

# CARLISLE CITY COUNCIL

Report to:- **The Mayor and Members of Carlisle City Council**

Date of Meeting:- **29 June 2006**

Agenda Item No:-

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**Public**

**Policy**

**Delegated: Yes**

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## **Accompanying Comments and Statements**

	<b>Required</b>	<b>Included</b>
Environmental Impact Statement:	No	No
Corporate Management Team Comments:	No	No
Financial Comments:	Yes	Yes
Legal Comments:	No	No
Personnel Comments:	No	No
Impact on Customers:	No	No

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**Title:- STATEMENT OF ACCOUNTS 2005/06**

**Report of:- Director of Corporate Services**

**Report reference:- FS28/06**

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## **Summary:-**

The Council's Statement of Accounts for 2005/06 are attached for Council approval. These were considered by the Audit Committee on 21 June 2006 for recommendation to Council. Once formally approved by Council the Statements will be subject to audit, which must be concluded by the statutory deadline of 30 September 2006.

## **Recommendation:-**

The Council is asked to approve the 2005/06 Statement of Accounts.

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**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**

**CARLISLE  
CITY COUNCIL**



**STATEMENT OF ACCOUNTS**

**2005/06**

**SUBJECT TO AUDIT**

# STATEMENT OF ACCOUNTS

2005/06

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## **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 2005/06.
- 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, which is subject to audit by the Audit Commission, has been produced by the Director of Corporate Services and consist of the following.

- i. The Statement of Accounting Policies  
This summarises the accounting rules used to prepare the accounts.
- ii. The Consolidated Revenue Account  
This summarises the amounts the Council spent on its services and how this spending was paid for.
- iii. The Collection Fund  
This shows the income received by the Council from council tax and Business Rates and how this has been distributed to the authorities it is collected for, including this Council.
- iv. The Consolidated Balance Sheet  
This shows information on the financial position of the Council at the 31 March 2006, 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.
- v. The Statement of Total Movement in Reserves  
This shows how the reserves held by the Council have increased or decreased during the year.
- vi. The Consolidated Cash Flow Statement  
This statement summarises and analyses the movements on the Council's cash balances during the year.
- vii. The Statement of Responsibilities for the Statement of Accounts  
This sets out the respective responsibilities of the Authority and the Director of Corporate Services for preparing the Statement of Accounts.
- viii. The Statement on Internal Control  
This explains the framework within which internal control is managed and reviewed during the year of account.

## 1.2 Revenue Expenditure and Financing

Revenue expenditure generally relates to items 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 Revenue Account

The table below shows a comparison of the Council's revised budget with its performance for 2005/06. More detailed information on the Councils' expenditure and income for the year is shown in the Consolidated Revenue Account on page 12.

	<u>General Fund</u> <u>2005/06</u>	
	<u>Revised</u> <u>Budget</u> <u>£000</u>	<u>Actual</u> <u>£000</u>
Net Expenditure on Services	16,775	16,122
Parish Precepts	317	317
Interest Payable	1,336	1,283
Interest Receivable	(1,496)	(1,426)
Sub total	16,932	16,296
Appropriation to/(from) Specified Reserves	0	(2,233)
Sub total	16,932	14,063
Precept on Collection Fund	(5,708)	(5,708)
Government Grant		
• NDR	(2,942)	(2,942)
• RSG	(5,694)	(5,694)
Council Tax Surplus	(66)	(66)
Contribution to/(from) reserves	(2,522)	(347)
Use of Reserves (GF unapplied)	2,522	(347)
Reserves b/fwd	(3,453)	(3,453)
Reserves c/fwd	(931)	(3,800)

(1) General Fund

The net underspend of £2.869m, resulting in a reduced call on reserves in 2005/06, is represented by:

	<u>£000</u>
Slippage from 2005/06 to 2006/07	(1,740)
Flood adj re 2004/05	(811)
Other minor changes (net)	<u>(318)</u>
Total	<u>(2,869)</u>

A Revenue Out-turn report for 2005/06 has been prepared which provides additional information on the year-end position. This is available upon request from the Director of Corporate Services.

The usable revenue reserves of the General Fund (excluding specific Earmarked Reserves) on 1 April 2005 were £9.323m and they stood at £11.653m on 31 March 2006.

(2) Housing Revenue Account

The Housing Revenue Account was formally closed on 1<sup>st</sup> April 2005. All transactions relating to the former HRA are shown on the face on the Consolidated Revenue Account as discontinued operations. The HRA balance as at 1<sup>st</sup> April 2005 has been transferred to the Project Reserve in line with Council policy.

### 1.3 Capital Expenditure and Financing

Capital expenditure relates to items which generally have a life in excess of one year and which are usually paid for from borrowing, the sale of assets, specific government and other grants, and occasionally from revenue balances. Capital spending relates to the acquisition, creation and enhancement of fixed assets whose benefits extend beyond one year.

#### (1) Capital Expenditure

This totalled £10.114m in 2005/06 and the main items of expenditure were:

	£000
Renovation Grants	249
Disabled Facilities Grants	463
Private Sector Renewal (ODPM grant)	805
Other Housing Improvement Schemes	211
Recycling Scheme	127
Leisuretime Investment	506
Planned Major Repairs	223
Disability Discrimination Act	217
IEG/Customer Contact Centre	362
Housing Strategy	390
Sheepmount (including bridge)	1,495
Millennium Project	150
Asset Investment Fund	113
Equipment, Vehicles & Plant	838
Multi Use Games Area	219
Back Lanes	94
Flood related expenditure	3,115
Other Schemes	537
	<hr/>
	10,114

The expenditure was funded from:

	£000
Capital Receipts	4,019
Specified Capital Grant	261
Other Capital Grants	1,677
Revenue/Renewals Reserve	4,157
	<hr/>
	10,114

#### (2) Capital Borrowing

The Council is given the powers to borrow money for capital purposes by virtue of Section 1 of the Local Government Act 2003. Transactions during the years were as follows:

	£000
Loans outstanding as at 1 April 2005	15,113
Loans repaid during the year	(31)
Loans raised during the year	45
Loans outstanding as at 31 March 2006	<hr/>
	15,127

## **1.4 Significant Issues**

### **(1) Flood and Storm damage**

Following the severe flooding and storm damage that occurred in Carlisle on 8<sup>th</sup> January 2005, the Bellwin Claim has been finalised and paid and the City's insurance claim was settled in early 2006. The total costs incurred have been met by a combination of insurance payments, the Bellwin Scheme and the City Council's own resources. A detailed out-turn report has been prepared which is available from the Director of Corporate Services upon request. Flood related expenditure relating to 2004/05 and 2005/06 has been analysed between capital and revenue with capital expenditure being shown within the fixed assets on the balance sheet and revenue expenditure being accounted for as an exceptional item of account on the face of the Consolidated Revenue Account.

### **(2) 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. Further information in respect of the Council's pension commitments and contributions paid can be found in note 3.7 to the Consolidated Revenue Account and in note 18 to the Consolidated Balance Sheet.

## **1.5 Accounting Policy Information**

The accounts of the Council comply with the relevant accounting practices laid down by the accounting standards authorities.

### **1.6 The Euro**

The City Council has nominated a lead Officer with regard to co-ordinating preparations for the Euro. It is intended that the first stage in the preparations for the Council will be in conducting the Euro Audit and an officer working group will be established to co-ordinate the work across the authority at the appropriate time.

### **1.7 Further Information**

Further information regarding the accounts is available on request from the Director of Corporate Services. 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**

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005 – A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accounting (CIPFA). The accounts accord with guidance notes issued by CIPFA on the application of accounting standards and comply with the Best Value Accounting Code of Practice (BVACOP). The Code also constitutes proper practices under Section 21 (2) of the Local Government Act 2003.

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

### **2.2 Fixed Assets**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised. De-minimis levels have been set at:

- (i) Expenditure on vehicles, plant and equipment (individual items) £5,000.
- (ii) Expenditure on land, buildings and other structures £20,000.

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

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

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

### **2.3 Charges for Fixed Assets (Capital Charges)**

The General Fund including service revenue accounts, support services and trading accounts are debited with capital charges made to the users of fixed assets in the provision of services. The total charge covers the annual provision for depreciation (where appropriate), impairment losses attributable to the clear consumption of economic benefits plus a notional interest charge based upon net asset values. The notional rates of interest used in 2005/06 are 3.5% for operational and non-operational assets and 4.95% for infrastructure and community assets. External interest payable and provision for depreciation are debited to the Asset Management Revenue Account whilst the capital charges met by services are credited to the Account. Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

## **2.4 Depreciation**

Depreciation is a notional charge for the wearing out, consumption or reduction in the economic useful life of a fixed asset. It has been charged on those assets that have a finite useful life, excluding land, and is calculated by taking the valuation and apportioning it over the life of the asset.

