund Balance at 1 April			129
175	Surplus/(Deficit) for Year			(431)
129	Fund Balance at 31 March			(302)

On the basis that surpluses and deficits are shared with the County Council and the Police Authority, the Council has accounted for the Collection Fund balance in its 2008/09 Statement of Accounts as follows:

- In the Balance Sheet at 31 March 2009, the Council has included the £302,208 deficit on a dis-aggregated basis as a debtor of the County Council of £226,074, the Police Authority of £36,484 and a £39,650 attributable deficit on the Collection Fund Balance alongside the General Fund balance.
- In the Statement of Total Recognised Gains and Losses, the Council has inserted a new line for attributable movement on the Collection Fund balance to record the loss of £56,668.92.

6.2 Notes to the Collection Fund

(a) General

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

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

The deficit on the Fund at 31 March 2009 was £302,208.

(b) Council Tax base calculation

The council tax base set for 2008/09, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	41.75	5/9	23.21
A	18,314.75	6/9	12,209.84
B	9,846.00	7/9	7,658.00
C	6,214.25	8/9	5,523.79
D	4,579.50	9/9	4,579.50
E	2,276.75	11/9	2,782.71
F	901.50	13/9	1,302.17
G	298.50	15/9	497.51
H	20.75	18/9	41.50
	42,493.75		34,618.23
Second Homes	168.45		168.45
Relevant Amount	42,662.20		34,786.68
Estimated Collection Rate			98.50%
Council Tax Base = Relevant Amount (Band D Equivalent) x Collection Rate			34,264.88

(c) Income from Business Ratepayers

National Non Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (44.4p in 2007/08 and 46.2p in 2008/09), 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 £33,775,163 was based on a total rateable value for the Council's area of £82,919,814 for the year (£83,278,419 in 2007/08). The Council received £9,014,007 from the NNDR Pool in 2008/09, which is credited directly to the Income and Expenditure Account.

(d) Billing and Precepting Authorities

Carlisle City Council is the billing authority for council tax and NNDR bills and therefore collects all the income due for the year. The Council pays over to Cumbria County Council and Cumbria Police Authority amounts they have requested to provide their services in the Council area. These sums are known as precepts and for 2008/09 the values were: -

2007/08 £		2008/09 £
6,390,626	Carlisle City Council	6,682,961
36,335,764	Cumbria County Council	38,287,819
5,808,353	Cumbria Police Authority	6,178,587

Included in the amount for the City Council is a precept of £404,950 (2007/08 £390,868) which is collected behalf of Parish Councils. This is paid in full directly from the Council's Income and Expenditure Account.

SECTION 7 – ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Carlisle City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Council for the year ended 31st March 2009 and up to the date of approval of the Annual Report and Statement of Accounts.

The Governance Framework

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

The Council’s vision of its purpose and intended outcomes

The Council’s vision is proposed by the Executive as part of the draft Corporate Plan which is then debated and agreed by full Council. This vision is then communicated through the Corporate Plan itself, the Summary Corporate Plan which is provided to residents and the Annual Report as part of the Best Value Performance Plan.

The Council’s vision –implications for governance arrangements

The Corporate Plan is periodically reviewed with Members to ensure that the vision and priorities are still relevant and constant with Members’ aspirations. Arrangements for Overview

and Scrutiny are reviewed every year as part of the annual report - thus ensuring consistency with corporate priorities. Portfolios on the Executive are reviewed every year by the Leader of the Council.

Measuring the quality of service for users

The Council's performance management framework ensures that elected Members and officers monitor performance in key service areas on a regular basis. User satisfaction has in the past been measured through the Best Value User Satisfaction survey every three years (with a tracker survey annually in the intervening years). From 2008/09 onwards there will be the Place Survey every two years, with a tracker survey in the intervening years. The Council has identified a number of areas for improvement with regard to profiling of customers and providing accessibility to services - these will be addressed through the Customer Services review and programmed work to achieve Equality Standard Level 3.

Roles and Responsibilities

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

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

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

Under the Executive arrangements, the full Council is responsible for setting the Council's budget and its policy framework within which the Executive must operate. The Council has also established a series of Overview and Scrutiny Committees of which, currently, there are three (Community, Infrastructure and Corporate Resources). These Committees undertake the statutory scrutiny role set out in the Act and assist with examining and commenting on those policies proposed by the Executive for adoption as part of the policy framework. The three Committees are supported by dedicated Scrutiny Officers who service solely the scrutiny function of the Council to ensure transparency in the process. The operation of the scrutiny function is set out in the Overview and Scrutiny Procedure Rules in the Council's Constitution.

The executive/scrutiny functions of the Council are supplemented by a number of regulatory Committees, established to deal with development control, licensing and certain non-executive employment matters. Their powers and Terms of Reference are set out in the Constitution, together with the extensive delegated powers given by the Council to both the Committees and officers in respect of the various matters falling within the responsibility of the Committees. These powers are reviewed and approved by the Council annually.

The Council currently has an officer structure, which comprise a Chief Executive, a Deputy Chief Executive, four Corporate Directors and thirteen Heads of Service.

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

Each month, there is also a meeting that the SMT and all Service Heads attend, at which relevant strategic and operational issues are discussed and appropriate action identified.

Codes of Conduct and Standards

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

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

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

At present, the Council does not have a formal "Officer Code of Conduct", as the National Code is still awaited. There is, however, a formal Induction procedure for all new staff, supplemented by other information e.g. the Constitution, Disciplinary procedures, etc.

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

Standing Orders/Financial Procedure Rules

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

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

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

Financial 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 (MTFP) 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 2010/11 to 2014/15 will be presented to Executive, CROS and Council between July and September 2009.

Regular meetings are held with identified budget managers, from which budget-monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and 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.

Audit Committee

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

Ensuring Compliance with Relevant Laws

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

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

In order to ensure that the Council is kept up-to-date with changes to Legislation etc., Circulars, Alerts and Briefings are received weekly, both electronically and in "hard copy", from the Local Government Association and Local Government Information Unit. These are scrutinised by Legal and Democratic Services, and the information is circulated to Directors for their response and action.

Whistle blowing and complaints

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

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

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

Identifying the development needs of Members and senior officers

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

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

Clear channels of communication

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

Good governance in respect of Partnerships

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

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

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

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

Appendix E of the Council's Financial Procedure Rules contains specific guidance on officers' duties and responsibilities regarding partnerships. A Flowchart provides an aid for officers to guide them through the partnership process. Supplementary guidance notes are also in place as well as the availability of 1:1 training and support to guide officers setting up new partnerships, through to annual reviews.

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

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

Review of Effectiveness

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

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

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

Regular meetings of the Council and its Committees are held during each year and all reports to Members include comments from the Director of Corporate Services and the Director of Legal and Democratic Services – the latter also being the Council's Monitoring Officer.

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

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

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

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and Executive. An Action Plan outlining those issues of a Corporate Governance nature which are considered to be significant, together with a proposed target date for each, is shown below:

Issue Identified	Target Date
A National Code of Conduct for Officers is still awaited.	The national consultation period ended at the end of 2008. Guidance on this code is imminent.

Significant Governance Issues

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

Signed on behalf of Carlisle City Council

.....Leader

.....Chief Executive

.....Date