

Agenda



Audit Committee

| | |
|-------------------|---|
| Date | Thursday, 20 September 2012 at 7:00 pm |
| Venue | Town Hall, St Annes |
| Committee members | Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Howard Henshaw, Linda Nulty, Louis Rigby |

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| 1 | Declarations of Interest: Any member needing advice on Declarations of Interest should contact the Monitoring Officer before the meeting. | 1 |
| 2 | Confirmation of Minutes: To confirm the minutes of the previous meeting held on 21 June 2012 as a correct record. | 1 |
| 3 | Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24.3. | 1 |
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The code of conduct for members can be found in the council's constitution at www.fylde.gov.uk/council-and-democracy/constitution

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REPORT



| REPORT OF | MEETING | DATE | ITEM NO |
|-----------------------|-----------------|-------------------|---------|
| DIRECTOR OF RESOURCES | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 4 |

ANNUAL GOVERNANCE STATEMENT

Public item

This item is for consideration in the public part of the meeting.

Summary

The report presents the Annual Governance Statement prepared under the CIPFA/SOLACE framework the local code of corporate governance for approval.

Recommendation

1. Approve the Annual Governance Statement, as amended, for signature by the chairman.

Reasons for recommendation

To amend the Governance Statement at the request of the Council's External Auditors.

Alternative options considered and rejected

There are no alternative options available

Cabinet portfolio

The item falls within the following cabinet portfolio: Finance and Resources – Councillor Karen Buckley

Continued....

Report

1. A sound system of corporate governance underpins the achievement of all the Council's corporate objectives.
2. The Council has 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 Fylde Borough Council has complied with the code and shows how the effectiveness of governance arrangements have been monitored during the year.
3. The preparation and publication of an annual governance statement is necessary to comply with Regulation 4(3) of the Accounts and Audit Regulations 2011, which requires authorities to prepare a statement of internal control in accordance with "proper practices". The CIPFA/SOLACE guidance identifies the production of an annual governance statement in accordance with the guidance as "proper practices".
4. The Council's Auditors have drawn attention that the Governance Statement should confirm that the role of the Chief Finance Officer accords with the governance requirements set out in the CIPFA Statement on the Role of the Chief Finance Officer. Accordingly, the Governance Statement, as amended, is presented for endorsement.

| IMPLICATIONS | |
|---|---|
| Finance | The Code of Corporate Governance is a key component of the council's commitment to sound financial systems. |
| Legal | The preparation of a code of governance and an annual governance statement complying with the CIPFA/SOLACE guidance is effectively a legal requirement under the Accounts and Audit Regulations 2011. |
| Community Safety | None |
| Human Rights and Equalities | None |
| Sustainability and Environmental Impact | None |
| Health & Safety and Risk Management | Good risk management is crucial to proper corporate governance, as the code and the CIPFA/SOLACE guidance make clear. |

| REPORT AUTHOR | TEL | DATE | DOC ID |
|----------------|----------------|-------------------|--------|
| Tracy Morrison | (01253) 658521 | 11 September 2012 | |

| LIST OF BACKGROUND PAPERS | | |
|----------------------------------|------------|--------------------------------|
| NAME OF DOCUMENT | DATE | WHERE AVAILABLE FOR INSPECTION |
| Code of Corporate Governance | April 2008 | Town Hall, St Annes |
| Directorate assurance statements | 2011/12 | Town Hall, St Annes |

Attached documents

Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT 2012

Scope of responsibility

Fylde Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and 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 for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes 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 Good Governance in Local Government. A copy of the code is on our website at www.fylde.gov.uk or can be obtained from the Town Hall, St Annes Road West, St Annes. This statement explains how the council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide 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. It enables the authority 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 governance framework has been in place at the Fylde Borough Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

The governance environment

Principles

The council has adopted a code of corporate governance (“the Code”) and recognises that effective governance is achieved through the core principles enshrined in it. These are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members to be effective and ensuring that officers - including the statutory officers - also have the capability and capacity to deliver effectively
6. Engaging with local people and other stakeholders to ensure robust accountability

The council’s corporate governance environment comprises a multitude of systems and processes designed to regulate, monitor and control the various activities of the authority in its pursuit of its vision and objectives. The following describes the key elements:

Constitution

The Council’s constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The constitution also identifies the principal obligations and functions of the council.

The constitution and its appendices clearly explain how the different elements of the council interact and work together. It sets out procedure rules to which members and officers must adhere, codes of conduct and protocols. The constitution builds on model constitutions and guidance maintained by the Department for Communities and Local Government.

The monitoring officer has a standing obligation to keep the operation of the constitution under review and recommend any changes to help better achieve its

objectives. The constitution is also presented annually to the council for re-adoption and updating to ensure that it remains relevant to its purposes.