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

## **2.5 Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals are apportioned between a charge for the acquisition of the interest in the property, which is recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset and liability written down as the rent becomes payable, and a finance charge (debited to the Asset Management Revenue Account as the rent becomes payable). Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## **2.6 Deferred Charges**

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the costs of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses the amounts charged to the Consolidated Revenue Account so there is no impact on the level of council tax.

## **2.7 Capital Receipts**

Usable capital receipts from the disposal of assets are held in the Usable Capital Receipts Account until such time as they are used to finance other capital expenditure or set aside to repay debt. Capital receipts set aside to repay debt are held in the Capital Financing Account.

## **2.8 Debtors and Creditors**

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS18 i.e. sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this are payments for energy and similar quarterly payments that are charged at the date of meter reading rather than being apportioned between financial years. In addition, salaries are accounted for on a cash basis. This policy is consistently applied each year and, therefore, does not have a material effect on the year's accounts.

Significant debtors include provision for income receivable from HM Revenue and Customs (£0.180m) for VAT, sums due from Cumbria County Council for Highways

Claimed Rights Work (£0.255m) sums due in relation to flood costs from the Council's Insurers (£0.806m), and an amount due from the NNDR pool (£1.633m)

Creditor provisions have been provided for outstanding income tax due to the Inland Revenue (£0.343m), and an amount due relating to interest due on the Stock issue (£0.471m).

A bad debt provision, paragraph 2.11, has been established for the non-payment of outstanding debtors amounting to £1.801m.

## **2.9 Stocks and Work in Progress**

Stocks are valued at the latest price paid. This is a departure from the requirements of the Code and SSAP9, which requires stocks to be shown at actual cost or net realisable value, if lower. Stock values reflect a provision for obsolescence. Work in progress is valued at cost.

## **2.10 Cost of Support Services**

The City Council has adopted the principle of the full allocation of overheads as recommended by CIPFA.

### **(i) Support Services**

The cost of the central services i.e. Executive Management, Legal & Democratic, Finance, Property, Customer & Information, Strategic & Performance and Member Support & Employee Services has been fully recharged to Service Departments on the basis of time allocations completed by members of staff.

The cost of the Civic Centre Building has been apportioned as follows:

Cost of Operation of Telephones within the Civic Centre Building	- Allocated to Business Units on the basis of the number of extensions and the previous year's usage as provided by the Call Logging equipment
Cost of the remainder of the Civic Centre Building	- Allocated to Business Units on the basis of floor area occupied.

### **(ii) Corporate and Democratic Core**

The City Council has complied with the CIPFA Statement on the treatment of the costs of the Corporate and Democratic Core processes whereby these costs are held centrally and are not apportioned across the Council's services.

(iii) Any under or over recovery of support service charges is adjusted in the year of account.

## **2.11 Provisions**

The Council maintains provisions for future liabilities or losses likely or certain to be incurred but whose amounts cannot be determined accurately. The main provisions at 31 March 2006 relate to bad and doubtful debts and outstanding insurance claims. Further details are available at Note 11 to the Consolidated Balance Sheet.

## **2.12 Reserves**

The Council maintains certain reserves for the purpose of meeting liabilities other than those covered by provisions.

Some revenue reserves are set aside for specific purposes, while unallocated revenue reserves are not earmarked at the end of the accounting periods. Details of the reserves established by the Council are contained in the Statement of Total Movement in Reserves (page 33).

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

- The Fixed Asset Restatement Account represents principally the balance of the surpluses or deficits arising from the periodic revaluation of fixed assets (see Note 12 to the Consolidated Balance Sheet).
- The Capital Financing Account represents amounts set aside from revenue resources or capital receipts for the repayment of external loans and certain other capital financing transactions.

Neither the Fixed Asset Restatement Account nor the Capital Financing Account can be used to fund expenditure.

## **2.13 Pension Costs**

Retirement benefits are accounted for in accordance with FRS17 subject to the interpretations as set out in the SORP.

The new policy, effective from 2004/05 onwards, more clearly reflects the Council's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

Measurement bases applied in respect of attributable pension scheme assets and liabilities are set out in note 18 to the Consolidated Balance Sheet.

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

### (1) periodic costs

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

(2) non-periodic costs

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

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

### Pension Reserve

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

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

### **2.14 Investments**

Investments are shown in the Consolidated Balance Sheet at lower of cost or market value. Interest receivable is credited to the Consolidated Revenue Account. Further detail can be found in Note 5 to the Balance Sheet.

### **2.15 Interest Charges**

Interest payable on external loans is charged to the Asset Management Revenue Account.

### **2.16 Government Grants**

Revenue grants are accrued and credited to the Consolidated Revenue Account in the same period in which the related revenue expenditure has been charged. Capital grants are credited to the Deferred Government Grant Account and written off to the Asset Management Revenue Account over the life of the asset, thereby off-setting the depreciation charge for the asset. Grants in respect of deferred charges are written down over the same period as the deferred charge.

### **2.17 Debt Redemption**

Gains and losses associated with discounts and premia on the repurchase or early settlement of borrowing are normally recognised in the Consolidated Revenue Account in the period in which the repurchase or settlement is made. The exception to this is where the repurchase is coupled with a restructuring or financing of borrowing, and as a result does not substantially impact on the size of the overall loan portfolio or finance costs. Where one or more of these conditions is met the

effect of the resulting premium or discount is deferred and amortised to revenue over the term of the replacement loan.

#### **2.18 Value Added Tax**

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

#### **2.19 Group Accounts**

The authority has reviewed its interests with external bodies in 2005/06 as required by the SORP. The Council's analysis has concluded that it does not have any interests in subsidiaries, associated companies and joint ventures that are material in aggregate and therefore there is no requirement to produce a set of Group Accounts.

## SECTION 3 – ACCOUNTING STATEMENTS

### CONSOLIDATED REVENUE ACCOUNT

2004/05 Net Expenditure £000	Service	2005/06 Gross Expenditure £000	2005/06 Gross Income £000	2005/06 Net Expenditure £000
	<u>Continuing Operations</u>			
9,474	Cultural, Environmental & Planning Services	19,897	8,585	11,312
354	Highways, Roads & Transport	4,055	3,140	915
1,017	Housing Services	28,553	25,471	3,082
2,667	Central Services	5,147	3,333	1,814
2,854	Democratic Representation & Management	3,146	45	3,101
18	Non Distributed Costs	1	1,426	(1,425)
1,458	Exceptional items	952	3,764	(2,812)
<b>17,842</b>	<b>Total Continuing Operations</b>	<b>61,751</b>	<b>45,764</b>	<b>15,987</b>
	<u>Discontinued Operations</u>			
(107)	Services transferred to CHA	(26)	53	(79)
<b>17,735</b>	<b>Net Cost of Services</b>	<b>61,725</b>	<b>45,817</b>	<b>15,908</b>
	<u>Other Items</u>			
308	Precepts Paid to Parish Councils			317
(1,378)	(Surplus)/Deficit from Trading Undertakings & Other Operations (including CTS)			(2,280)
(1,497)	Interest receivable			(1,426)
254	Pensions interest costs & expected return on pension assets			667
333	Asset Management Revenue Account			140
31	Contribution towards Pooling arrangements			0
0	Gains/Losses on early repayment of borrowing			0
<b>15,786</b>	<b>Net Operating Expenditure</b>			<b>13,326</b>
186	Surplus/(Deficit) from HRA balances			0
3,191	Contributions to/(from) Specified Reserves			(2,233)
0	Direct Revenue Funding			3,115
(982)	Contributions to/(from) Capital Reserves			(1,171)
(650)	Contributions to/(from) Pensions Reserve			889
137	Amortisation of Government Grants			137
(31)	Contributions from UCR			0
<b>17,637</b>	<b>Amount to be met from Government Grant and Local Taxpayers</b>			<b>14,063</b>
(5,545)	Precept demanded from the Collection Fund			(5,708)
(77)	Council Tax Surplus			(66)
(5,545)	Revenue Support Grant			(5,694)
(2,755)	Contribution from Non-Domestic Rate Pool			(2,942)
<b>3,715</b>	<b>(Surplus)/Deficit for the year</b>			<b>(347)</b>
(7,168)	Balance at beginning of the year			(3,453)
3,715	(Surplus)/deficit for the year			(347)
(3,453)	Balance at end of year			(3,800)

## **NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

This statement shows gross expenditure and income and net expenditure analysed by services, and how this expenditure was financed. The statement includes recharges made between services including the allocation of support service costs.

