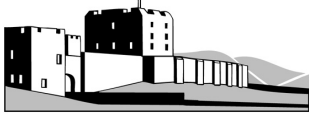


**CARLISLE  
CITY COUNCIL**



**www.carlisle.gov.uk**

## **AUDIT COMMITTEE**

### ***Committee Report***

**Public**

**Date of Meeting: 23 JUNE 2008**

**Title: STATEMENT OF ACCOUNTS 2007/08**

**Report of: Director of Corporate Services**

**Report reference: CORP30/08**

#### **Summary:**

The Council's Statement of Accounts 2007/08 (subject to Audit) is attached to this report. Once approved by Council on 26 June the statements will be subject to audit, which must be concluded by the statutory deadline of 30 September 2008. Key issues included within the 2007/08 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.

#### **Recommendations:**

The Committee is asked to consider the 2007/08 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.

**Contact Officer: Alison Taylor**

**Ext: 7280**

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

## CITY OF CARLISLE

To: The Audit Committee  
23 June 2008

CORP30/08

### **STATEMENT OF ACCOUNTS 2007/08**

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

- 1.1 The Accounts and Audit Regulations 2003 require that the City Council's Statement of Accounts for 2007/08 be submitted to full Council for approval by 30 June 2008.
- 1.2 The Statements reflect the summarised financial out-turn information which has recently been considered by the Executive and Corporate Resources Overview and Scrutiny Committee. However to a large extent the format of the Statement of Accounts is prescribed and is therefore presented in a different format from the internal out-turn reports.
- 1.3 The Statements presented are subject to the formal audit process, which will commence on 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.

	<b>Total Expenditure</b>	<b>Variance as at 31/03/08</b>	<b>Carry Forwards to 2008/09</b>	<b>Carry Forwards to 2009/10</b>	<b>Final Variance</b>
<b>Revenue</b>					
Provisional Out-turn (per CORP12/08)	18,693,492	(367,808)	787,100	0	419,292
Final Out-turn ( <b>note 1</b> )	18,688,670	(372,630)	647,808	0	275,178
<b>Capital</b>					
Provisional Out-turn (per CORP13/08)	8,501,267	(2,197,633)	2,069,900	214,300	86,567
Final Out-turn ( <b>note 2</b> )	8,519,117	(2,179,783)	2,053,900	214,300	88,417

#### Notes

- (1) As requested by the Executive on 29 May, the revenue carry forwards have been reduced to £647,808 to limit the call on reserves to £280,000. However, since that meeting, there have been minor changes amounting to £4,822.37, which will reduce the final call on reserves to £275,178.
- (2) During the final accounts process, a capital carry forward totalling £16,000 had been requested and included within the provisional out-turn report. However, upon investigation, a creditor list of £17,850 was required instead and the carry forward request is no longer required. This will reduce the total capital carry forwards to £2,268,200 (£2,053,900 to 2008/09 and £214,300 to 2009/10).

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 2007 STATEMENT OF RECOMMENDED PRACTICE**

- 3.1 At the Audit Committee meetings of the 16 January 2008 and 15 April 2008 the Director of Corporate Services reported that changes would be required to the format of the 2007/08 Statement of Accounts. Reference was made to the 2007 Statement of Recommended Practice (SORP) which introduced significant changes to the way the Statement of Accounts for 2007/08 would be prepared. A presentation explaining the key changes was provided at the 15 April Audit meeting. The 2007/08 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.
- Establishment of a Revaluation Reserve with a nil opening balance as at 1<sup>st</sup> April 2007.
  - Fixed Asset Restatement Account and Capital Financing Account are to be joined together to form the Capital Adjustment Account.
  - Establishment of a Financial Instruments Adjustment Account to record the differences in financing costs of any financial instruments entered into by the Authority.

The main requirements of the 2007 SORP will be the detailed record keeping required to ensure that the Revaluation Reserve is maintained and reconciled on an individual asset basis with two sets of records being required for each asset.

### **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 Statement of Internal Control forms part of the Annual Statement of Accounts as presented at **Appendix 2**, although it is a requirement of the 2007 SORP that this be considered and approved separately by the Audit Committee.

### 4.3 **Significant issues**

As referred to in paragraph 3, there have been significant changes to the format of the Statements, which is a requirement of the 2007 SORP (Statement of Recommended Practice). Other key issues to which Members attention is 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 £1.954m over the previous year. This can be explained as a result of an increase in the costs relating to Pension Fund assets and liabilities (£1.744m); a reduction in the costs associated with renovation grants (£1.420m) which are shown through the Income and Expenditure Account; an increase in depreciation and impairment charges of £1.291m, with other smaller items of expenditure making up the balance.

#### 4.3.2 **Balance Sheet**

The balance sheet records all of the Council's assets and liabilities as at 31 March 2008. 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 2008 is £150m (March 2007 £131m). Fixed assets are revalued at least every five years with the valuation work being undertaken in-house by the Head of Property Services or procured by external valuers. 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. Members will recall that the Council sold its 5% interest in Kingmoor Park Properties Ltd during 2007/08, generating a receipt of £2m, a net gain of £1.6m over the book value of the investment.

**Current Assets** – the main items included within this heading are debtors i.e. money owed to the Council as at 31 March 2008 and short term investments. Investments have reduced by £3.950m over the year and the Council currently has £19.6m invested in other local authorities and a variety of building societies. Debtors have increased by £3.600m to £13.211m in the past year. This can mainly be explained by the Government owing the Council for the NNDR Pool contribution of £0.515m; the LAGBI allocation of £0.504m; a contribution due in respect of the development land at Raffles of £0.520m, and rent allowance subsidy due from the DWP of nearly £1m.

**Current liabilities** – this is the amount of money owed by the Council to its suppliers and contractors which totalled £5m as at 31 March 2008 (£4m as at 31 March 2007). The main variance between the years can be explained by the need to accrue approximately £1m for rent allowance payments made in 2008/09 which relate to 2007/08.

**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 £28.266m as at March 2008 (£15,866 March 2007). 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 2008, the amount of unutilised capital receipts which can be used to support future years capital programmes (refer to paragraph below) and a small amount of deferred credits which will be paid to the Council over the next few years.

### **Usable Capital Receipts**

Options have recently been reviewed with regard to the Minimum Revenue Provision (MRP) whereby the Council can mitigate its MRP liability by making use of an accounting transfer involving the its unapplied capital receipts. Any receipts unapplied as at 31 March 2008 (£12.5m) have therefore been transferred into the Capital Adjustment Account in order to reduce the Council's Capital Financing Requirement, which is used as the basis of the MRP calculation. This transfer will

reduce the Council's MRP liability substantially in 2008/09, as reported in CORP35/08 to the Executive on 23 June 2008.

### **Job Evaluation Reserve**

As part of the Job Evaluation exercise, an earmarked reserve has been established and in 2007/08 £887,700 has been transferred into this reserve as a contribution to fund the future estimated cost of implementing the scheme.

## **5. CONSULTATION**

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

None

### **5.2 Consultation proposed.**

Notice will be given in the local press for any interested person to inspect, and make copies of, the Statement of Accounts and other documents between 8 July and 4 August 2008. Interested persons will also be able to question the Auditor about the accounts and make objections to the same with effect from 5 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.

It is intended that, following a focus group consultation process undertaken in February 2008, a combined Annual Report/ Summary of Accounts will be produced for 2007/08. The new Report will be produced to offer interested parties an easily understandable guide to the most significant matters reported in the accounts once the Statements have been audited and will be informed by feedback received from the focus group.

## **6. RECOMMENDATIONS**

The Committee is asked to consider the 2007/08 Statement of Accounts for recommendation to Council, noting that the Statements will then be subject to audit.