Political structure

The council, meeting as a body, is responsible under the constitution and the Local Government Act 2000 for setting the policy framework and the budget for the authority. It also exercises certain other functions that are reserved to it. The council appoints, and can remove, the council leader.

The council meeting also acts as a channel for executive accountability through mechanisms such as notices of motion and cabinet questions.

The authority operates a leader and cabinet form of executive comprising the council leader and six other cabinet members. The role of the cabinet, as set out in the constitution and relevant legislation, is to be responsible for those matters not expressly reserved to the council meeting.

Meetings of the Cabinet are open to the public even when not required to by legislation, except where personal or confidential matters may be disclosed. Public platform allows members of the public to make a point and seek to have it addressed during the course of the meeting. Members of the council who are not members of the cabinet can ask questions at cabinet meetings. This helps ensure robust accountability of cabinet decisions.

Accountability of cabinet decisions is also achieved through scrutiny mechanisms, including the ability of a scrutiny committee to call-in a Cabinet decision, and by the power of the full council meeting to remove the council leader.

In addition to the statutory Forward Plan of key decisions to be taken by the cabinet, the Council publishes forward plans showing non-key decisions to be taken by the Cabinet and business expected to be considered by scrutiny committees, Audit Committee and the full council. Each plan gives details of when decisions are expected to be made, who will take the decision, who will be consulted before the decision is made and how representations can be made.

The Council has established two overview and scrutiny committees to assist the cabinet in policy development and review, to scrutinise decisions made by the Cabinet and analyse the performance of the Council in meeting its policy objectives and performance targets. The work of the Committees is co-ordinated by a Scrutiny Management Board consisting of the chairmen and vice chairmen of the overview and scrutiny committees.

The Council's Standards Committee deals with all aspects of advice and guidance for Members on matters of conduct, ethics, propriety and declaration of

interest. It also assesses, oversees and determines complaints made against Members under the Code of Conduct. The Committee has four independent persons appointed to it. An independent person chairs the committee and all of its subcommittees.

The Committee is a point of reference for the Monitoring Officer who investigates or arranges for the investigation of any allegations of misconduct in accordance with agreed procedures and statutory regulations.

The Standards Committee framework will be subject to review in the summer of 2012 due to new legislation and a new framework will be put before the Council in July 2012.

The monitoring and performance of the Council's assurance and governance framework is led by the Council's Audit Committee. This is a committee independent of the executive and scrutiny processes and reports directly to Council. The committee has the responsibility to ensure that the monitoring and probity of the Council's governance framework is undertaken to the highest standard and in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines.

Decisions on planning, licensing and other regulatory or quasi-judicial matters are taken by committees of the council in accordance with the principles of fairness and natural justice and, where applicable, article 6 of the European Convention on Human Rights. Such committees always have access to legal and other professional advice.

Officer structure

The authority implements its priorities, objectives and decisions through officers, partnerships and other bodies. Officers can also make some decisions on behalf of the authority.

The Chief Executive is designated as the head of the authority's paid service. As such, legislation and the constitution make him responsible for the corporate and overall strategic management of the authority. He is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation.

The Council has designated its Director of Resources as Monitoring Officer. The Monitoring officer must ensure compliance with established policies, procedures, laws and regulations. She must report to the full Council or cabinet as appropriate if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council has designated the Chief Finance Officer as the officer responsible for the proper administration of its financial affairs in accordance with Section 151 of the Local Government Act 1972. The principal responsibilities of this officer include financial management, reporting and monitoring financial information, ensuring compliance with financial codes of practice including the Accounts and Audit Regulations 2003.

Both statutory officers referred to above have unfettered access to information, to the Chief Executive and to Councillors so they can discharge their responsibilities effectively. The functions of these officers and their roles are clearly set out in the Council's Constitution. In particular, the role of the Chief Finance Officer accords with the principles set out in the CIPFA Statement on the Role of the Chief Finance Officer.

Three directors report to the chief executive and collectively form the authority's management team together with the Chief Finance Officer who acts as a specialist advisor. The Management Team assists the Chief Executive with the strategic and overall management of the organisation. The constitution makes it responsible for overseeing and co-ordinating the management, performance and strategic priorities of the authority within the agreed policy framework and budget. Each member of the management team takes lead responsibility for major elements of the authority's business and manages a business unit.

The Management Team collectively and individually are responsible for securing the economical, effective and efficient use of resources as required by the duty of best value.

Powers delegated to each member of management team are documented in the constitution.

The Council maintains an independent Internal Audit Service, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the United Kingdom'.

A Corporate Governance Group has been established to co-ordinate the receipt and actioning of reports from the various sources of audit and inspection. The group also is responsible to the Audit Committee and Management Team and to compile, maintain and monitor the Code.