### **3.1 Effect of Capital Accounting (General Fund)**

In accordance with the CIPFA Accounting Code, capital charges totalling £1.574m have been charged in 2005/06 to service accounts for their use of fixed assets. A balancing total credit has been included in the Asset Management Revenue Account. In accordance with the Code this account has been charged with total external interest payable on borrowing and with provision for depreciation on the authority's fixed assets.

### **3.2 Depreciation**

This has been provided on all vehicles, plant and equipment. Depreciation has been provided on the Council's other fixed assets in accordance with the 2005 SORP and the Best Value Accounting Code of Practice. The Council's depreciation policy is set out in note 2.4 on page 7.

### **3.3 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. The trading activities for the Building Control function are shown on page 16.

<u>Activity</u>	<u>Gross Income</u>	<u>Gross Expenditure</u>	<u>Surplus/ (deficit) 2005/06</u>	<u>Surplus/ (deficit) 2004/05</u>
	£	£	£	£
Corporate Properties	378,727	224,514	154,213	132,088
Industrial Estates	2,020,915	454,881	1,566,034	1,538,563
Market	111,421	28,000	83,421	55,470
Total	2,511,063	707,395	1,803,668	1,726,121



### **3.4 Asset Management Revenue Account**

The transactions on the Asset Management Revenue are shown below. The balance on the account at a year end is charged/credited to the Consolidated Revenue Account. In 2005/06 £0.140m was debited to the Consolidated Revenue Account.

	<u>2005/06</u>	<u>2004/05</u>
	£000	£000
<u>Income</u>		
Capital Charges	(1,574)	(2,890)
Amortisation of Grants & Contributions	(137)	(137)
<u>Expenditure</u>		
PWLB Premia	0	45
External Interest Charges	1,282	1,453
Depreciation and other amounts written off tangible fixed assets	569	751
Impairment losses charged to Revenue	0	1,111
Transfer to/(from) AMRA	<u>140</u>	<u>333</u>

### **3.5 Publicity**

Under Section 5 of the Local Government Act 1986 a local authority is required to keep a separate account of its expenditure on publicity. Set out below is the Council's spending on publicity.

	<u>2005/06</u>	<u>2004/05</u>
	£000	£000
Recruitment Advertising	59	99
Tourism	476	450
Promotions & Marketing	32	20
	<u>567</u>	<u>569</u>

### **3.6 Section 1 of the Local Authorities Goods and Service Act 1970**

The Council is empowered by this Act to provide goods and services to certain other public bodies. No work of this kind was undertaken during 2005/06.

### **3.7 Pension Costs**

In 2005/06 the City Council paid an employer's contribution of £1,953,180 into the Cumbria County Council Pension Fund, representing 15.9% (2004/05 £1,244,435 and 10.7%) of pensionable pay. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation basis carried out as at 31 March 2004, and having effect for the three year period commencing 1 April 2005. In addition the City Council is responsible for all pension payments relating to unfunded added years benefits awarded by the City Council together with related increases. In 2005/06 these amounted to £273,379 representing 2.23% (2004/05 £297,326 and 2.56%) of pensionable pay. The pensions costs charged to the Consolidated Revenue Account in accordance with FRS17 are as follows:

	<u>2005/06</u> £000	<u>2004/05</u> £000
Current Service cost	2,092	1,938
Past Service cost	(1,426)	0
Settlement gain	0	0
Curtailement cost	0	0
Expected return on Pension assets	(4,255)	(3,604)
Pensions Interest costs	4,922	3,858
Total	1,333	2,192
Contributions paid to Pension Scheme	2,222	1,542
Contribution to/(from) Pension Reserve	889	(650)

### **3.8 Minimum Revenue Provision**

The authority is required by statute to set aside a Minimum Revenue Provision (MRP) for the redemption of external debt. The method of calculating the provision is defined by statute and the net amount charged to the revenue account in respect of 2005/06 was £446,461, which includes a voluntary MRP of £189,000. This sum comprises the gross amount calculated (£662,560) offset by the maximum permitted adjustment applicable to those authorities (including Carlisle) whose revenue account suffered adversely as a consequence of the Government's commutation of debt exercise in 1992. The current effect of this adjustment is to reduce the City Council's overall MRP in 2005/06 by £405,099.

### **3.9 Officers' Emoluments**

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

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

### **3.10 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 2005/06 with comparative figures for 2004/05 are as follows:

<u>Type of Allowance</u>	<u>2005/06</u> £000	<u>2004/05</u> £000
Basic Allowance	224	219
Special Responsibility Allowance	84	76
Conference/Other Allowances	20	20
	328	315

### 3.11 Related Party Transactions

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

All elected members and 104 of the senior officers of the City Council were asked to declare any direct financial relationship with the Authority for the financial year 2005/06. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Authority during 2005/06.

- (i) Details of Government Grants are shown elsewhere in the Cash Flow Statement.
- (ii) The City Council's relationship with Kingmoor Park Properties Ltd is set out in Note 15 to the Consolidated Balance Sheet.
- (iii) The City Council's transactions with the Cumbria County Council Pension Fund are shown within Note 3.7 to the Consolidated Revenue Account.

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 accountable body for grant funding provided to the Trust by NWDA. The Council has also entered into a further agreement with Carlisle Leisure Limited, a company established to manage leisure facilities for the Council. The Council has a 19.9% interest in the company, and therefore has no significant control or influence over the company's activities.

### 3.12 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 – 'details of scheme for setting charges'. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The following statement shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities:

<u>Expenditure</u>	<u>Chargeable</u> £	<u>Non-Chargeable</u> £	<u>Total</u> £
Employee Costs	344,656	163,935	508,591
Premises Expenses	0	68	68
Transport Expenses	19,098	9,970	29,068
Supplies & Services	29,863	11,585	41,448
Agency & Contract Services	7,281	0	7,281
Central & Support services	103,017	43,279	146,295
Total Expenditure	<u>503,915</u>	<u>228,837</u>	<u>732,752</u>
<u>Income</u>			
Building Regulation Charges	(431,406)	0	(431,406)
Other income	(474)	(41,156)	(41,630)
Total Income	<u>(431,880)</u>	<u>(41,156)</u>	<u>(473,036)</u>
(Surplus)/deficit for Year	<b>72,035</b>	<b>187,681</b>	<b>259,716</b>

### **3.13 Section 137 Expenditure**

Section 137 of the Local Government Act 1972 empowers local authorities, subject to various conditions and limits, to incur expenditure which is not covered by any other powers but which, in their opinion is in the interests of their area or any part of it, or all or some of its inhabitants. As a result of the Local Government Act 2000 the majority of the provisions of Section 137 have been repealed. However the power to incur expenditure under section 137(3) has been retained. The Council is permitted to spend £193,500 (101,843 population x £1.90). No expenditure was incurred in 2005/06 under s137 (3)

### **3.14 Contributions to/(from) Capital Reserves**

The transactions relating to contributions made to and from the Capital Reserves are shown below.

<u>Item</u>	<u>£000</u>
MRP net of depreciation	(122)
Utilisation of Projects Reserve, Renewals Reserve & CTS Reserve	855
Reversal of deferred charges written off to CRA	(1,904)
Transfer to/(from) Capital Reserve	(1,171)

### **3.15 Disclosure of Audit Costs**

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

	<u>2005/06</u> <u>£000</u>	<u>2004/05</u> <u>£000</u>
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	148	108
Fees payable to the Audit Commission in respect of statutory inspection	Included above	Included above
Fees payable to the Audit Commission for the certification of grant claims and returns	29	53
Fees payable in respect of other services provided by the appointed auditor	9	8
Total	186	169

### **3.16 Pooled Budgets**

During 2002/03, the Council agreed with Eden District Council to form the Carlisle and Eden Crime and Disorder Reduction Partnership. The partnership was instigated under the Council's duties to reduce crime and disorder. The Council made a £46,500 contribution to a pooled budget in this scheme, which is included in Cultural, Environmental & Planning Services (2004/05: £46,500) in the Consolidated Revenue Account.