ANGELA BROWN  
Director of Corporate Services

**Contact Officer:** Alison Taylor

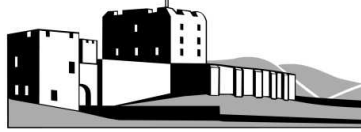
**Ext:** 7280

# APPENDIX 1

Item	£	£
<b>Provisional Out-turn (table at paragraph 2)</b>		<b>18,688,670</b>
Capital Receipts generated on the disposal of assets		(5,317,829)
Net book value of disposals written out of balance sheet		1,534,471
Parish Precepts		390,868
Actuary Reports on Pension Costs (FRS17)		
- Expected return on pension assets	(5,567,000)	
- Interest Costs	5,630,000	63,000
Net changes re FRS17 current and past service costs		608,905
Depreciation and Impairment Charges		2,864,130
Capital Expenditure on deferred charges (assets not owned by the Council) chargeable to the I&E account less grants and contributions received towards these costs		442,962
Capital Government Grants and Contributions, credited to the I&E account to offset the depreciation charge		(218,334)
Transfers to earmarked reserves shown elsewhere		
- Renewals Reserve	(320,746)	
- Lanes Capital Fund	(15,000)	
- Job Evaluation Reserve	(887,700)	(1,223,446)
MRP		(606,400)
LABGI (shown as a funding source)		674,697
Finance lease		(22,903)
<b>Net operating cost on the I&amp;E account</b>		<b>17,878,791</b>



# CARLISLE CITY COUNCIL



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

## **STATEMENT OF ACCOUNTS**

**2007/08**

**[SUBJECT TO AUDIT]**

## STATEMENT OF ACCOUNTS

### 2007/08 CONTENTS

<u>Section</u>	<u>Page</u>
1. Foreword	2
2. Statement of Accounting Policies	7
3. Statement of Responsibilities for the Statement of Accounts	16
4. Core 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 Core Financial Statements	23
6. Supplementary Financial Statements – Collection Fund	46
7. Annual Governance Statement	49

## **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 2007/08
- 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 2008 has been produced by the Director of Corporate Services and consists of the following: -

- (i) The Statement of Accounting Policies  
This summarises the accounting rules used to prepare the accounts.
- (ii) The Statement of Responsibilities for the Statement of Accounts  
This sets out the respective responsibilities of the Council and the Director of Corporate Services for preparing the Statement of Accounts.
- (iii) The Income and Expenditure Account  
This summarises the amounts the Council spent on its services and how this spending was paid for.
- (iv) The Statement of the Movement on the General Fund Balance  
This shows the value of all the amounts affecting the movement in the balance held in Council's General Fund during the year.
- (v) The Statement of Total Recognised Gains and Losses  
The Council is required to disclose details of all gains and losses incurred in the year. This statement shows the gains and losses on the Income and Expenditure Account, on the revaluation of fixed assets and on the pension fund assets and liabilities.
- (vi) The Balance Sheet  
This shows information on the financial position of the Council at the 31 March 2008, including the level of balances and reserves at the authority's disposal, its long term indebtedness and the value of the assets held by the Council.
- (vii) The Cash Flow Statement  
This shows the cash movements in and out of the Council due to transactions with third parties for revenue and capital purposes.
- (viii) The Collection Fund  
This shows the total income received by the Council from Council Tax and business rates and how this has been distributed to all the authorities it is collected for, including the Council.
- (ix) The 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 2007/08. More detailed information is shown in the Income and Expenditure Account on page 17.

	<u>General Fund</u> <u>2007/08</u>	
	<u>Revised</u> <u>Budget</u>	<u>Actual</u>
	£000	£000
Net Cost of Services (excluding Trading Operations)	22,481	23,849
Parish Precepts	390	391
Interest Payable	1,324	1,294
Interest Receivable	(1,674)	(1,865)
Trading Activities	(2,471)	(2,063)
Gains/Losses on disposal of Fixed Assets	0	(3,790)
FRS17 Pension interest costs and expected return on pension Assets	0	63
Net Operating Expenditure	20,050	17,879
Precept on Collection Fund	(6,390)	(6,390)
Government Grants		
- LABGI	(643)	(675)
- NNDR	(8,658)	(8,658)
- RSG	(1,453)	(1,453)
Council Tax Surplus	(11)	(11)
Total Income	(17,155)	(17,187)
<b>Deficit on Income &amp; Expenditure Account</b>	<b>2,895</b>	<b>692</b>

The total reserves held by the Council total £124.323m as at 31 March 2008 (£119.672m at 31 March 2007). Further details can be found at paragraph 5.29.

A revenue out-turn report for 2007/08 has been prepared which provides additional information on the year end position. This is available upon request from the Director of Corporate Services.

## 1.3 Capital Expenditure and Financing

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

(i) Capital Expenditure

The Council's revised capital programme for 2007/08 was approved at £10.7 million. Overall capital spending for 2007/08, however, totalled £8.5 million, resulting in slippage of £2.2 million to future years. The overall programme can be summarised as follows:

	<u>£000</u>	<u>£000</u>
<b><u>Deferred Charges</u></b>		
Renovation Grants	1,041	
Disabled Facilities Grants	501	
Longtown MTI Business Grants	150	
Housing Strategy	840	
Environmental Improvements	132	
OPDM Flood Grant	312	
Other Minor projects	21	
		2,997
<b><u>Capital Investment on Assets</u></b>		
Recycling Scheme	673	
Leisuretime Investment	296	
Planned Major Repairs	173	
Renaissance Schemes	983	
Longtown Townscape Improvements	238	
Sheepmount (including drainage)	56	
Heysham Park	242	
Cremators	554	
Equipment, Vehicles & Plant	811	
Play & Multi-Use Games Areas	109	
City Council Buildings (including Community Centres)	623	
Industrial Estates	206	
IT Projects	396	
Other Schemes	162	
		5,522
		<b>8,519</b>

The programme has been financed as follows:

Capital Receipts	3,239
Specified Capital Grant	525
Other Capital Grants and Contributions	3,890
Reserves (including Renewals Reserve)	865
	<b>8,519</b>

A capital out-turn report for 2007/08 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 one mortgage with a value of £63,000 as its external borrowing liabilities. The Council has not yet taken advantage of the Prudential Borrowing regime introduced in April 2004, although this position will be reviewed in the longer-term in the light of total available capital resources.

(iii) Capital Receipts

The Council is dependent on capital receipts generated from the sale of its assets to pay for a significant proportion of its capital spending. This includes capital receipts arising from the sale of former council houses now owned by Carlisle Housing Association as part of the housing stock transfer agreed in 2002. At 31 March 2008, the value of capital receipts available to finance capital expenditure was £14.5m.

## **1.4 Significant Issues**

(i) 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 fund liabilities and assets can be found at notes 5.8 and 5.32 to the core statements.

(ii) Statement of Recommended Practice (SORP) 2007

There have been changes to the Statutory Statements included within this set of accounts following the implementation of the 2007 SORP. The Capital Financing Account and Fixed Asset Restatement Account have been merged to form a new Capital Adjustment Account and a new Revaluation Reserve has been introduced to more accurately reflect the revaluation of assets held by the Council. The 2007 SORP also includes arrangements to reclassify some of its assets and liabilities as financial instruments and these changes are reflected in the Statement of Accounts where appropriate.

(iii) Usable Capital Receipts

In 2007/08 options have been reviewed with regard to the Minimum Revenue Provision (MRP) whereby the Council can mitigate its MRP liability by making use of an accounting transfer involving its unapplied capital receipts. Any receipts unapplied as at 31 March 2008 have therefore been transferred into the Capital Adjustment Account in order to reduce the Council's Capital Financing Requirement, which is used as the basis of the MRP calculation.

## **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 to accounting policies relate to the recognition of movements in fixed assets on an individual basis, recognition in the Income and Expenditure Account of impairment losses that are not covered by accumulated balances on the Revaluation Reserve and the recognition of financial instruments at amortised cost or fair value, rather than current value.

## **1.6 The Euro**

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

## **1.7 Further Information**

As part of the Council's policy of providing full information about the Council's affairs, further information regarding the accounts is available on request from the Director of Corporate Services, Civic Centre, Rickergate, Carlisle. 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 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007 (the SORP). The accounting convention for the recognition of fixed assets is historic cost, modified by the revaluation of certain categories of tangible fixed assets.

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

### **2.2 Fixed Assets**

#### **(i) Tangible Fixed Assets**

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 Council has not adopted the policy of component accounting for its tangible assets as current valuation practices are unable to identify accurately the current value of plant and equipment with significant value from within existing valuations for its operational land and buildings. As these assets become due for revaluation under the Council's five-year rolling valuation programme, it is intended to provide the necessary split recommended under SORP.

(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:

- Charging the relevant service where there is clear evidence of the consumption of economic benefits or,
- Charging the Revaluation Reserve with the loss in value arising from price reductions, where this is covered by previous years revaluations or,
- Charging the relevant service with the amount by which previous revaluations credited to the Revaluation Reserve are insufficient to cover the reduction in value of an asset for reasons other than the consumption of economic benefits.

Impairment losses are not a charge against council tax. The balance in 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). Assets sold or decommissioned are revalued at the time of disposal in accordance with the measurement basis set out in note 2.2(i). Where this results in a reduction to the carrying value of the asset, the policy in place for impairment is followed. 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.