Operational

The Corporate Plan establishes Fylde Borough Council's corporate priorities and reflects the Council's principal statutory obligations. Performance against the plan is supported by a performance management system.

The financial management of the authority is conducted in accordance with the Financial Regulations set out in Appendix 4 of the Constitution. The Council has in place a Medium Term Financial Strategy, updated annually, to support the aims of the Corporate Plan.

The Council ensures continuous improvement in the economy, efficiency and effectiveness of services through the annual service and financial planning process. All services are reviewed annually to ensure that they meet the needs of customers and that performance targets for quality improvements are set and monitored. The Medium Term Financial Strategy includes targets for efficiency savings, to be met across all service areas.

Annual budgets are set by the Council in the context of the Medium Term Financial Strategy, and each budget is allocated to a named budget holder. The responsibilities of budget holders in financial management are clearly set out within Financial Regulations.

A robust process of financial monitoring is in place. Budgets are regularly reviewed, the regularity and depth of attention is linked to the risks associated with each budget area. The financial position of the Council is reported to the Management Team and the Cabinet. Corrective action is required where there is any indication of a likely variance against budget.

The Council has adopted a “Local Code of Corporate Governance” in accordance with the CIPFA/SOLACE Framework for Corporate Governance. The local code contains appropriate monitoring and reporting procedures, and can be found on the Council’s website.

The Council had adopted and implemented a Corporate Risk Management Strategy, which incorporates the identification and management of existing risks to the achievement of corporate objectives in accordance with recognised standards of control assurance. A Corporate Risk Register is in place and is monitored and regularly reviewed, combined with action planning for risks identified. Appropriate employees have been trained in the assessment, management and monitoring of risks.

A corporate Risk Management Group (RMG) has been established with an effective monitoring and reporting mechanism. A member of Management Team is the nominated chair of the RMG and the executive portfolio-holder and member risk champion attend group meetings.

The authority’s risk management policy requires that officers understand and accept their responsibility for risk and for implementing appropriate controls to mitigate those risks. To this end, executive managers are required to incorporate a register of risks relevant to their unit within each unit’s service plan.

Internal Audit provides in its annual report an independent and objective opinion on the effectiveness and operation of the internal control framework during the year. The Internal Audit Team is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by the team.

The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter. Council services are delivered by trained and experienced people. All posts have a detailed job description and person specification and training needs are identified through the Personal Development Appraisal Scheme. In addition the Council has comprehensive policies and procedures in place, which provide the framework for the operation of its services and ensure that its actions and decisions are undertaken within the framework of effective internal control.

The authority has a zero tolerance policy towards fraud and corruption. The Council's Whistleblowing Policy provides the opportunity for anyone to report their concerns confidentially and enable these to be investigated impartially. The authority is committed to working in partnership with public private and voluntary sector organisations where this will enhance its ability to achieve its identified aims.

Review of effectiveness

The authority supplements the mandatory external audit judgements by assessing itself against the good practice elsewhere. This, together with the authority's own Performance Management Framework, provides the evidence needed to ensure a culture of continuous performance improvement.

Inherent within the review of internal control arrangements is the need to assess the extent of compliance with statutory requirements and the authority's rules and regulations, which includes not only its Financial and Contract Procedure Rules but also its Scheme of Delegation, and Codes of Conduct. In addition, the Head of Internal Audit is required to produce an Annual Report and provide an opinion on the effectiveness of the authority's internal control system.

Fylde Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Corporate Governance Group, which comprises the Chief Executive, Section 151 Officer, Monitoring Officer, Head of Governance and the Head of Internal Audit, has been given the responsibility to annually review the Corporate Governance Framework and to report to Audit Committee on the adequacy and effectiveness of the Code and the extent of compliance with it.

The review of effectiveness is informed by the work of the directors within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Group has also received unit assurance statements from each of the authority's directorates. These assurance statements show the extent of compliance within the unit concerned with key corporate procedures designed to embed good governance and internal control. In addition, the group has taken account of external assurance sources including the external auditor's Annual Audit Letter, Use of Resources scored assessment and interim report.

In accordance with the Accounts and Audit (Amendment) Regulations 2006, a review of the system of internal audit has been carried out by the Council's external auditors against the Code of Practice for Internal Audit in Local Government and the results reported to the Audit Committee. The review concluded that internal audit met the appropriate professional standards required by the Code.

Internal Audit has carried out an annual programme of reviews as approved by the Audit Committee. The managers of the services and functions reviewed have each agreed actions and priorities arising from the review and the achievement of those actions is monitored on an ongoing basis by the authority's internal audit service. Any significant failure to achieve agreed actions is reported to the Audit Committee, who can require an explanation from the director concerned.