### **3.17 Exceptional Items**

Following the severe flooding and storm damage that occurred in Carlisle on 8<sup>th</sup> January 2005, the Bellwin Claim has been finalised and paid and the City's insurance claim was settled in early 2006. The total costs incurred have been met by a combination of insurance payments, the Bellwin Scheme and the City Council's own resources. A detailed out-turn report has been prepared which is available from the Director of Corporate Services upon request. Flood related expenditure relating to 2004/05 and 2005/06 has been analysed between capital and revenue with capital expenditure being shown within the fixed assets on the balance sheet and revenue expenditure being accounted for as an exceptional item of account on the face of the Consolidated Revenue Account.



## COLLECTION FUND

2004/05 £000		Note	2005/06 £000    £000	
	<b>Income</b>			
36,127	Council Tax	2		37,601
27,622	Income from Business Ratepayers	3		28,646
	Transfers from General Fund			
5,154	- Council Tax Benefits			5,388
	Contributions:			
0	Adjustment of Previous Years' Collection Fund			0
<b><u>68,903</u></b>	<b>Total Income</b>			<b><u>71,635</u></b>
	<b>Expenditure</b>			
	Precepts and Demands	4		
30,868	- Cumbria County Council		32,046	
4,991	- Cumbria Police Authority		5,130	
<u>5,544</u>	- Carlisle City Council		<u>5,708</u>	
41,403				42,884
	Business Rate			
27,445	- Payments to National Pool		28,469	
<u>177</u>	- Allowance for cost of NDR collection		<u>177</u>	
27,622				28,646
	Bad and Doubtful Debts - Council Tax			
(130)	- Write offs		(99)	
<u>61</u>	- Provisions		<u>188</u>	
(69)				89
	Contribution:			
77	Adjustment of Previous Years' Collection Fund Surplus			66
(130)	Movement on Fund Balance			(50)
<b><u>68,903</u></b>	<b>Total Expenditure</b>			<b><u>71,635</u></b>
	<b>Collection Fund Balance</b>			
892	Fund Balance at 1 April			762
<u>(130)</u>	Surplus/Deficit(-) for Year			<u>(50)</u>
<b><u>762</u></b>	Fund Balance at 31 March			<b><u>712</u></b>

## NOTES TO THE COLLECTION FUND

### 1. 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. A separate balance sheet is not necessary as the balances on the Fund are included in the Council's Consolidated 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. Any surplus or deficit on the Collection Fund is carried forward to the following financial year and will affect the level of Council Tax to be raised for that year.

The surplus on the Fund at 31 March 2006 was £711,867.

### 2. Council Tax Base Calculation

The Council Tax base set for 2005/06, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	36.75	5/9	20.44
A	18,082.75	6/9	12,055.17
B	8,924.50	7/9	6,941.29
C	5,670.50	8/9	5,040.46
D	4,418.00	9/9	4,418.00
E	2,240.00	11/9	2,737.76
F	855.00	13/9	1,235.00
G	286.00	15/9	476.66
H	20.75	18/9	41.50
	40,534.25		32,966.28
Second Homes	153.43		153.43
<b>Relevant Amount</b>	<b>40,687.68</b>		<b>33,119.71</b>
<b>Estimated Collection Rate</b>			<b>98.5%</b>
<b>Council Tax Base = Relevant Amount (Band D Equivalent) x Collection Rate</b>			<b>32,622.92</b>



### 3. Income from Business Rate Payers

National Non Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (45.6p in 2004/05 and 42.2p in 2005/06), 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 £28,645,882 was based on a total rateable value for the Council's area of £82,187,053 for the year (£69,975,267 in 2004/05). The Council received £2,941,565 from the NNDR Pool in 2005/06, which is credited directly to the Consolidated Revenue Account.

### 4. 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 2005/06 the values were: -

Carlisle City Council	£5,707,734	(2004/05 £5,544,984)
Cumbria County Council	£32,046,245	(2004/05 £30,868,477)
Cumbria Police Authority	£5,129,531	(2004/05 £4,990,934)

Included in the amount for the City Council is a precept of £316,797 (2004/05 £307,561) which is collected behalf of Parish Councils; this is paid in full directly from the Council's Consolidated Revenue Account.

## ACCOUNTING STATEMENTS

### CONSOLIDATED BALANCE SHEET

	<u>31 March</u>		
	<u>2006</u>		<u>2005</u>
	<u>£ 000</u>	<u>£ 000</u>	<u>£ 000</u>
Net Fixed Assets – <b>Note 1</b>			
Operational Assets:			
Dwellings	204		589
Other Land & Buildings	31,968		23,326
Infrastructure Assets	1,206		1,186
Community Assets	1,447		972
Vehicles & Plant	3,798		2,139
Non-Operational Assets:			
Investment	83,005		62,059
Surplus	4,060		1,342
Payments on Account/Assets under construction	<u>559</u>		<u>2,749</u>
Total Fixed Assets		126,247	94,362
Long Term Investments	400		400
Long Term Debtors			
Transferred Debt – Cumbria CC	434		466
Mortgages and Other	<u>4</u>		<u>12</u>
		838	<u>878</u>
Total Long Term Assets		127,085	95,240
Current Assets			
Stocks & Work in Progress – <b>Note 6</b>	165		237
Debtors – <b>Note 7</b>	11,926		12,892
Payments in Advance	400		679
Investments – <b>Note 5</b>	20,750		21,200
Cash at bank and in hand	<u>0</u>		<u>0</u>
		33,241	<u>35,008</u>
Current Liabilities			
Creditors – <b>Note 8</b>	3,765		5,982
Temporary Loans	59		42
Receipts in Advance	2,472		2,022
Cash overdrawn	<u>166</u>		<u>490</u>
		6,462	<u>8,536</u>
Net Current (Liabilities)/Assets		26,779	26,472
		<u>153,864</u>	<u>121,712</u>

## ACCOUNTING STATEMENTS

### CONSOLIDATED BALANCE SHEET

31 March

	<u>2006</u>		<u>2005</u>
	<u>£ 000</u>	<u>£ 000</u>	<u>£ 000</u>
Financed by:			
Long Term Borrowing – <b>Note 9</b>	15,068		15,071
Deferred Credits – <b>Note 10</b>	25		25
Provisions – <b>Note 11</b>	824		936
		15,917	16,032
Deferred Grant Account	6,349		5,814
Usable Capital Receipts – <b>Note 13</b>	11,972		10,841
Pensions Liability	20,923		22,553
Capital Grants Unapplied	693		0
		39,937	39,208
Reserve Balances			
General Fund Unapplied	3,800		3,453
Projects Reserve	5,831		3,372
Asset Investment Reserve	100		100
Superannuation (contributions) Reserve	361		1,000
Commercial & Technical Services	100		100
Repair & Renewals Reserve	1,922		2,398
Housing Revenue Account/Benefits Reserve	0		3,497
Collection Fund	712		762
Lanes Capital Fund	251		236
Conservation Fund	191		139
Residents Parking	(54)		(8)
Building Control Function	20		121
Property Trading A/c	33		33
Public Open Spaces Contribution	0		10
LSVT Warranties	488		488
Pensions Reserve	(20,923)		(22,553)
Capital Financing Account	129,055		121,705
Fixed Assets Restatement Account - <b>Note 12</b>	(23,877)		(48,381)
		98,010	66,472
		<u>153,864</u>	<u>121,712</u>

Certified as presenting fairly the financial position of the Authority as at 31 March 2006

Signed.....

AD BROWN - Director of Corporate Services

Approved by Council on 29 June 2006

Signed.....

Chair of meeting approving the accounts



NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Movement in Fixed Assets

The table below set out the transactions relating to fixed assets in 2005/06.