## **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:

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

Under the 2007 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 equals 4% of the Council's underlying capital financing requirement. The Council has also decided to pay additional voluntary contributions to repay its outstanding borrowing. 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**

### **(a) 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 property, 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.

## **(b) 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 Deferred Charges**

Some capital spending does not result in the creation of an asset and this spending is known as a deferred charge. It is Council policy to write off the value of deferred charges to services and reflect them in the Income and Expenditure account in the year they arise. The 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. They are known as usable capital receipts and as at 31 March 2008 these are held within the Capital Adjustment Account. 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. Particularly: -

- 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 created by a charge 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 2007. 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 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. These can either be earmarked for specific services or be of a more general nature.

Two further reserves have been established in the Balance Sheet for 2007/08:

- The Revaluation Reserve represents principally the balance of the surpluses or deficits arising from the periodic revaluation of fixed assets.
- The Capital Adjustment Account represents amounts set aside from revenue resources or capital receipts for the repayment of external loans and certain other capital financing transactions. During 2007/08 the Council has transferred the balance of Usable Capital Receipts to the Capital Adjustment Account in order to temporarily reduce the MRP liability in future years. These receipts although contained within the Capital Adjustment Account are still available to support the capital programme.

Neither the Revaluation Reserve nor the Capital Adjustment Account represents usable resources for the Council with the exception of the Usable Capital Receipts transfer highlighted above.

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 5.4%
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
  - quoted securities – mid-market value
  - unquoted securities – professional estimate
  - unitised securities – average of bid and offer rates
  - 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 result 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 2007 SORP. The following items meeting the new definition are contained within the Council's balance sheet.

### 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.

## Financial Assets

### Loans and Receivables

#### (a) Investments

Investments are classed as either long-term assets, repayable after 12 months or longer, or a current asset, if it is 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 loans 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 2007 SORP. The value of car loans provided has therefore been recalculated at fair value using the effective interest rate(s) applicable at the time the loan was agreed. The difference between interest at fair value and the actual loan interest charged is chargeable to the Income and Expenditure Account.

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

## **2.15 Gains and Losses on Debt Re-structuring**

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 2007 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 deferred charges are written down over the same period as the deferred charge.

## **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 2007/08 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 2007 SORP that require significant changes to the 2006/07 accounts.



## **SECTION 3 - STATEMENT OF RESPONSIBILITIES**

### **FOR THE STATEMENT OF ACCOUNTS**

#### **3.1 The Responsibilities of the Council**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

#### **3.2 The Responsibilities of the Director of Corporate Services**

The Director of Corporate Services is responsible for the preparation of the Statement of Accounts for the Council, which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the SORP"), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

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

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

The Director of Corporate Services has also:

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

.....  
Director of Corporate Services

Date:

## SECTION 4 – FINANCIAL STATEMENTS

### 4.1 INCOME AND EXPENDITURE ACCOUNT

<u>2006/07</u> <u>Net</u> <u>Expenditure</u> <u>£000</u>	<u>Service</u>	<u>Note</u>	<u>2007/08</u> <u>Gross</u> <u>Expenditure</u> <u>£000</u>	<u>2007/08</u> <u>Gross</u> <u>Income</u> <u>£000</u>	<u>2007/08</u> <u>Net</u> <u>Expenditure</u> <u>£000</u>
	<b>Continuing Operations</b>				
12,810	Cultural, Environmental & Planning Services		25,749	(11,633)	14,116
2,123	Highways, Roads & Transport		5,935	(3,692)	2,243
3,094	Housing Services		32,559	(30,898)	1,661
1,106	Central Services		2,665	(1,613)	1,052
3,249	Corporate & Democratic Core		6,097	(2,094)	4,003
222	Non Distributed Costs		775	0	775
(1,457)	Exceptional items	5.16	0	0	0
21,147	Total Continuing Operations		73,780	(49,930)	23,850
	<b>Discontinued Operations</b>				
(28)	Services transferred to CHA	5.3	13	(14)	(1)
<b>21,119</b>	<b>Net Cost of Services</b>		<b>73,793</b>	<b>(49,944)</b>	<b>23,849</b>
	<b>Other Items</b>				
(3,346)	(Gains)/Losses on the sale of fixed assets	5.5			(3,790)
335	Precepts Paid to Parish Councils				391
(2,141)	(Surplus)/Deficit from Trading Undertakings & Other Operations	5.4			(2,063)
1,293	Interest payable				1,294
(1,664)	Interest receivable				(1,865)
329	Pensions interest costs & expected return on pension assets	5.8			63
0	Contribution towards Pooling arrangements	5.15			0
<b>15,925</b>	<b>Net Operating Expenditure</b>				<b>17,879</b>
(6,076)	Precept demanded from the Collection Fund				(6,390)
(145)	Council Tax Surplus				(11)
(1,581)	Revenue Support Grant				(1,453)
(859)	Local Authority Business Growth Incentive				(675)
(8,190)	National Non-Domestic Rate Pool				(8,658)
<b>(16,851)</b>	<b>Amount provided from Government grants and local taxpayers</b>				<b>(17,187)</b>
<b>(926)</b>	<b>(Surplus)/Deficit for the Year</b>				<b>692</b>

## 4.2 STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This new 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.

<u>2006/07</u> <u>£000</u>	<u>Description</u>	<u>2007/08</u> <u>£000</u>
(926)	(Surplus)/Deficit on the Income and Expenditure Account for the year	692
926	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(692)
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

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets, movements in some reserves and re-measurement of the net liability to cover the cost of retirement benefits.

<u>2006/07</u> <u>£000</u>	<u>Description</u>	<u>2007/08</u> <u>£000</u>
(926)	(Surplus)/Deficit on the Income and Expenditure Account for the year	692
101	Collection Fund	(23)
(5,622)	Actuarial (Gain)/Loss on the Pension Fund	11,729
(3,352)	Gains on the Revaluation of Fixed Assets	(17,122)
51	Other gains and losses	73
(9,748)	Total Recognised (Gains) and Losses for the year	(4,651)

#### 4.4 **BALANCE SHEET**

<u>31 March</u> <u>2007</u> £000		Note	<u>31 March</u> <u>2008</u> £000	£000
16	Intangible Assets		316	
	Tangible Assets	5.18		
	Operational Assets:			
200	Dwellings		214	
32,648	Other Land & Buildings		33,921	
2,104	Infrastructure Assets		2,512	
1,604	Community Assets		1,946	
5,600	Vehicles & Plant		7,674	
	Non-Operational Assets:			
81,609	Investment		89,635	
7,131	Surplus		13,321	
216	Assets under construction		161	
131,128	Total Fixed Assets			149,700
2,000	Long Term Investments	5.24(a)	3,153	
	Long Term Debtors			
401	Transferred Debt – Cumbria CC		367	
2	Mortgages and Other	5.24(b)	2	
2,403				3,522
<b>133,531</b>	<b>Total Long Term Assets</b>			<b>153,222</b>
	Current Assets			
227	Stocks & Work in Progress	5.25	197	
9,045	Debtors - Operational/Trade	5.24(b)	11,223	
566	Debtors - Other	5.24(b)	1,988	
458	Payments in Advance		444	
0	Cash at Bank		443	
23,600	Investments	5.24(a)	19,647	
33,896				33,942
	Current Liabilities			
(3,650)	Creditors - Operational/Trade	5.24(a)	(3,607)	
(478)	Creditors - Other	5.24(a)	(1,396)	
(64)	Temporary Loans	5.24(d)	(972)	
(3,694)	Receipts in Advance		(3,617)	
(732)	Cash Overdrawn		0	
(8,618)				(9,592)
<b>158,809</b>	<b>Total Assets less Current Liabilities</b>			<b>177,572</b>
	<b><u>Long Term Liabilities</u></b>			
(15,066)	Long Term Borrowing	5.26(a)	(15,533)	
(50)	Deferred Liabilities	5.21(b)	(27)	
(672)	Provisions	5.27 & 5.28	(577)	
(7,016)	Deferred Government Grant		(8,660)	
(467)	Capital Grants Unapplied		(186)	
(15,866)	Pension Liability		(28,266)	
(39,137)				(53,249)
<b>119,672</b>	<b>Total Assets less Liabilities</b>			<b>124,323</b>

<u>31 March</u> <u>2007</u> £000	BALANCE SHEET (contd.)	Note	<u>31 March</u> <u>2008</u> £000      £000	
	<b>Financed by:</b>			
22	Deferred Credits	5.26(e)	21	
12,460	Usable Capital Receipts	5.29	0	
12,482				21
	Reserve Balances			
13,302	General Reserves	5.29	12,251	
0	Job Evaluation Reserve	5.29	888	
(15,866)	Pensions Reserve	5.29	(28,266)	
109,754	Capital Adjustment Account	5.29	122,740	
0	Revaluation Reserve	5.29	16,689	
107,190				124,302
<b>119,672</b>	<b>Total Net Worth</b>			<b>124,323</b>

Certified as presenting fairly the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

Signed .....