The Strategic Risk Management Group meets regularly to review achievement of control measures in relation to strategic risks identified in the annual risk identification exercise. In addition, Internal Audit now carries out an annual review of the Risk Management Framework in accordance with the terms of the Risk Management Policy.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is set out below.

Governance Issues

The Council, via its Corporate Governance Group's recommendations, has identified the following areas where it wishes to see improvements in 2012/13:

1. *100% implementation rate in staff appraisals*
2. *The development and delivery of a programme of equalities training*

3. *A review of procurement arrangements to see the most effective use of resources*
4. *Review of Codes of Conduct for both members (in light of new standards framework) and officers with appropriate training/guidance*
5. *A refresh of the Communications Strategy*
6. *Further refinements to reporting capabilities on the revenues and benefits academy system*
7. *A revision in business continuity arrangements*
8. *A refresh of the Project Management Framework*

On the basis of the work carried out, which has been reviewed by the Audit Committee, we are satisfied that the Governance Framework is effective. We propose over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation as part of our next annual review.

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Allan Oldfield, Chief Executive

.....

Councillor David Eaves, Leader of the Council

REPORT



| REPORT OF | MEETING | DATE | ITEM NO |
|-----------|-----------------|----------------------|---------|
| FINANCE | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 5 |

ANNUAL STATEMENT OF ACCOUNTS 2011/12

Public Item

This item is for consideration in the public part of the meeting.

1. Summary

1. This Committee has the authority to approve the Council's Annual Statement of Accounts and to report back to Full Council.
2. This Council prepares its statutory Annual Accounts and supporting financial statements in accordance with applicable laws and regulations and in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (The Code).
3. The Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in United Kingdom (the Code), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2012.

Recommendations

Audit Committee are recommended to approve the Statement of Accounts for 2011/12 and report back to Full Council accordingly.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance and Resources: Councillor Karen Buckley

1. Information

- 1.1 KPMG base their opinion on the Annual Accounts as to whether they “present a true and fair view of the financial position” of the Council in accordance with the requirements set out in 2 and 3 above.
- 1.2 The Code introduced a significant change in 2011/12 regarding the treatment of accounting for heritage assets held by the Council:
 - Heritage Assets have to be classified and accounted for at valuation, as separate non-current assets on the Council’s Balance Sheet.
- 1.3 Other changes include:
 - Additional disclosures in respect of remuneration and exit packages, and
 - Revenue expenditure is to be recorded in the relevant service line in the Comprehensive Income and Expenditure Statement, in accordance with the Service Reporting Code of Practice (SeRCOP) requirements. Previously revenue had been reported in line with the Best Value Code of Practice (BVACOP).
- 1.4 The Accounts and Audit Regulations 2011 require the Council’s responsible financial officer (Section 151 Officer) to certify that the Statement of Accounts “present a true and fair view of the financial position” for the 2011/12 financial year by 30th June 2012. The Council is then formally required to approve and publish the Statement of Accounts no later than 30th September 2012.
- 1.5 The Council (delegated to Audit Committee) is required to approve the Statement of Accounts for 2011/12 by 30th September 2012 in line with the Accounts and Audit Regulation 2011.
- 1.6 Once the Audit Opinion has been given and accounts approved they must be signed and dated by the Member presiding the meeting (the Chair) at which approval is given and re-certified by the Section 151 Officer. The Statement of Accounts can then be published as a public document. The target date for issue is October 2012.

2. External Audit

- 2.1 One of the duties of External Audit is to examine the form and regularity of the accounts, the main purpose being to ensure they are not materially mis-stated.
- 2.2 If the Auditors identify any material changes to the Accounts, these will be reported to Members in their independent opinion report.

3. Conclusion

- 3.1 The deadline for the internal production and external audit of the Statement of Accounts for 2011/12 has been achieved.

| Report Author | Tel | Date | Doc ID |
|---|----------------|----------------|---------------------------------|
| Paul O'Donoghue, Section 151 Officer | (01253) 658566 | September 2012 | Annual Statement of Accounts |

| List of Background Papers | | |
|---------------------------|------|-----------------------------------|
| Name of document | Date | Where available for inspection |
| Document name | | Council office or website address |

Attached documents

1. Annual Statement of Accounts 2011/12

| IMPLICATIONS | |
|---|---------------------------------------|
| Finance | Contained in the body of the report |
| Legal | Non arising directly from this report |
| Community Safety | Non arising directly from this report |
| Human Rights and Equalities | Non arising directly from this report |
| Sustainability and Environmental Impact | Non arising directly from this report |
| Health & Safety and Risk Management | Non arising directly from this report |