	Operational Assets					Non-operational Assets				Total £000
	Council Dwellings	Other Land & Buildings	Vehicles & Plant	Infra-structure	Community Assets	Investment	Dev. Costs	Surplus	Other	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Valuation as at 31 March 2004	620	23,899	4,735	1,270	972	62,059	0	1,342	2,749	97,646
Accumulated Depreciation	(31)	(552)	(2,460)	(84)	0	0	0	0	0	(3,127)
Accumulated Impairment	0	(21)	(136)	0	0	0	0	0	0	(157)
Net Book Value 31 March 2005	589	23,326	2,139	1,186	972	62,059	0	1,342	2,749	94,362
<b>Movement in 2005/06</b>										
Additions	9	4,516	2,323	94	349	111	0	0	547	7,949
Disposals	0	0	(256)	0	0	(754)	0	0	0	(1,010)
Revaluations	(5)	1,108	0	(94)	(349)	23,866	0	988	0	25,514
Depreciation	(3)	(138)	(408)	(19)	0	0	0	0	0	(568)
Depr w/out	34	690	0	103	0	0	0	0	0	827
Transfers	(386)	3,156	0	39	475	(2,277)	0	1,730	(2,737)	0
Impair Reval	0	21	0	0	0	0	0	0	0	21
Other amounts w/off to revenue	0	0	0	0	0	0	0	0	0	0
Valuation as at 31 March 2005	204	31,968	6,802	1,206	1,447	83,005	0	4,060	559	129,251
Accumulated Depreciation	0	0	(2,868)	0	0	0	0	0	0	(2,868)
Accumulated Impairment	0	0	(136)	0	0	0	0	0	0	(136)
Net Book Value 31 March 2006	204	31,968	3,798	1,206	1,447	83,005	0	4,060	559	126,247

## 1.2 Bases of Valuation

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

Valuations are usually carried out via a rolling five year revaluation program with all assets being revalued at intervals of not more than five years, however the entire asset portfolio has been revalued for 2005/06. Existing valuations were carried out internally by D Atkinson ARICS and R Simmons ARICS and by external property consultants Dixon Webb.

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

	Council Dwellings £000	Other Land & Buildings £000	Vehicles & Plant* £000	Non Operational Investment £000	Non Operational Surplus £000
Valued at current value in					
2005/2006	204	31,968	2,067	83,005	4,060
2004/2005	0	0	839	0	0
2003/2004	0	0	1,175	0	0
2002/2003	0	0	205	0	0
2001/2002	0	0	217	0	0
2000/2001	0	0	188	0	0
1999/2000	0	0	268	0	0
1998/1999 & Prior	0	0	1,843	0	0
	204	31,968	6,802	83,005	4,060

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

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

An analysis of fixed assets includes:

	<u>31 March 2006</u>	<u>31 March 2005</u>
Civic Centre	1	1
Depots and Workshops	15	15
Off Street Car Parks	15	15
Leisure Centres	1	1
Swimming Pool	1	1
Museums	2	2
Parks & Recreation Grounds	250 ha	250 ha
Market	1	1
Cemeteries	3	3
Crematorium	1	1
Industrial Units	97	97
Community Centres	12	12
Industrial Estates	8	8

## 2. Capital Expenditure

The main items of capital expenditure in 2005/06 were:

	<u>£000</u>
Sheepmount	1,495
Equipment, Vehicles & Plant	838
IEG/Customer Contact Centre	805

Significant budget commitments for future capital expenditure contracted for as at 31 March 2005 were:

	<u>£000</u>
Improvement Grant Commitments	894

Capital Expenditure in 2005/06 was financed as follows:

	<u>2005/06</u>
	<u>£000</u>
Opening Capital Financing Requirement	16,096
<u>Capital Expenditure</u>	
Operational Assets	7,291
Non-operational assets	658
Deferred Charges (Note 4)	2,165
<u>Source of Finance</u>	
Capital Receipts	(4,019)
Government Grants	(2,124)
Revenue Provision	(4,416)
Transferred debt	(32)
Closing Capital Financing Requirement	<u>15,619</u>
Decrease in underlying need to borrow (supported by Government financial assistance)	(477)

## 3. Leases

Total operating lease rentals paid in 2005/06 amounted to £554,057. At 31 March 2006 the annual commitment under operating lease and contract hire agreements was as follows:

<u>On leases</u> <u>expiring</u>	<u>Leased</u> <u>Cars</u>	<u>CTS</u> <u>Operating</u> <u>leases</u>	<u>CTS</u> <u>Contract</u> <u>Hire</u>	<u>Other</u> <u>Leases</u>	<u>Total</u>
	£	£	£	£	£
Within 1 year	27,476	35,943	0	0	63,419
2 – 5 years	90,743	23,731	248,721	16,516	379,711
After 5 years	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,000</u>	<u>20,000</u>
Total	<u>118,219</u>	<u>59,674</u>	<u>248,721</u>	<u>36,516</u>	<u>463,130</u>

The Council has no outstanding liabilities under finance leases at 31 March 2006.



4. Deferred Charges

	<u>Bal at</u> <u>1.4.05</u> £000	<u>Expenditure</u> £000	<u>Grants</u> <u>Received</u> £000	<u>Amounts</u> <u>Written Off</u> £000	<u>Bal at</u> <u>31.3.06</u> £000
Other Improvement Grants	0	1,242	0	(1,242)	0
	0	923	(261)	(662)	0
	<u>0</u>	<u>2,165</u>	<u>(261)</u>	<u>(1,904)</u>	<u>0</u>

5. Temporary Investments

Investments are in respect of the temporary use of revenue balances and the investment of unapplied capital receipts. Temporary investments at 31 March were as follows:

	<u>31 March</u>	
	<u>2006</u> £000	<u>2005</u> £000
Notice & Fixed Term Money Market Deposits	<u>20,750</u>	<u>21,200</u>
Total	<u>20,750</u>	<u>21,200</u>

6. Stocks and Work in Progress

	<u>31 March</u>	
	<u>2006</u> £000	<u>2005</u> £000
Work in Progress	17	97
Stocks: CTS	54	49
Other	<u>94</u>	<u>91</u>
	148	140
Total	<u>165</u>	<u>237</u>

7. Debtors

	<u>31 March</u>	
	<u>2006</u> £000	<u>2005</u> £000
Amounts falling due in one year:		
Government Departments	2,412	981
Other Local Authorities	1,407	1,536
Local Taxpayers	2,343	2,588
Housing Rents	11	76
Sundry Debtors	<u>7,534</u>	<u>9,657</u>
	13,707	14,838
Provision for doubtful debts	<u>(1,808)</u>	<u>(1,981)</u>
	11,899	12,857
Amounts falling due after one year:		
Car Loans	27	35
	<u>11,926</u>	<u>12,892</u>

8.	<u>Creditors</u>	<u>31 March</u>	
		<u>2006</u>	<u>2005</u>
		£000	£000
	Other Local Authorities	383	697
	Government Departments	385	936
	Sundry Creditors	<u>2,997</u>	<u>4,349</u>
		<u>3,765</u>	<u>5,982</u>

9.	<u>Long Term Borrowing</u>		<u>Total Outstanding at</u>	
		<u>Range of</u>	<u>31 March</u>	
		<u>Interest Rates</u>	<u>2006</u>	<u>2005</u>
		<u>Payable</u>	£000	£000
	<u>Sources of loan</u>	%		
	Public Works Loans Board	variable	0	0
	Local Bonds & Mortgages	5.75-6.75	68	71
	City of Carlisle Stock Issue	8.785	<u>15,000</u>	<u>15,000</u>
			<u>15,068</u>	<u>15,071</u>

An analysis of loans by maturity is:

	<u>£ 000</u>
Maturing within 1 year	3
Maturing within 1-2 years	3
Maturing within 2-5 years	9
Maturing within 5-10 years	21
Maturing in more than 10 years	<u>15,032</u>
	<u>15,068</u>

10. Deferred Credits

Deferred Credits include £25,000 in respect of amounts relating to the sale of assets receivable in instalments over agreed periods of time. They arise principally from mortgages on the sale of Council Houses, which form the main part of mortgages under long term debtors.

11. Provisions

	<u>1 April</u>	<u>Arising</u>	<u>Applied</u>	<u>31 March</u>
	<u>2005</u>	<u>In Year</u>	<u>In Year</u>	<u>2006</u>
	£000	£000	£000	£000
Cemeteries Perpetuity Fund	86	4	(4)	86
Public Liability Claims (a)	441	159	(184)	416
Other Provisions	<u>409</u>	<u>69</u>	<u>(156)</u>	<u>322</u>
	<u>936</u>	<u>232</u>	<u>(344)</u>	<u>824</u>

(a) At 31 March 2006 the estimated gross value of claims made against the Authority in respect of public liability, employers liability, motor and other claims was £415,918. Of this amount £234,780 is expected to be reimbursed through insurance and other third party claims.

## Other Provisions

Included within is £79,000 (2004/05 £79,000) comprises the balances accrued in various bequests that have been made to the City Council.