Date.....

AD Brown - Director of Corporate Services

Approved by Council on 26 June 2008

Signed .....

Date.....

Chair of meeting approving the accounts

#### 4.5 CASH FLOW STATEMENT

<u>2006/07</u>		<u>2007/08</u>	
<u>£000</u>		<u>£000</u>	<u>£000</u>
	<b>REVENUE ACTIVITIES</b>		
	<u>Cash Outflows</u>		
19,202	Paid on or on behalf of employees	19,954	
16,183	Other operating costs	19,612	
18,391	Housing Benefits	20,777	
28,984	NNDR Payments to the National Pool	32,079	
40,961	Precepts paid	42,535	
123,721			134,957
	<u>Cash Inflows</u>		
(4,919)	Rents (after rebates)	(5,708)	
(40,384)	Council Tax	(42,948)	
(30,956)	Non-domestic rate income	(30,287)	
(1,581)	Revenue Support Grant	(1,453)	
(18,361)	Housing Subsidy	(18,634)	
(9,187)	Other Government Grants (Note 5.40)	(11,711)	
(13,752)	Cash received for Goods & Services & Other Cash Receipts	(14,302)	
(8,190)	NNDR Receipts from the National Pool	(8,658)	
(127,330)			(133,701)
(3,609)	Net Cash (Inflow)/Outflow before Financing (Note 5.36)		1,256
	<b>RETURNS ON INVESTMENT &amp; SERVICING OF FINANCE</b>		
	<u>Cash Outflows</u>		
1,292	Interest paid	1,294	
	<u>Cash Inflows</u>		
(1,293)	Interest received	(1,841)	
(1)	Returns on Investment & Servicing of Finance Net Cash Flow		(547)
	<b>CAPITAL ACTIVITIES</b>		
	<u>Cash Outflows</u>		
5,029	Purchase of Fixed Assets	6,267	
4,299	Other Capital Payments	3,168	
3,000	Purchase of long term deposits	3,000	
	<u>Cash Inflows</u>		
(7,025)	Sale of Fixed Assets	(5,032)	
(2,000)	Repayment of long term deposits	(6,000)	
(2,457)	Capital Grants received	(2,339)	
(139)	Other Capital Receipts	(67)	
707	Capital Activities Net Cash Flow		(1,003)
<b>(2,903)</b>	<b>Net Cash (Inflow)/Outflow before Financing</b>		<b>(294)</b>

<u>2006/07</u> <u>£000</u>	CASH FLOW STATEMENT (contd.)		<u>2007/08</u> <u>£000</u>	<u>£000</u>
<b>3,000</b>	<b>MANAGEMENT OF LIQUID RESOURCES</b> <b>Net Increase/(Decrease) in short-term deposits</b>			<b>1,000</b>
	<b>FINANCING</b>			
	<u>Cash Outflows</u>			
2	Loans repaid	3		
22	Finance Lease repayments	23		
	<u>Cash Inflows</u>			
(5)	New loans raised	(907)		
<b>19</b>	<b>Financing Net Cash Flow</b>			<b>(881)</b>
<b>116</b>	<b>Net (Increase)/Decrease in Cash</b>			<b>(175)</b>

## SECTION 5 - NOTES TO THE FINANCIAL STATEMENTS

### INCOME AND EXPENDITURE ACCOUNT

#### 5.1. Overall Position for the Year

The revised budget for 2007/08 including parish precepts of £390,000 was £19,451,300. This is paid for by local taxpayers and government grants totalling £16,512,000, with the balance of £2,939,300 coming from Council Reserves. Any increases or reductions in spending directly affects the level of reserves held by the Council. In 2007/08, the forecast use of reserves fell by £372,000 with the main reasons for the reduction being: -

	£000
Carry forward requests from 2007/08 to 2008/09	(648)
Increased use of reserves in 2008/09 and 2009/10	276
Total	<u>(372)</u>

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

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

<u>2006/07</u> <u>£000</u>	<u>Description</u>	<u>2007/08</u> <u>£000</u>
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year</b>	
(1,573)	Depreciation and impairment of fixed assets	(2,864)
207	Amortisation of Deferred Government Grants	218
3,337	Net gains on the sale of fixed assets	3,783
(1,863)	Deferred charges written down to be financed from capital resources	(443)
(3,042)	Net charges made for retirement benefits in accordance with FRS17 (note 5.8)	(3,164)
(2,934)		(2,470)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year</b>	
301	Minimum Revenue Provision for capital financing	340
497	Direct revenue funding of capital spending	811
0	Transfer from Usable Capital Receipts to meet Pooling arrangements	0
2,477	Employer's Contributions payable to the Pension Fund (note 5.8)	2,492
3,275		3,643
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance for the year</b>	
239	Voluntary Revenue Provision for repayment of debt	266
0	Contribution from the HRA	0
346	Contributions to Earmarked Reserves	(2,131)
585		(1,865)
926	<b>Net Additional Amount to be credited/(debited) to the General Fund Balance for the year</b>	(692)



### 5.3 Discontinued Operations

#### Housing Revenue Account

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

### 5.4 Trading Operations

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

<u>(Surplus)/ deficit 2006/07 £000</u>	<u>Activity</u>	<u>Gross Income 2007/08 £000</u>	<u>Gross Expenditure 2007/08 £000</u>	<u>(Surplus)/ deficit 2007/08 £000</u>
(253)	Corporate Properties	(394)	115	(279)
(2,068)	Industrial Estates	(2,712)	589	(2,123)
214	Community Services Trading	(6,618)	7,019	401
(34)	Market	(90)	29	(61)
(2,141)	Total	(9,814)	7,751	(2,063)

### 5.5 Gains and Losses from the Sale of 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 2007/08 is as follows: -

	<u>2007/08 £000</u>	<u>2006/07 £000</u>
PRTB Sales	(2,287)	(2,766)
Other	(1,496)	(580)
	<u>(3,783)</u>	<u>(3,346)</u>

### 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 2007/08 was as follows: -

	<u>2007/08 £000</u>	<u>2006/07 £000</u>
Recruitment Advertising	85	73
Tourism	430	479
Promotions & Marketing	46	51
	<u>561</u>	<u>603</u>

## **5.7 The Local Authorities Goods and Service Act 1970**

The Council is empowered by Section 1 of this Act to provide goods and services to certain other public bodies. No work of this kind was undertaken during 2007/08.

## **5.8 Pension Costs**

In 2007/08, the City Council paid an employer's contribution of £2,213,055 into the Cumbria County Council Pension Fund, representing 15.9% (2006/07 £2,061,100 and 15.9%) of pensionable pay. The contribution rate is based on a triennial actuarial valuation basis carried out at 31 March 2004 by the Fund's Actuary. This contribution rate is effective for the three-year period commencing 1 April 2005. The Council is also responsible for all pension payments relating to unfunded added years benefits awarded to its employees together with any related increases. In 2007/08 the value of these benefits amounted to £279,083 representing 2.01% of pensionable pay (2006/07 £416,079 and 3.21% respectively). The pension costs charged to the Income and Expenditure Account in accordance with FRS17 are as follows:

	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>
Current Service cost	2,330	2,499
Past Service cost	771	0
Settlement gain	0	0
Curtailment cost	0	214
Expected return on Pension assets	(5,567)	(4,783)
Pension Interest costs	5,630	5,112
Total	<u>3,164</u>	<u>3,042</u>
Contributions paid to Pension Scheme	2,493	2,477
Contribution to/(from) Pension Reserve	<u>(671)</u>	<u>(565)</u>

## **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.

	<u>2007/08</u>	<u>2006/07</u>
Between £50,000 and £59,999	4	1
Between £60,000 and £69,999	0	1
Between £70,000 and £79,999	4	3
Between £80,000 and £89,999	1	1
Between £90,000 and £99,999	0	1
Over £100,000	1	0

### **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 2007/08 are as follows:

	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>
<u>Type of Allowance</u>		
Basic Allowance	237	230
Special Responsibility Allowance	87	83
Conference/Other Allowances	28	20
	<hr/>	<hr/>
	352	333

### **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 21 of the senior officers of the Council were asked to declare any direct financial relationship with the Authority for the financial year 2007/08. The response rate was 100%.