FYLDE BOROUGH COUNCIL



Statement of Accounts

2011/2012

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INDEPENDENT AUDITORS REPORT

Independent auditors' report to the Members of Fylde Borough Council

We have audited the financial statements of Fylde Borough Council for the year ended 31 March 2012 on pages 19 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, set out on page 15, the Chief Financial Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

INDEPENDENT AUDITORS REPORT

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the governance statement set out on pages 82 to 87 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

INDEPENDENT AUDITORS REPORT

Conclusion on Fylde Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Fylde Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

Certificate

We certify that we have completed the audit of the financial statements of Fylde Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Tim Cutler

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St James' Square

Manchester

M2 6DS

20th September 2012

EXPLANATORY FOREWORD BY CHIEF FINANCIAL OFFICER

1. INTRODUCTION

This document sets out the Council's annual accounts for the financial year ending 31st March 2012.

The format of the document is heavily prescribed and follows the requirements as set out by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

The purpose of this foreword is to assist the readers' interpretation of the accounts and to provide an overall summary of the Council's financial performance for 2011/12, to explain the Council's financial position as at 31st March 2012, and to give a summary insight in to what the financial future holds for the Council.

2. CHANGES INTRODUCED BY THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2011/12 (THE CODE 2011/12)

Heritage Assets

The Code introduced a significant change in 2011/12 regarding the treatment of accounting for heritage assets held by the Council:

- Heritage Assets have to be classified and accounted for at valuation, as separate non-current assets on the Council's Balance Sheet.
- The change in policy due to Heritage Assets being valued at cost or current value has necessitated Prior Period Adjustments and Balance sheets as at 1st April 2010 and 31st March 2011 have been re-stated in the 2011/12 accounts.

Other changes include:

- Additional disclosures in respect of remuneration and exit packages, and
- Revenue expenditure is to be recorded in the relevant service line in the Comprehensive Income and Expenditure Statement, in accordance with the Service Reporting Code of Practice (SeRCOP) requirements. Previously revenue had been reported in line with the Best Value Code of Practice (BVACOP).

Further details on these changes are included in the notes to the Accounts and are set out in the Accounting Policies.

3. THE STATEMENTS

To assist in the interpretation and understanding of the Statement of Accounts, the purpose of each of the core financial statements are set out below.

The Core Financial Statements include: -

- *Movement in Reserves Statement* – this is a summary of the movement in year on the different reserves held by the Authority analysed into 'usable reserves' (those which can be applied to fund expenditure) and un-usable reserves (those which cannot be used to fund expenditure). This replaces the previous Statement of Movement on the General Fund Balance and the note on the movement in reserves.
- *Comprehensive Income and Expenditure Account Statement* – this consists of two sections: the first section showing entries for income and expenditure arising from day to day operational services and the second section showing the increase or decrease to net worth as a movement in fair value of assets. It combines the previous Income & Expenditure Account and the Statement of Recognised Gains and Losses.
- *Balance Sheet* – this sets out the Council's assets and liabilities as at 31st March 2012 and how these are funded (by reserves, borrowing, provisions and other balances).
- *Cash Flow Statement* – this summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- *Notes to the Core Financial Statements* – these assist in the interpretation of the accounts by comprising a summary of significant accounting policies and other explanatory information.

Additional statements accompanying the accounts:

- *Statement of Responsibilities for the Statement of Accounts* – this identifies the officer who is responsible for the proper administration of the Council's financial affairs.
- *Risk Management Policy Statement* - this outlines the Council's approach to the management of risk.
- *Collection Fund* - this fund is maintained separately to record the collection of Council Tax and National Non domestic Rates (NNDR) due. The Council operates the Collection Fund under the Local Government Finance Act 1988. It contains the income and expenditure relating to Council Tax and National Non domestic Rates.
- *Glossary* – an explanation of some of the key technical terms used in these accounts.

In line with the Code of Practice on Local Authority Accounting 2011/12 the Annual Governance Statement will be included within the Statement of Accounts.

4. **THE COUNCIL'S SPENDING**

The Council effectively has two types of expenditure:

- **Revenue Expenditure** – this is essentially the day to day costs incurred by the Council in providing services, including for example, employee costs, premises running costs, transport related costs and supplies and services.
- **Capital expenditure** – this is essentially one-off major items of expenditure relating to the purchase of new assets or expenditure which materially improves the working life of existing assets.

At the Annual Budget Setting Council meeting, the Council plans and approves how much it is going to spend in the coming year and reflects these spending plans as budgets. It calculates how much money needs to be raised from Council Tax having allowed for income and government grants, and determines how much it can raise from existing resources, contributions from outside sources or borrowing to fund its capital expenditure.