### 12. Fixed Asset Restatement Account

	<u>2005/06</u> £000	<u>2004/05</u> £000
Balance at 1 April	(48,381)	(46,681)
Revaluation of Fixed Assets in Year		
General Fund	25,514	(734)
Disposal of Fixed Assets		
General Fund	(1,010)	(966)
Balance at 31 March	<u>(23,877)</u>	<u>(48,381)</u>

### 13. Usable Capital Receipts

These are capital receipts receivable by the Authority but which have not yet been used to finance capital expenditure or repay debt.

	<u>2005/06</u> £000	<u>2004/05</u> £000
Balance at beginning of year as previously reported	10,841	1,014
PRTB (Prior Period Adjustment)	0	4,890
Balance at beginning of year	<u>10,841</u>	<u>5,904</u>
Capital Receipts receivable in year	5,150	7,093
	<u>15,991</u>	<u>12,997</u>
Less Reserved Proportion including Cover		
For Credit Arrangements	0	0
Applied to make a payment to the Secretary of State under regulations 12 and 13 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003	0	(31)
Other (transfer from CFA re prior years)	0	110
Applied during year to finance capital expenditure	(4,019)	(2,235)
Balance of Usable Capital receipts	<u>11,972</u>	<u>10,841</u>

At 31 March 2006 £3,972,104 was due from CHA under the terms of the Preserved Right to Buy (PRTB) sharing agreement. This has been accrued into 2005/06 accounts and has been reflected above. Under the terms of this agreement the City Council will receive a reducing proportion of PRTB receipts for the first 15 years of the contact.

The Council has entered into an agreement with Lovells Partnerships Ltd to develop land at Raffles, whereby the Council is entitled to an overage based upon the sale of houses sold by the Company. This agreement commenced on 22 December 2003, but the Council is not entitled to receive any receipts until completion of the first phase of the development which is not expected until mid 2006. Therefore no potential receipts have been recognised in the 2005/06 accounts.

#### 14. Contingent Liability

(i) 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 for houses to rent. Home Housing Association have raised an initial tranche of £65 million of stock and raised a further £35 million of stock which will mature in 2037. In order to enable Home Housing Association to raise private finance from institutional investors all participating Authorities are required to enter into a standard form of Guarantee in which they jointly and severally guarantee the loan stock raised by Home Housing Association to fund the development programme. There were 15 Authorities participating in the first tranche and a further 14 Authorities including Carlisle joined in tranche 2 of the scheme. The total liability to be guaranteed by participating authorities will be £100 million. This will continue in force until 2037 when the loan stock falls due to be repaid. The strict liability of each Authority under guarantee would be £100 million and because the liability is joint and several Authorities would obviously not be prepared to expose themselves to the risk, however remote, of having to meet the full liability of the borrowing 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 the City Council would be that once it had recovered any contribution from other Authorities it would be left to fund no more than the cost of the development in its own area. The guarantee figure as at 26 November 1996 was £2,299,000. This cost would be offset wholly, or partly, by the sums recovered from repossessing the units from Home Housing Association and selling them on.

(ii) On 30th September 1992, the Council's Insurers, MMI Ltd, announced that it has ceased taking new business and issuing renewals and had placed a moratorium on claims payments. On 6th October 1992 MMI resumed the full payment of claims and on 1st April 1993 the assets and goodwill were taken over by Zurich Municipal but not the liabilities. There are no outstanding claims as at 31 March 2005, however the City Council may still have a liability under the Scheme of Arrangement if there is not a solvent 'run-off'.

However, the report and accounts for the year to 30 June 2003 anticipate a solvent run off and the company is exploring ways in which its outstanding liabilities can be transferred to another insurer in return for a premium so that the company can be wound up.

(iii) 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. Insurance cover has been put in place for the environmental warranties for an initial period of 12 years and an earmarked reserve of £292,000 established to meet costs (insurance premiums) relating to the remaining 13 year period (years 13 to 25). After taking specialist advice non-environmental warranties provided are not covered by existing insurance arrangements. An earmarked reserve of £196,000 has instead been set up to meet costs associated with any future claims. In the period from transfer to 31 March 2006 the Authority has received no claims in respect of either of environmental or non environmental warranties.

15. Authorisation for Issue

The Statement of Accounts have been authorised for issue on 20<sup>th</sup> July 2006 by the Director of Corporate Services, Angela Brown, CPFA. This is the date up to which post balance sheet events have been considered.

16. Investment in Companies

At 31 March 2006, the City Council retains a shareholding investment of £400,000 in Kingmoor Park Properties Ltd (KPP Ltd) (5% of the Company's issued share capital). This can be repaid on or after 15 March 2005 on a valuation basis.

17. Trust Funds

The City Council holds the accumulated balances of a number of bequests for which it is the sole trustee. Please refer to note 11 of the Balance Sheet for further details.

The Council also administers two charities for which it is not the sole trustee. The accounts of these charities are not reflected in any of the accounting statements.

18. Disclosure of Net Pensions Assets/Liabilities

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

The Council participates in the Local Government Pension Scheme as administered by Cumbria County Council. This is a funded scheme which means that both the Council and employees, who are members of the Scheme, pay contributions into a fund independent of the Authority's own assets. The contributions are calculated at a level estimated to balance the pension liabilities with investment assets. In 2005/06 the pension costs have been charged to the revenue accounts on the basis of current service costs based on a formal actuarial valuation. The overall assets and liabilities for pensions for the year which have now been included in the balance sheet are as follows:

	<u>31 March</u> <u>2006</u> <u>£000</u>	<u>31 March</u> <u>2005</u> <u>£000</u>
Estimated liabilities in Scheme	(104,351)	(91,286)
Estimated assets in Scheme	<u>83,428</u>	<u>68,733</u>
Net assets/(liabilities)	<u>(20,923)</u>	<u>(22,553)</u>

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Mercer Human Resource Consulting Ltd, an independent firm of actuaries, has assessed the scheme's liabilities. The main assumptions used in their calculations are:

	<u>2005/06</u> <u>%</u>	<u>2004/05</u> <u>%</u>
Rate of Inflation	2.9	2.9
Rate of Increase in Salaries	4.65	4.65
Rate of increase in Pensions	2.9	2.9
Rate of discounting Scheme Liabilities	4.9	5.4

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

	<u>2005/06</u>		<u>2004/05</u>	
	<u>%</u>	<u>Expected Return</u>	<u>%</u>	<u>Expected Return</u>
Equity Investments	59.5	7.0%	58.4	7.5%
Government Bonds	21.3	4.3%	21.2	4.7%
Bonds	9.5	4.9%	10.1	5.4%
Property	7.5	6.0%	8.4	6.5%
Other Assets	<u>2.2</u>	4.5%	<u>1.9</u>	4.75%
	<u>100.0</u>		<u>100.0</u>	

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

	<u>£000</u>
Net Pension Liability at 1 April 2005	(22,553)
Movements in year:	
Current Service cost	(2,092)
Employers contributions payable to scheme	2,222
Past service costs/curtailment costs	1,426
Settlement gain	0
Interest Cost	(4,922)
Expected return in assets in the scheme	4,255
Actuarial gains/(losses)	<u>741</u>
Net Pension Liability at 31 March 2006	<u>(20,923)</u>

The actuarial gains can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at March 2005:

	<u>2005/06</u>		<u>2004/05</u>		<u>2003/04</u>	
	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
Differences between expected and actual return on assets	10,602	12.7	2,163	3.1	7,019	12.8
Differences between actuarial assumption about liabilities and actual experience	(1,826)	1.7	(1,635)	1.8	0	0
Changes in the demographic and financial assumptions used to estimate liabilities	(8,035)	7.7	(14,864)	16.3	0	0