There were no material transactions relating to members or senior officers of the Authority during 2007/08.

Other related party transactions are as follows: -

- Government Grants, which are detailed in note 5.39 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:

<u>Expenditure</u>	<u>Chargeable</u>	<u>Non- Chargeable</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Employee Costs	267	160	427
Premises Costs	0	0	0
Transport Expenses	17	9	26
Supplies & Services	15	24	39
Agency & Contract Services	7	1	8
Central & Support services	87	36	123
Total Expenditure	393	230	623
<u>Income</u>			
Building Regulation Charges	(405)	0	(405)
Other income	0	(5)	(5)
Total Income	(405)	(5)	(410)
(Surplus)/deficit for Year	(12)	225	213

### **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 £197,207 (103,793 population x £1.90 per head) in 2007/08 under this power but did not incur any spending of this nature in the year.

### **5.14 Disclosure of Audit Costs**

In 2007/08 Carlisle City Council incurred the following fees relating to external audit and inspection:

	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor		
Current year	122	112
Fees payable to the Audit Commission in respect of statutory inspection	7	4
Fees payable to the Audit Commission for the certification of grant claims and returns	40	30
Fees payable in respect of other services provided by the appointed auditor	1	1
Total	170	147

### **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 £38,500 contribution to a pooled budget in this scheme, which is included in Cultural, Environmental & Planning Services (2006/07: £46,500) in the Income and Expenditure Account.

### 5.16 Exceptional Items

There were no exceptional items in 2007/08.

### 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:

Type of lease	<u>2007/08</u> <u>£000</u>	<u>2006/07</u> <u>£000</u>
Land Property Leases	4,640	4,563
Car Leasing	57	53
Total	<u>4,697</u>	<u>4,616</u>

The capital value held within the balance sheet at 31 March 2008 in respect of land and property generating leasehold income is £89.635m. 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 2007/08 is as follows:

Leasehold Property	<u>2007/08</u> <u>£000</u>	<u>2006/07</u> <u>£000</u>
Denton Holme Trade Centre	101	102
Devonshire Walk Mobile Toilet	17	16
Irthing Centre	20	20
Total	<u>138</u>	<u>138</u>

## **BALANCE SHEET**

### **5.18 Fixed Assets**

The table below sets out the transactions relating to fixed assets in 2007/08: -

	Council Dwellings	Other Land & Buildings	Vehicles & Plant	Infra-structure	Community Assets	Investment Property	Surplus Property	Intangible Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation as at 1 April 2007	204	33,474	7,638	2,242	1,605	81,608	7,131	16	217	134,135
Accumulated Depreciation	(4)	(827)	(1,903)	(137)	0	0	0	0	0	(2,871)
Accumulated Impairment	0	0	(136)	0	0	0	0	0	0	(136)
<b>Net Book Value 1 April 2008</b>	<b>200</b>	<b>32,647</b>	<b>5,599</b>	<b>2,105</b>	<b>1,605</b>	<b>81,608</b>	<b>7,131</b>	<b>16</b>	<b>217</b>	<b>131,128</b>
<b>Movement in 2006/07</b>										
Depreciation	(4)	(663)	(1,036)	(48)	0	0	0	(3)	0	(1,754)
Additions	0	725	2,930	290	263	209	672	303	130	5,522
Disposals	0	0	(24)	0	(90)	(415)	(594)	0	0	(1,123)
Impairments	0	(193)	0	0	0	(14)	0	0	0	(207)
Revaluations	18	1,367	20	0	90	8,247	6,393	0	0	16,135
Reclassifications	0	35	185	166	79	0	(280)	0	(185)	0
	14	1,271	2,075	408	342	8,027	6,191	300	(55)	18,573
Valuation as at 31 March 2007	216	34,968	10,720	2,698	1,946	89,635	13,321	301	161	153,985
Accumulated Depreciation	(2)	(1,049)	(2,910)	(185)	0	0	0	(3)	0	(4,149)
Accumulated Impairment	0	0	(136)	0	0	0	0	0	0	(136)
<b>Net Book Value 31 March 2007</b>	<b>214</b>	<b>33,919</b>	<b>7,674</b>	<b>2,513</b>	<b>1,946</b>	<b>89,635</b>	<b>13,321</b>	<b>298</b>	<b>161</b>	<b>149,700</b>

### **5.19 Bases of Valuation**

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

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

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

	<u>Council</u> <u>Dwellings</u>	<u>Other</u> <u>Land &amp;</u> <u>Buildings</u>	<u>Vehicles</u> <u>&amp; Plant*</u>	<u>Non</u> <u>Operational</u> <u>Investment</u>	<u>Non</u> <u>Operational</u> <u>Surplus</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Valued at historic cost	0	603	0	0	0
Valued at current value in					
2007/08	165	4,205	2,930	70,627	4,144
2006/07	0	8,219	2,256	8,258	8,157
2005/06	51	21,941	2,552	10,751	1,020
2004/05	0	0	789	0	0
2003/04	0	0	1,146	0	0
2002/03	0	0	1,047	0	0
	216	34,968	10,720	89,636	13,321

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

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

An analysis of fixed assets includes:

	<u>At 31/03/08</u>	<u>At 31/03/07</u>
Civic Centre	1	1
Depots and Workshops	15	15
Off Street Car Parks	15	15
Leisure Centres	1	1
Swimming Pool	1	1
Museums	2	2
Parks & Recreation Grounds	250 ha	250 ha
Market	1	1
Cemeteries	3	3
Crematorium	1	1
Industrial Units	97	97
Community Centres	12	12
Industrial Estates	8	8

## 5.20 Capital Expenditure

Capital Expenditure in 2007/08 was financed as follows:

	<u>£000</u>
Opening Capital Financing Requirement	15,160
<u>Capital Expenditure</u>	
Operational Assets	4,208
Non-operational Assets	1,314
Deferred Charges	<u>2,997</u>
	<u>8,519</u>
<u>Source of Finance</u>	
Capital Receipts	(3,239)
Government Grants and Contributions	(4,415)
Revenue Provision (including MRP)	(1,472)
Transferred Debt	(34)
Transfer from Usable Capital Receipts	<u>(12,538)</u>
	<u>(21,698)</u>
Closing Capital Financing Requirement	1,981
Decrease in underlying need to borrow	<b>(13,179)</b>

Significant budget commitments for future capital expenditure contracted for as at 31 March 2008 were:

	<u>£000</u>
Improvement Grant Commitments	895
Belah Community Centre	310
Synthetic Football Pitch	300

## 5.21 Leases

### (a) Operating Leases

Total operating lease rentals paid in 2007/08 amounted to £524,630. At 31 March 2008 the annual commitment under operating leases and contract hire agreements was as follows:

<u>On leases</u> <u>expiring:</u>	<u>Leased</u> <u>Cars</u>	<u>CS</u> <u>Operating</u> <u>Leases</u>	<u>CS</u> <u>Contract</u> <u>Hire</u>	<u>Other</u> <u>Leases</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Within 1 year	17	9	6	0	32
2 – 5 years	86	0	216	17	319
After 5 years	0	0	0	121	121
Total	103	9	222	138	472

### (b) Finance Leases

The Council has one refuse collection vehicle that was acquired through a finance lease in 2005/06. The annual lease rental paid in 2007/08 was £26,954 (inclusive of interest). The



gross book value of the vehicle is £114,515. Depreciation of £19,086 was charged in the year in respect of this vehicle based on the estimated 5-year life of the vehicle.