4.1 REVENUE EXPENDITURE

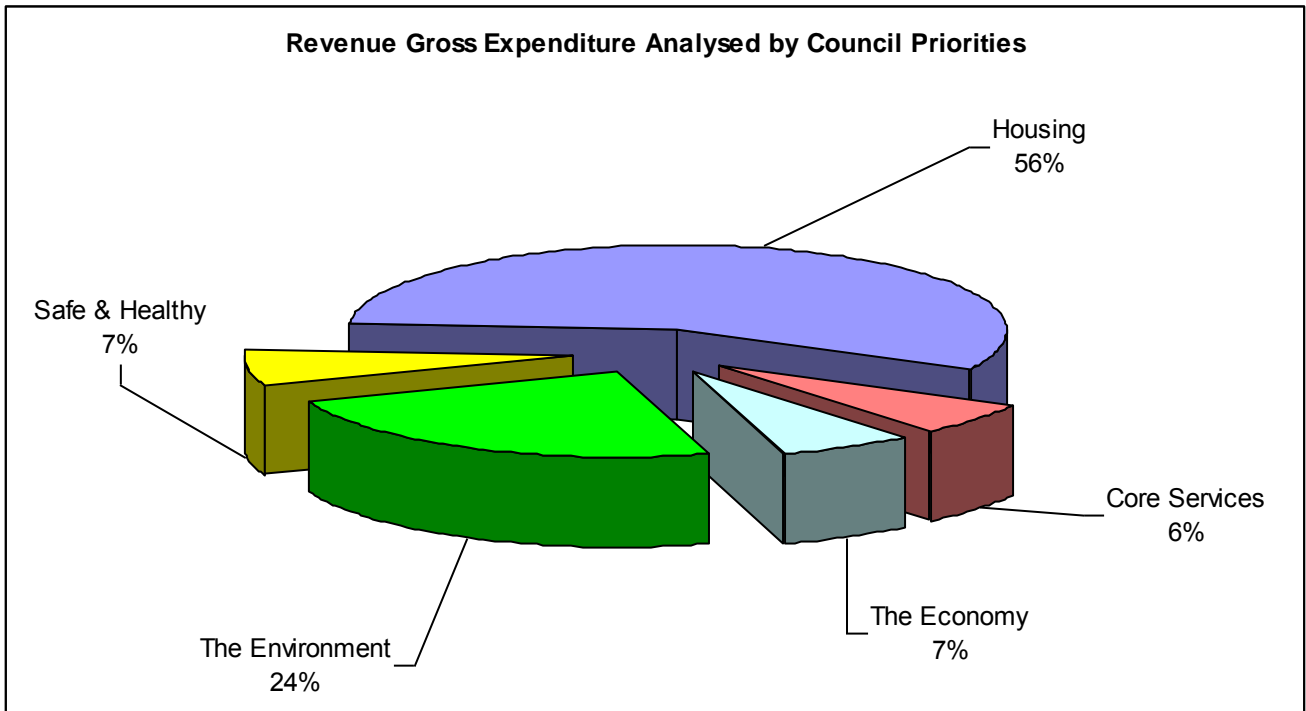
The original approved revenue budget net requirement set for 2011/12 was £10.986m. Throughout the year there has been close control of recruitment by Management Team, and officers with budget holder responsibility were instructed by Management Team, in response to the uncertainty surrounding the Coalition Government's Comprehensive Spending Review, to remain prudent and minimise expenditure commitments wherever possible. Subsequent to this, and after allowing for other known forecast adjustments, the net revenue budget requirement for 2011/12 was revised to £10.388m. The outturn expenditure position for 2011/12 was £9.325m, which when combined with a favourable revised financing position of £10.425m (compared to a latest financing estimate of £10.424m) resulted in an in-year surplus of resources of £1.1m.

Of the £1.1m surplus, £360k was transferred into earmarked reserves, with the remaining £740k being transferred into general fund balances. The first call on general fund balances in 2012/13 will be £168k of committed budget spend which is being slipped from 2011/12 into 2012/13. The transfers to earmarked reserves are detailed on the table below:

| Transfers to earmarked reserves: | £'000 |
|----------------------------------|------------|
| - Vehicle Maintenance Reserve | 100 |
| - Land Charges Reserve | 55 |
| - MMI Reserve | 105 |
| - IT Reserve | 100 |
| | <u>360</u> |