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

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	Balance 1.04.05	Prior Period Adjustment (note 13.1)	Net Surplus /(Deficit) for year	Value of Disposed Assets	Revaluation of Fixed Assets	Capital Receipts	Actuarial Gain/ Loss	Capital Receipts (pooling portion)	Capital Grants Receivable	Financing of Capital Expenditure	Transfers/ Others	Balance 31.03.06
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>OTHER RESERVES</b>												
Fixed Asset Restatement	(48,381)	0	0	(1,010)	25,514	0	0	0	0	0	0	(23,877)
Capital Financing	121,705	0	(13)	0	0	0	0	0	0	7,363	0	129,055
Useable Capital Receipts	10,841	0	0	0	0	5,150	0	0	0	(4,019)	0	11,972
Capital Grants and Contributions U/A	0	0	0	0	0	0	0	0	2,124	(1,431)	0	693
Pensions Reserve (refer to Accounting Policies note 2.13)	(22,553)	0	889	0	0	0	741	0	0	0	0	(20,923)
Government Grants Deferred	5,814	0	(137)	0	0	0	0	0	0	672	0	6,349
<b>CAPITAL RESERVES</b>												
Lanes Capital Fund	236	0	15	0	0	0	0	0	0	0	0	251
Repair & Renewals Fund	2,398	0	(476)	0	0	0	0	0	0	0	0	1,922
Asset Investment Reserve	100	0	0	0	0	0	0	0	0	0	0	100
<b>REVENUE RESERVES</b>												
Superannuation reserve	1,000	0	(639)	0	0	0	0	0	0	0	0	361
Collection Fund	762	0	(50)	0	0	0	0	0	0	0	0	712
HRA/Benefits Reserve	3,497	0	(3,497)	0	0	0	0	0	0	0	0	0
CTS	100	0	0	0	0	0	0	0	0	0	0	100
General Fund	3,453	0	347	0	0	0	0	0	0	0	0	3,800
Projects Reserve	3,372	0	2,459	0	0	0	0	0	0	0	0	5,831
Property Reserve	33	0	0	0	0	0	0	0	0	0	0	33
Residents Parking	(8)	0	(46)	0	0	0	0	0	0	0	0	(54)
Building Control Function	121	0	(101)	0	0	0	0	0	0	0	0	20
Conservation Fund	139	0	52	0	0	0	0	0	0	0	0	191
Public Open Spaces	10	0	(10)	0	0	0	0	0	0	0	0	0
LSVT Warranties	488	0	0	0	0	0	0	0	0	0	0	488
	83,127	0	(1,207)	(1,010)	25,514	5,150	741	0	2,124	2,585	0	117,024

## CONSOLIDATED CASH FLOW STATEMENT

<u>2004/05</u> £000		<u>2005/06</u> £000      £000
	<b>REVENUE ACTIVITIES</b>	
	<u>Expenditure</u>	
16,916	Paid on or on behalf of employees	16,558
14,660	Other operating costs	19,605
17,417	Housing Benefits	18,014
27,127	NNDR Payments to the National Pool	30,664
36,167	Precepts paid	37,493
<u>112,287</u>		<u>122,334</u>
	<u>Income</u>	
(4,301)	Rents (after rebates)	(4,227)
(36,165)	Council Tax	(37,447)
(26,711)	Non-domestic rate income	(28,240)
(5,545)	Revenue Support Grant	(5,694)
(16,132)	Housing Subsidy	(17,642)
(8,134)	Other Government Grants (note 5)	(8,764)
(11,492)	Cash received for Goods & Services	(17,427)
(2,755)	NNDR Receipts from the National Pool	(2,942)
<u>(111,235)</u>		<u>(122,383)</u>
<b><u>1,052</u></b>	<b>Net Cash Inflow/(outflow) from revenue activities (note 1)</b>	<b><u>(49)</u></b>
	<b>RETURNS ON INVESTMENT &amp; SERVICING OF FINANCE</b>	
1,548	Interest paid	1,283
0	Premia paid on early redemption of borrowing	0
(1,404)	Interest received	(1,556)
<u>144</u>	<b>Returns on Investment &amp; Servicing of Finance Net Cash Flow</b>	<u>(273)</u>
	<b>CAPITAL ACTIVITIES</b>	
5,181	Purchase of Fixed Assets	7,887
1,074	Other Capital Payments	2,185
(5,959)	Sale of Fixed Assets	(6,932)
(2,505)	Capital Grants received	(2,359)
(249)	Other Capital Receipts	(319)
<u>(2,458)</u>	<b>Capital Activities Net Cash Flow</b>	<u>462</u>
<b>(1,262)</b>	<b>Net Cash (Inflow)/Outflow before Financing</b>	<b>140</b>
	<b>MANAGEMENT OF LIQUID RESOURCES</b>	
(10,433)	Net Increase/(Decrease) in short-term deposits	(450)
	<b>FINANCING</b>	
12,820	Loans repaid	31
(4)	New loans raised	(45)
<u>12,816</u>	<b>Financing Net Cash Flow</b>	<u>(14)</u>
<b><u>1,121</u></b>	<b>Net (Increase)/Decrease in Cash</b>	<b><u>(324)</u></b>



## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement summarises for 2005/06 the inflows and outflows of cash to and from the Council arising from transactions with third parties for both revenue and capital.

### 1.Reconciliation of Revenue Account Surplus to Net Cashflow

<u>2004/05</u> £000	<u>2005'06</u> £000
3,715 (Surplus)/Deficit for the year	(347)
<b>Non-cash transactions</b>	
(371) Minimum Revenue Provision	(447)
(3,783) Contribution to Reserves	(1,677)
(44) Amortisation of Premia/Discounts	0
<u>(4,198)</u>	<u>(2,124)</u>
<b>Items on accruals basis</b>	
(193) Increase/(decrease) in stocks	(72)
1,451 Increase/(decrease) in debtors	436
232 (Increase)/decrease in creditors	1,915
<u>1,490</u>	<u>2,279</u>
<b>Items shown elsewhere in the Statement</b>	
(1,453) Interest payable	(1,283)
1,498 Interest receivable	1,426
0 PWLB Premia	0
<u>45</u>	<u>143</u>
<b><u>1,052 Net Cash Flow from Revenue Activities</u></b>	<b><u>(49)</u></b>

### 2. Reconciliation of Cash Flow to Net Debt

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

£000	£000
(1,121) Increase/(Decrease) in cash	324
(10,433) Cash inflow from reduction in liquid resources	(450)
12,816 Cash outflow from (increase)/ decrease in debt	(14)
<u>1,262</u> Movement in Net Debt	<u>(140)</u>
4,335 Net debt at 1st April 2005	5,597
<b><u>5,597 Net debt at 31st March 2006</u></b>	<b><u>5,457</u></b>

### 3. (Increase)/Decrease in Financing and Liquid Resources

	Net debt 31/03/05 £000	Movement in year £000	Net debt 31/03/06 £000
Cash in hand & at bank	(490)	324	(166)
Bank overdraft	0	0	0
Overnight money market deposits	0	0	0
	<u>(490)</u>	<u>324</u>	<u>(166)</u>
Debt			
PWLB	0	0	0
Money Market	0	0	0
Local Bonds & Mortgages	(71)	3	(68)
Stock Issue	(15,000)	0	(15,000)
	<u>(15,071)</u>	<u>3</u>	<u>(15,068)</u>
Other Borrowing	(42)	(17)	(59)
	<u>(15,113)</u>	<u>(14)</u>	<u>(15,127)</u>
Short Term Investments	21,200	(450)	20,750
	<b><u>5,597</u></b>	<b><u>(140)</u></b>	<b><u>5,457</u></b>

### 4. Liquid Resources

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

### 5. Analysis of other Government Grants

<u>2004/05</u> £000	<u>2005/06</u> £000
118 Housing Revenue Account Subsidy	0
5,436 Council Tax Benefit Grant	5,474
635 Housing Benefit Administration	663
256 Other - DWP	313
229 New Deal	100
315 Other	136
172 Achieving Cumbrian Excellence	4
233 Planning delivery grant	276
740 Sure Start	1,798
<u>8,134</u>	<u>8,764</u>

## **SECTION 4 - STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **The Authority's Responsibilities**

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the 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.

### **The Director of Corporate Services's Responsibilities**

The Director of Corporate Services is responsible for the preparation of the authority's statement of accounts 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 2006.

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

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

The Director of Corporate Services has also:

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

.....  
Director of Corporate Services

Date:

## **SECTION 5 - STATEMENT ON INTERNAL CONTROL**

### **SCOPE OF RESPONSIBILITIES**

The Authority is responsible for ensuring that:-

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for and used economically, efficiently and effectively;
- it complies with its duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;

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

The Authority is committed to the highest standards of Corporate Governance and to ensuring that it complies with the Statement of Recommended Practice (SORP). The Authority is working towards a Corporate Governance Policy and Plan which is consistent with the framework document "Corporate Governance in Local Government; a Keystone for Community Governance".