At 31 March 2008, the outstanding liability under this finance lease was £49,000 analysed as follows:

<u>On leases expiring:</u>	<u>£000</u>	<u>Shown as:</u>	<u>£000</u>
Within 1 year	27	Current Obligations	23
2 – 5 years	31	Deferred Liabilities	26
Allocated to future periods	(9)		
Total	<u>49</u>		<u>49</u>

## 5.22 Deferred Charges

Deferred Charges, which are not financed by government grants, are written off to the Income and Expenditure Account during the year. The value for 2007/08 is as follows: -

	<u>Expenditure</u>	<u>Grants</u>	<u>Amounts</u>
	<u>£000</u>	<u>Received</u>	<u>Written Off</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Disabled Facilities Grants	501	(300)	(201)
Improvement Grants	1,041	(922)	(119)
OPDM Flood Grant	312	(312)	0
Other	1,143	(1,020)	(123)
	<u>2,997</u>	<u>(2,554)</u>	<u>(443)</u>

## 5.23 Net Assets Employed

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

	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>
General Fund	64,151	67,467
Trading Accounts	60,189	52,211
	<u>124,340</u>	<u>119,678</u>

## 5.24 Financial Instruments

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

	<u>Long-Term</u>		<u>Current</u>	
	<u>2007/08</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Borrowing	15,532	15,066	971	64
Operational Creditors	-	-	3,607	3,650
Bank Overdraft	-	-	-	732
Total	<u>15,532</u>	<u>15,066</u>	<u>4,578</u>	<u>4,446</u>

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

	Long-Term		Current	
	2007/08	2006/07	2007/08	2006/07
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Investments	3,153	2,000	19,447	23,600
Operational Debtors (Gross)	-	-	12,847	11,687
Car Loans	37	23	-	-
Cash at Bank	-	-	437	-
Mortgages	2	2	-	-
<b>Total</b>	<b>3,192</b>	<b>2,025</b>	<b>32,731</b>	<b>35,287</b>

**NB**

**Operational debtors shown gross before bad debts provision applied (now classed as an impairment loss - see section (c)).**

**(c) Gains & Losses on Financial Instruments**

The gains and losses recognised in the Income & Expenditure Account in 2007/08 (and STRGL if appropriate) in relation to financial instruments are made up as follows:

	Financial Liabilities (measured at amortised cost) <u>£000</u>	Financial Assets (Loans & Receivables) <u>£000</u>	Total  <u>£000</u>
Interest Costs	1,290	0	1,290
Impairment Losses (Bad Debt Provision)	-	1,624	1,624
<b>Interest Payable and Similar Charges</b>	<b>1,290</b>	<b>1,624</b>	<b>2,914</b>
Interest Income	-	(1,865)	(1,865)
(Gains)/Losses on Derecognition	-	(1,581)	(1,581)
<b>Interest &amp; Investment Income</b>	<b>-</b>	<b>(3,446)</b>	<b>(3,446)</b>
<b>Net (Gain) / Loss for year</b>	<b>1,290</b>	<b>(1,822)</b>	<b>(532)</b>

Comparative information for financial year 2006/07 is as follows:

	Financial Liabilities (measured at amortised cost) <u>£000</u>	Financial Assets [Loans & Receivables] <u>£000</u>	Total  <u>£000</u>
Interest Costs	1,293	-	1,293
Impairment Losses (Bad Debt Provision)	-	1,641	1,641
<b>Interest Payable and Similar Charges</b>	<b>1,293</b>	<b>1,641</b>	<b>2,934</b>
Interest Income	-	(1,664)	(1,664)
(Gains)/Losses on Derecognition	-	-	-
<b>Interest &amp; Investment Income</b>	<b>-</b>	<b>(1,664)</b>	<b>(1,664)</b>
<b>Net (Gain) / Loss for year</b>	<b>1,293</b>	<b>(23)</b>	<b>1,270</b>

#### (d) 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, using the following assumptions:

- Estimated fair values have been calculated using the equivalent market interest rates as at 31 March 2008.
- 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 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Financial Liabilities	20,110	25,691	19,512	19,512

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.

The Fair Value calculation is a new requirement for the 2007/08 accounts. No retrospective calculation for 31 March 2007 is required.

	31 March 2008		31 March 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Loans and Receivables	35,923	35,939	36,311	36,311

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.

The Fair Value calculation is a new requirement for the 2007/08 accounts. No retrospective calculation for 31 March 2007 is required.

#### (e) 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. 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 exposure credit risk, based on the experience gathered over the last four financial years on the level of default on loans and receivables and adjusted for current market conditions.

	Value at 31 March 2008	% default based on previous experience	% default adjusted for current market conditions	Estimated maximum exposure to default
	<u>£000</u>			<u>£000</u>
Deposits with banks and other financial institutions	22,604	Nil	Nil	-
Customers	14,818	16.27%	11.07%	1,641
				<u>1,641</u>

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 £2.3m of the current value at 31 March 2008 of £13.177m is past its due date for payment. The aged-debt analysis of this sum is as follows:

	<u>£'000</u>
Less than 3 months	2,160
3 – 6 months	<u>129</u>
<b>Total</b>	<b><u>2,289</u></b>

(i) 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<sup>st</sup> March 2008.

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

	<u>£'000</u>
Less than 1 year	974
1 – 2 years	3
2 – 5 years	11
Over 5 years	15,514
<b>Total</b>	<b><u>16,502</u></b>

All operational liabilities are due to be repaid within one year.

## (ii) Market Risk

The Council is exposed to some risk due to movements in interest rates on its and investments. As nearly all of the Council's borrowings and investments have been currently 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 on 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 2007/08.

## **5.25 Stocks and Work in Progress**

	<u>2007/08</u> <u>£000</u>	<u>2006/07</u> <u>£000</u>
Work in Progress	11	52
Stocks:		
Community Services	49	58
Other	137	117
	<u>186</u>	<u>175</u>
<b>Total</b>	<b><u>197</u></b>	<b><u>227</u></b>

## 5.26 Insurance Provision

The Council has established a provision totalling £290,782 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 2008 and the insurance provision will therefore cover all this value in full. However it is expected that £189,500 will be reimbursed by the Council's insurers and through other third party claims. Details of the movements in the year on the insurance provision are shown in note 5.27.

## 5.27 Movement in Provisions

The movement in the level of provisions held by the Council during 2007/08 is as follows: -

	<u>Balance</u> <u>b/f at</u> <u>1 April</u> <u>£000</u>	<u>Received</u> <u>In Year</u> <u>£000</u>	<u>Used</u> <u>In Year</u> <u>£000</u>	<u>Balance</u> <u>c/f at</u> <u>31 March</u> <u>£000</u>
Cemeteries Perpetuity Fund	86	4	(4)	86
Public Liability Claims	356	61	(126)	291
Other Provisions	230	510	(539)	201
	<u>672</u>	<u>575</u>	<u>(669)</u>	<u>578</u>

## 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	2007/08 Income £	2007/08 Expenditure £	Assets at 31 March £	Liabilities at 31 March £
Richard Sewell	Established in 1920 to purchase items of interest for Tullie House Museum	(6)	0	439	0
E.B.Burton	Established in 1955 to purchase books for the Jackson Library	(6)	0	182	0
James Walter Brown	Established in 1930 to purchase books, pictures, maps and plans for the Jackson Library	(28)	0	989	0
Parker	Established in 1954 to benefit disabled children and other young residents of the city	(28)	0	1,309	0
District Nurses Amenity Fund	Established to provide amenities for nurses' homes and retirement allowances to nurses	(93)	0	7,053	0
TOTAL		(161)	0	9,972	0

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

Name of Fund	Purpose	2007/08 Income £	2007/08 Expenditure £	Assets @ 31 March £	Liabilities @ 31 March £
Mary Hannah Almshouses	Registered Housing Association	16,354	11,327	254,859	4,515
Carlisle Educational Charity	To provide grants to students	9,221	8,825	210,977	0

## 5.29 SUMMARY OF MOVEMENTS IN RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

A summary of the movements on the individual reserves is shown below:

Description	<u>Balance</u> <u>1 April</u> <u>2007</u> <u>£000</u>	<u>Gains/</u> <u>(Losses)</u> <u>in period</u> <u>£000</u>	<u>Transfers</u> <u>(to)/from</u> <u>Reserves</u> <u>£000</u>	<u>Balance</u> <u>31 March</u> <u>2008</u> <u>£000</u>
<b>CAPITAL RESERVES</b>				
Useable Capital Receipts (Note 1)	12,460	0	(12,460)	0
Lanes Capital Fund	266	0	15	281
Renewals Reserve	1,681	0	(1,012)	669
Asset Investment Reserve	60	0	1,988	2,048
<b>REVENUE RESERVES</b>				
General Fund	3,800	(692)	692	3,800
Projects Reserve	6,641	0	(2,592)	4,049
Collection Fund (Carlisle share only)	(6)	23	0	17
CLL	0	0	522	522
Job Evaluation	0	0	888	888
Residents Parking	(14)	0	36	22
Licensing Reserve	0	0	14	14
Building Control Function	(30)	0	9	(21)
Routledge Reserve	75	0	(33)	42
Sheepmount Reserve	150	0	(21)	129
Conservation Fund	191	0	0	191
LSVT Warranties	488	0	0	488
<b>OTHER RESERVES</b>				
Revaluation Reserve	0	17,122	(433)	16,689
Capital Adjustment Account	109,754	(73)	13,059	122,740
Deferred credits	22	0	(1)	21
Pensions Reserve	(15,866)	(11,729)	(671)	(28,266)
<b>TOTAL RESERVES</b>	<b>119,672</b>	<b>4,651</b>	<b>0</b>	<b>124,323</b>

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 2.12). The Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). The balances of £22,256,782 and -£132,010,874 on the FARA and CFA respectively at 31 March 2007 have been written off to the Capital Adjustment Account with a resulting credit balance of £109,754,092. The Revaluation Reserve has been included in the Balance Sheet with a zero balance. The closing balance on the Revaluation Reserve at 31 March 2008 only shows revaluation gains accumulated since 1 April 2007.