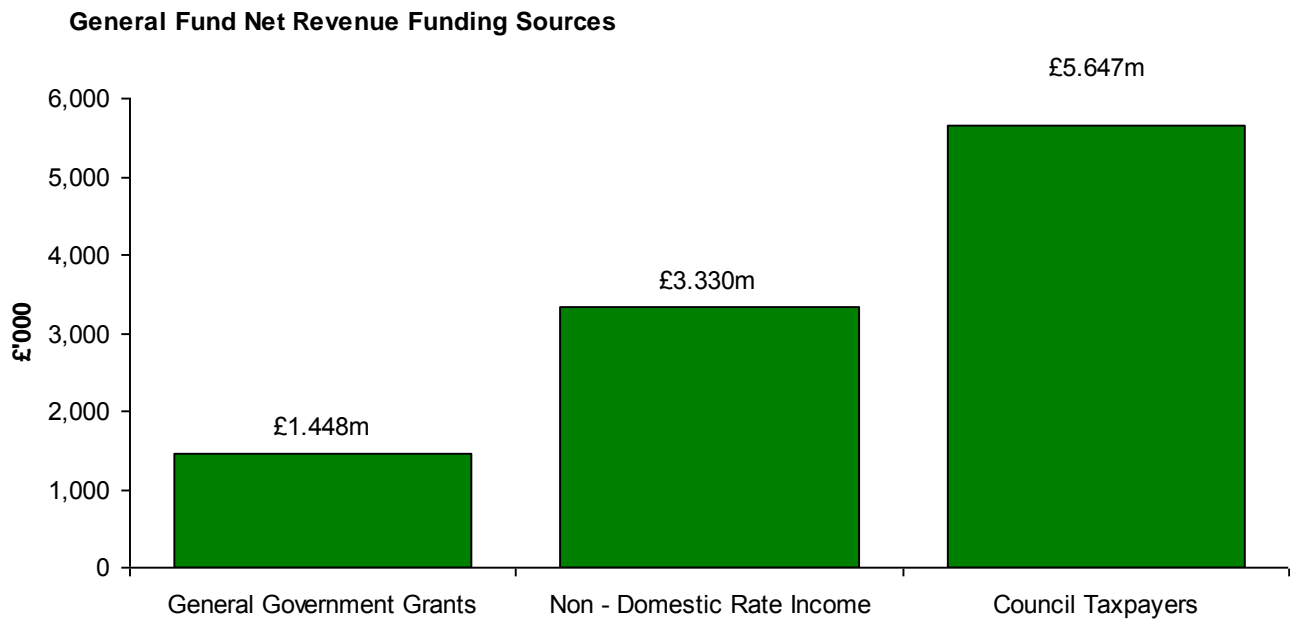
Full details and further analysis of expenditure, income and budget variances are set out in the Medium Term Financial Strategy (MTFS) Outturn Report reported to Cabinet on 27th June 2012. A copy of the report can be found at the Council's website at www.fylde.gov.uk.

The 2011/12 Gross Cost of General Fund Services is analysed by priority in the following chart –



4.2 INCOME

The Council finances its net operating expenditure from Council Tax, General Government Grants and National Non Domestic Rate Redistribution. The contribution made by each is shown in the following graph:–



Council Tax

For 2011/12 the charge for Fylde Borough Council Tax increased by an average of 0%. Individual increases within the Borough varied due to the impact of changes in special expenditure. The actual in-year rate of collection in 2011/12 was 98.2%. This compares favourably with collection rates for 2010/11 of 97.9% and 97.5% in 2009/10. Ultimately the Council collects in the region of 99% of Council Tax.

General Government Grants and Non Domestic Rate Redistribution

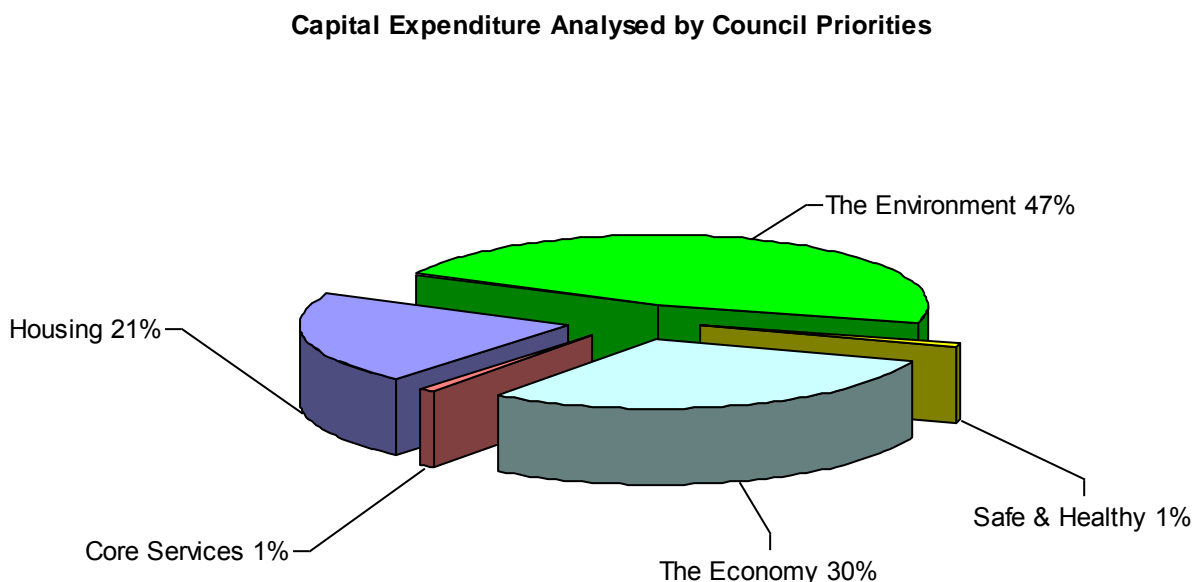
These grants are currently determined by Central Government.