### **THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

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

The Authority acknowledges its responsibility for the systems of internal control in operation and for ensuring that these systems maintain the integrity of its accounting records and safeguard its assets. The purpose of these systems is to provide reasonable assurance as to the achievement of the policies and objectives of the Authority including the reliability of financial information and to maintain proper control over its income, expenditure, assets and liabilities. No system of internal control can, however, provide absolute assurance against material misstatement or loss.

The systems of Internal Control are considered and reviewed on a regular basis by the Senior Management Team. The SIC Action Plan is updated and presented to Members of the Corporate Resources Overview and Scrutiny Committee on a quarterly basis (this will be the Audit Committee w.e.f. May 2006). The SIC for 2005/06 was presented to the Audit Committee on 21<sup>st</sup> June 2006. On a service basis, Heads of Service are accountable for ensuring that their staff are aware of, and consistently apply, the requirements of the system of internal control.

### **THE INTERNAL CONTROL ENVIRONMENT**

#### **Controls and Procedures**

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

## **Council Constitution**

In accordance with the Local Government Act 2000, the Authority has produced a comprehensive Constitution that governs its actions and decision-making, and which details specific delegations of authority and financial procedure rules. This document is available to the public on its web-site. It also sets out detailed specific responsibilities of the roles of the Executive, Overview and Scrutiny Committees, other Standing Committees, Members and Officers. The Constitution is reviewed and revised on an annual basis. A revised version of the Constitution was agreed by Council on 3<sup>rd</sup> May 2005 (LDS 22/05 minute C.69/05 refer). A further revision, to reflect the 2006 re-organisation, was presented to Council in due course.

## **Internal Audit**

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

## **Financial Control**

The main controls for financial management are set out in the Constitution and they are the Budget and Policy Framework and the Financial Procedure Rules. These cover the arrangements for Financial Management, Financial Planning, Risk Management and Control of Resources, Financial Systems and procedures and External arrangements.

The Council has a Medium Term Financial Planning process which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the Strategic Financial Planning Group, which consists of senior Members and Officers. The MTFP for 2007/08 to 2009/10 will be presented to Executive, CROS and Council during June and July 2006.

Regular meetings are held with identified budget managers, and from this budget monitoring reports are prepared for both Capital and Revenue expenditure and considered by the Executive and Corporate Resources Overview and Scrutiny Committee. The Authority is committed to improving the effectiveness of its budget monitoring arrangements and in strengthening the links between budget and performance monitoring. Progress made against individual Directorate Plans will be reported to CROS on a quarterly basis.

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 – considered by Executive, CROS and Council. The Authority is committed to making further improvements to comply with the Local Authority Statement of Recommended Practice and Financial Reporting Standards.

## **Performance Monitoring**

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

## **Risk Management**

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

The Authority's Risk Management Policy, which will ensure that the analysis of risk (and its subsequent management) has been reviewed to take account of the threat to delivery of corporate priorities. This was considered by the Executive and Corporate Resources Overview and Scrutiny Committee and the Policy was submitted to Council on 19<sup>th</sup> July 2005 for formal approval.

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

The Head of Audit Services is a member of the Strategic Risk Management Group. All audit reviews are undertaken using a risk-based approach. Reference is made to the Risk Register held in each Business Unit, and any risks noted during the reviews which have not been included in the Register, are highlighted in the report. Full systems notes have been prepared for all of the material systems which were identified for 2005/06, in accordance with ISA requirements.

## **REVIEW OF EFFECTIVENESS**

The Authority is responsible for reviewing the effectiveness of the system of internal control on an annual basis. This review is informed by the work of Internal Audit and the senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and by comments made by the external auditors and other review agencies and inspectorates. The Authority has appointed an Audit Committee w.e.f. May 2006 – see below.

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

- Regular consideration of the overall Statement of Internal Control Action Plan by the Senior Management Team.
- The Head of Legal and Democratic Services (the 'Monitoring Officer') has a duty to monitor and review annually the operation of the Constitution to ensure its aims and principles are given full effect.
- The Financial Procedure Rules are reviewed annually by the Director of Corporate Services. The 2005/06 revision has been completed, and will be presented to the Audit Committee on 21<sup>st</sup> June 2006 for consideration and approval, prior to being presented to Council for ratification.
- Procedures for handling breaches to the Authority's Contract Procedure Rules were approved in May 2004. Procedures for dealing with general breaches in procedures are covered by the Fraud Theft and Corruption Response Plan, the "Whistle-blowing" Policy, and by the work of Internal Audit.
- The Senior Management Team meets weekly to consider strategic issues including performance management.
- The Internal Audit function reports directly to the Director of Corporate Services and carries out its work in line with the approved Audit Plan which has been produced based upon a risk assessment of activities within the Authority. A written report is produced for appropriate senior managers at the completion of each audit review, which contains an audit opinion and key findings together with an agreed action plan for improvement where appropriate. The Head of Audit Services provides a quarterly management report on progress against the annual plan to the Director of Corporate Services, and an Annual Internal Audit Final Report detailing the

overall performance and activity of the section. These reports are also submitted to the Authority's Audit Committee. The audit function provides an independent review of the adequacy and effectiveness of the system of internal control and is governed by the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. During 2004/5 this work was expanded to include the main accounting and budgetary control system under the Managed Audit arrangements. For 2006/07, "fixed assets", "planning" and "grants" have been added as material reviews.

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

### **SIGNIFICANT INTERNAL CONTROL ISSUES**

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

<b>Issue</b>	<b>Action</b>
Formal approval of a "Code of Corporate Governance".	The Code of Corporate Governance and a statement of its principles will be included, in due course, as part of the preamble to the Financial Procedure Rules. The proposed changes to the FPRs will be reported to the Audit Committee on 21st June 2006, prior to being submitted to Council.
Further analysis and management of Corporate and Business Risk.	The Corporate Risk Register has been revised and updated and training workshops were held for the Corporate Risk Management Group, and for CMT, in September 2005. Service Heads are responsible for ensuring that, on a regular basis, Operational Risk Registers are updated. The Portfolio Holder now sits on the Corporate Risk Management Group. The Audit Committee will receive quarterly reports relating to the operation of the Risk Registers
To ensure that Job Descriptions are updated for all staff, in preparation for Job Evaluation.	Ongoing - Directors are responsible for ensuring that Job Descriptions are addressed and up to date - to be addressed as part of 2006 appraisal process.

item 11(a)

Issue	Action
Ensure that adequate training and support are available for the new Audit Committee	The Audit Committee was set up on 22nd may 2006 - its first meeting was 12th June 2006- a training programme is being put into place.
Review effectiveness of Corporate Procurement Policy,	This work will be co-ordinated by the Senior Management Team.
Development and procedural documentation of the Financial Information System and the "business critical" systems as defined by the Audit Commission.	This work will be progressed as part of the 2005/06 Final Accounts preparation.
This Authority has no system of Control Risk Self Assessment in operation.	For consideration in due course. Time will be required for the new structure to "bed in". This will be considered during 2006/07 in preparation for the 2007/08 Audit Plan and the work will be co-ordinated by the Head of Audit Services
Due to problems experienced with the implementation of the new bank reconciliation system, the authority has not maintained regular bank reconciliations from 1 <sup>st</sup> April 2004. A full systems - based reconciliation was achieved in December 2005. Since this date full reconciliation has not been achieved and is currently unbalanced by c£120. During 2006/07 the bank reconciliation has been fully balanced on a daily basis. There are, however, problems still remaining and reconciliation is achieved partly on a manual basis.	To ensure a properly balanced position is maintained.
S11 recommendation – the Council should improve its financial management arrangements and systems of internal controls, in order that it is able to prepare financial statements, which are free from material error and demonstrate proper stewardship of public money.	A full Action Plan was agreed by Council on 27 <sup>th</sup> April 2006 and this is being progressed.
The former DSO system, Contractor Plus, is difficult to integrate to the main accounting system. Now that the Final Accounts closedown process is significantly shorter, - 30th June - there is a significant risk that closedown will not be achieved on time due to problems in reconciling the two systems	Discussions are taking place between the two Directorates as a matter of priority to ensure that these systems and processes are more efficient on the current system. A budget has been approved to replace the Contractor Plus system and a full business case will be produced during the year. (Target date March 2007)



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

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

**Signed:**

**Councillor M. R. Mitchelson**

**Leader of the Council**

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**Maggie Mooney**

**Town Clerk and Chief Executive**

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**Angela Brown**

**Director of Corporate Services**

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