**Note 1** – The balance on the Usable Capital Receipts reserve as at 31 March 2008 was £14,538,386. Of this amount £2,000,000 has been transferred to the Asset Investment Fund as approved in the 2007/08 MTFP. The remaining £12,538,386 has been transferred to the Capital Adjustment Account in order to reduce the Capital Financing Requirement (Para 1.4iii).

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

### **5.30 Contingent Assets**

#### **(a) Carlisle Housing Association (CHA)**

At 31<sup>st</sup> 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 2007/08 accounts and has been reflected in the total for capital receipts received in the year. Under the terms of the transfer the City Council will receive an agreed proportion of PRTB receipts for the first 15 years of the contact.

#### **(b) The Lovells Partnership Ltd**

The Council has entered into an agreement with the Lovells Partnerships Ltd to develop land at Raffles, whereby the Council is entitled to an overage based upon the sale of houses sold by the Company. This agreement commenced on 22 December 2003, which states that the Council is not entitled to receive any receipts until completion of each phase of the development. During 2007/08, 48 units were sold as part of Phase 2, and these were expected to realise a receipt of £520,000, which was paid to the Council in early June 2008. This has been accrued into the 2007/08 accounts and has been reflected in the total for capital receipts received in the year.

#### **(c) LABGI Allocation**

The Council has received provisional allocations for the balance of 2006/07 funding and the allocation for 2007/08. However, the final allocations were subject to a consultation process which ended on 16 May. The DCLG has yet to announce the results of the consultation process and has not yet confirmed the final payment. The DCLG has also held back some funding as a contingency so the Council may receive additional funding once any legal challenges have been resolved. The provisional allocations have been accrued into the 2007/08 accounts.



### **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 2008 was £2,299,000. This cost would be offset wholly, or partly, by the sums recovered from repossessing the units from Home Housing Association and selling them on.

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

The Council may still have a liability under the scheme of arrangement entered into following the transfer of the assets and goodwill of MMI Ltd. to Zurich Municipal on the 1<sup>st</sup> 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 2007/08 in respect of this potential liability. At 31 March 2008 the estimated amount subject to clawback in the event of the scheme being triggered was £872,000. However the directors of the company 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 2008 the Council has not received any claims in respect of either environmental or non-environmental warranties.

### 5.32 Disclosure of Net Pensions Assets/Liabilities

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

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

The cost of retirement benefits is recognised in the Net Cost of Services when earned by employees, rather than 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 & Expenditure Account and the Statement of Movement on the General Fund Balance during 2007/08.

	2007/08 £'000	2006/07 £'000
<b><u>Income &amp; Expenditure Account</u></b>		
<b><u>Net Cost of Services</u></b>		
Current Service Costs	2,330	2,499
Past Service Costs	771	214
<b><u>Net Operating Expenditure</u></b>		
Interest cost	5,630	5,112
Expected return on assets in the scheme	(5,567)	(4,783)
<b>Net Charge to the Income &amp; Expenditure Account</b>	<b>3,164</b>	<b>3,042</b>
<b><u>Statement of Movement on the General Fund Balance</u></b>		
Reversal of net charge made for retirement benefits in accordance with FRS17	3,164	3,042
Actual amount charged against the General Fund	2,493	2,477
Balance for pensions in the year	671	565

#### Assets and Liabilities in relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

	<u>31 March</u> <u>2008</u> <u>£000</u>	<u>31 March</u> <u>2007</u> <u>£000</u>
Estimated liabilities in Scheme	(115,724)	(104,497)
Estimated assets in Scheme	87,458	88,631
Net assets/(liabilities)	(28,266)	(15,866)

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability has had a significant effect on the net worth of the authority as shown in the balance sheet, as it has reduced overall balance by £15.866m. However, 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.

#### 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 1 April 2004.

The main assumptions used in their calculations are:

	<u>2007/08</u>	<u>2006/07</u>
	<u>%</u>	<u>%</u>
Rate of Inflation	3.60	3.10
Rate of Increase in Salaries	5.35	4.85
Rate of increase in Pensions	3.60	3.10
Proportion of employees opting to take a commuted lump sum	50.00	50.00
Rate of discounting Scheme Liabilities	6.10	5.40

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>2007/08</u>		<u>2006/07</u>	
	<u>%</u>	<u>Expected Return</u>	<u>%</u>	<u>Expected Return</u>
Equity Investments	54.9	7.50%	59.5	7.50%
Government Bonds	19.9	4.60%	19.8	4.70%
Bonds	10.3	6.10%	9.7	5.40%
Property	7.3	6.50%	8.4	6.50%
Cash/Liquidity	4.6	5.25%	2.5	5.25%
Other Assets	3.0	7.50%	0.1	7.50%
	<u>100.0</u>		<u>100.0</u>	

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

	<u>2007/08</u>	<u>2006/07</u>
	<u>£000</u>	<u>£000</u>
Net Pension Liability at 1 April	(15,866)	(20,923)
Movements in Year		
Current Service Cost	(2,330)	(2,499)
Employers Contributions payable to the scheme	2,493	2,477
Past service costs/curtailment costs	(771)	(214)
Settlement gain	0	0
Interest cost	(5,630)	(5,112)
Expected return in assets in the scheme	5,567	4,783
Actuarial gains/(losses)	(11,729)	5,622
Net Pension Liability at 31 March	<u>(28,266)</u>	<u>(15,866)</u>

### Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007

	<u>2007/08</u>		<u>2006/07</u>		<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>	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
Differences between expected and actual return on assets	(5,222)	6.00	487	0.50	10,602	12.70	2,163	3.10	7,019	12.80
Differences between actuarial assumption about liabilities and actual experience	(381)	0.03	0	0.00	(1,826)	1.70	(1,635)	1.80	0	0.00
Changes in the demographic and financial assumptions used to estimate liabilities	(6,126)	5.30	5,135	4.90	(8,035)	7.70	(14,864)	16.30	0	0.00
	<u>(11,729)</u>		<u>5,622</u>		<u>741</u>		<u>(14,336)</u>		<u>7,019</u>	

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

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

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

### **5.34 Authorisation for Issue**

The Statement of Accounts was authorised for issue on 13 June 2007 by the Director of Corporate Services, Angela Brown CPFA. This is the date up to which post balance sheet events have been considered.

## **CASH FLOW STATEMENT**

The cash flow statement for 2007/08 summarises the inflows and outflows of cash to and from the Council arising from transactions with third parties for both revenue and capital.

### **5.35 Reconciliation of Income & Expenditure Surplus to the Revenue activities net cash flow**

<u>2006/07</u> <u>£000</u>	<u>2007/08</u> <u>£000</u>
(926) (Surplus)/Deficit for the year	692
<b>Non-cash transactions</b>	
(1,573) Depreciation and Impairment charges	(2,832)
207 Amortisation of government grants	218
3,337 Gain on sale of fixed assets	3,783
(1,863) Deferred charges written off	(443)
(565) Pension (FRS17)	(672)
101 Collection Fund (City Council share)	(23)
0 Amortisation of Premiums/Discounts	0
<hr/> (356)	<hr/> 31
<b>Items on accruals basis</b>	
62 Increase/(decrease) in stocks	(30)
(2,355) Increase/(decrease) in debtors	968
(405) (Increase)/decrease in creditors	(976)
<hr/> (2,698)	<hr/> (38)
<b>Items shown elsewhere in the Statement</b>	
(1,293) Interest payable	(1,294)
1,664 Interest receivable	1,865
<hr/> 371	<hr/> 571
 <b>(3,609) Net Cash Flow from Revenue Activities</b>	 <b>1,256</b>

### **5.36 Reconciliation of Cash Flow to Net Debt**

<u>2006/07</u> <u>£000</u>	<u>2007/08</u> <u>£000</u>
(116) Increase/(Decrease) in cash	175
3,000 Cash inflow from reduction in liquid resources	1,000
19 Cash outflow from (increase)/ decrease in debt	(881)
0 New finance leases	0
<hr/> 2,903 Movement in Net Debt	<hr/> 294
(1,638) Net debt at 1st April 2007	1,265
<hr/> <b>1,265 Net debt at 31st March 2008</b>	<hr/> <b>1,559</b>

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

	<u>Net</u> <u>(debt)/funds</u> <u>31 March 2007</u> <u>£000</u>	<u>Cash-flow</u> <u>in year</u> <u>£000</u>	<u>Net</u> <u>(debt)/funds</u> <u>31 March 2008</u> <u>£000</u>
Cash in hand and at bank	(732)	1,175	443
Overnight money market deposits	1,000	(1,000)	0
	268	175	443
Debt: -			
Temporary Loans	0	(900)	(900)
Finance Lease	(73)	23	(50)
Local Bonds and Mortgages	(66)	3	(63)
Stock Issue	(15,000)	0	(15,000)
	(15,139)	(874)	(16,013)
Other Borrowing	(64)	(7)	(71)
	(15,203)	(881)	(16,084)
Short Term Investments (Liquid Resources)	16,200	1,000	17,200
<b>Total Net (Debt)/Funds</b>	<b>1,265</b>	<b>294</b>	<b>1,559</b>

### 5.38 Liquid Resources

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

### 5.39 Analysis of other Government Grants

<u>2006/07</u> <u>£000</u>		<u>2007/08</u> <u>£000</u>
5,808	Council Tax Benefit Grant	5,951
943	Housing Benefit Administration Grant	854
80	Other Grants from Dept. of Work and Pensions	155
0	Homelessness	347
62	Achieving Cumbrian Excellence	212
83	Planning Delivery Grant	182
0	Energy Efficiency	917
0	Economic Renaissance	490
0	Community Partnerships	270
1,028	Sure Start	682
0	Museum Grants	691
192	Longtown MTI	502
859	Local Authority Business Growth Incentive Scheme	143
132	Other	315
<b>9,187</b>		<b>11,711</b>

## **SECTION 6 - SUPPLEMENTARY FINANCIAL STATEMENTS**

### **6.1 THE COLLECTION FUND**

<u>2006/07</u>		<u>2007/08</u>
<u>£000</u>	Note	<u>£000</u> <u>£000</u>
<b>Income</b>		
40,286 Council Tax		42,827
30,888 Income from Business Ratepayers	6.2(iii)	31,654
Transfers from General Fund		
5,659 - Council Tax Benefits		5,851
<b><u>76,833</u></b> Total Income		<b><u>80,332</u></b>
<b>Expenditure</b>		
Precepts and Demands	6.2(iv)	
35,023 - Cumbria County Council		36,336
5,603 - Cumbria Police Authority		5,808
6,076 - Carlisle City Council		6,390
<u>46,702</u>		48,534
Business Rates		
30,709 - Payments to National Pool		31,473
179 - Allowance for cost of NDR collection		181
<u>30,888</u>		31,654
Bad and Doubtful Debts - Council Tax		
(114) - Write offs		(89)
(31) - Provisions		47
<u>(145)</u>		(42)
Contribution:		
146 Adjustment of Previous Years' Collection Fund Surplus		11
<u>(758)</u> Movement on Fund Balance		175
<b><u>76,833</u></b> Total Expenditure		<b><u>80,332</u></b>
<b>Collection Fund Balance</b>		
712 Fund Balance at 1 April		(46)
(758) Surplus/Deficit(-) for Year		175
<b><u>(46)</u></b> Fund Balance at 31 March		<b><u>129</u></b>

On the basis that surpluses and deficits are shared with the County Council and the Police Authority, the Council has accounted for the Collection Fund balance in its 2007/08 Statement of Accounts as follows:

- In the Balance Sheet at 31 March 2008, the Council has included the £129,000 surplus on a dis-aggregated basis as a creditor of the County of £96,603, the Police Authority of £15,442 and a £17,018 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 gain of £23,095.

## 6.2 Notes to the Collection Fund

### (i) General

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

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

The surplus on the Fund at 31 March 2008 was £129,063.

### (ii) Council Tax Base Calculation

The Council Tax base set for 2007/08, as a Band D equivalent, was as follows:

Band	No. of Properties	Ratio	Band D Equivalent
Disabled	40.00	5/9	22.23
A	18,193.25	6/9	12,128.84
B	9,772.25	7/9	7,600.61
C	6,093.75	8/9	5,416.66
D	4,476.25	9/9	4,476.25
E	2,277.00	11/9	2,782.99
F	882.00	13/9	1,274.00
G	301.75	15/9	502.93
H	18.75	18/9	37.50
	42,055.00		34,242.01
Second Homes	167.22		167.22
<b>Relevant Amount</b>	<b>42,222.22</b>		<b>34,409.23</b>
<b>Estimated Collection Rate</b>			<b>98.5%</b>
<b>Council Tax Base = Relevant Amount (Band D Equivalent) x Collection Rate</b>			<b>33,893.11</b>



(iii) Income from Business Rate Payers

National Non Domestic Rates (NNDR) are paid by businesses. The Government specifies an annual rate in the pound (43.3p in 2006/07 and 44.4p in 2007/08), 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 £31,653,945 was based on a total rateable value for the Council's area of £83,278,419 for the year (£83,514,996 in 2006/07). The Council received £8,658,090 from the NNDR Pool in 2007/08, which is credited directly to the Income and Expenditure Account.

(iv) Billing and Precepting Authorities

Carlisle City Council is the billing authority for Council Tax and NNDR bills, and therefore collects all the income due for the year. The Council pays over to Cumbria County Council and Cumbria Police Authority amounts they have requested to provide their services in the Council area. These sums are known as precepts and for 2007/08 the values were: -

Carlisle City Council	£ 6,390,626	(2006/07 £ 6,075,835)
Cumbria County Council	£36,335,764	(2006/07 £35,023,013)
Cumbria Police Authority	£ 5,808,353	(2006/07 £ 5,602,764)

Included in the amount for the City Council is a precept of £390,000 (2006/07 £335,555) which is collected behalf of Parish Councils. This is paid in full directly from the Council's Income and Expenditure Account.

## **SECTION 7 – ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

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

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

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

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

### **The Purpose of the Governance Framework**

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

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

The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2008 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). For 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.

### 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 Standards Committee also recently completed the form of audit recommended by the Audit Commission to determine the level of awareness amongst Members on Standards matters and the Committee will use this to frame any future training requirements for Councillors.

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.

#### 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.

#### Financial Control

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

The Council has a Medium Term Financial Planning process which integrates budget and corporate planning to match resources to the corporate priorities. The planning and monitoring framework is co-ordinated through the Strategic Planning Group, which consists

of senior Members and Officers. The MTFP for 2009/10 to 2013/14 will be presented to Executive, CROS and Council between June and September 2008.

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

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

### 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 require 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 LGA and LGIU. 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 our 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 their communications and consultation needs are met.

#### Good governance in respect of partnerships

The Council's key governance arrangements surrounding partnership working were subject to a major review in January 2007. Revised 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 now 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 was revised in February 2007 and 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 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.

Until 2008, the Council has maintained Action Plans for matters arising from the Statement on Internal Control and the Code of Corporate Governance. These Plans have been reviewed and updated quarterly and reported to Members – any new issues emerging (e.g. from Audit Services' reports) have been incorporated into the Action Plans and drawn to

Members' attention. From 2008 onwards, all such matters arising will be included in the Action Plan appended to this Annual Governance Statement.

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 appended to 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:

<b>Issue Identified</b>	<b>Target Date</b>
The Cumbria LAA is in Draft form – final version to be completed.	June 2008
A local Code of Conduct for Officers is to be drawn up pending the production of a National Code.	August 2008
The Corporate Risk Register is maintained and reviewed by the Corporate Risk Management Group and reported to Members on a regular basis. Operational Risk Registers are also maintained by each Directorate. All Risk Registers are to be reviewed, up-dated and entered into "Covalent".	October 2008
The IT Security Policy is to be finalised.	March 2009
Analytical review working papers are to be produced for all major statements at closedown (to be produced as part of the working papers in future).	June 2008
Review arrangements for extracting the figures from the ledger and ensuring that the Service Expenditure Analysis disclosed in the accounts is in accordance with the Best Value Accounting Code of Practice. To be incorporated as part of the 2007/08 Statement of Accounts.	June 2008

### **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.....