The last Comprehensive Spending Review (CSR) covered the two year period 2011/12 to 2012/13. Fylde Borough Council's share decreased in cash terms by 25.6% from £5.859m in 2010/11 to £4.359m in 2011/12.

Other Central Government Grants received in 2011/12 include New Homes Bonus of £279k and Council Tax Freeze Grant of £140k.

4.3 CAPITAL

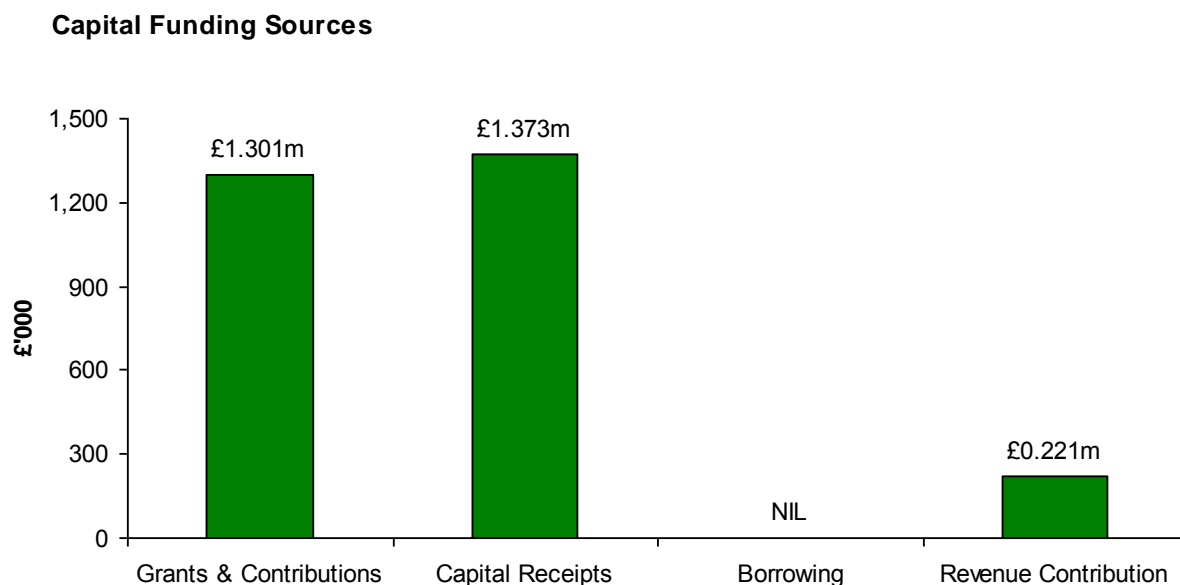
In 2011/12 total capital expenditure was £2.895m. An analysis of how the money was spent is shown in the following chart -



The capital programme expenditure of £2.895m incurred during the year included the following schemes:

- Replacement vehicles £522k – expenditure incurred on replacement operational services vehicles as part of the Modernisation Strategy for the service;
- Regeneration schemes £555k – expenditure on regeneration projects in St Anne's, Lytham, Ansdell and Kirkham;
- Lytham Hall £300k – capital grant to Lytham Hall as match funding as part of a £5.9m Heritage Lottery funded restoration project;
- Parks development projects £632k – various improvement schemes on parks throughout the borough; and
- Disabled Facilities Grants £621k – expenditure on providing grants to residents with disabilities in order to facilitate property adaptations.

The actual sources of capital funding are shown in the following graph -



5. TREASURY MANAGEMENT

The challenging investment environment of previous years continued throughout 2011/12, typified by low investment returns and continuing heightened levels of counterparty risk. The original interest rate expectation for 2011/12 was that the Bank Base Rate would start gently rising from the end of 2011. However, Gross Domestic Product (GDP) growth in the UK was disappointing during the year due to the UK austerity programme, weak exports, and weak growth in the biggest export market - the European Union (EU). The EU sovereign debt crisis intensified during the year and continues to be a concern. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February.

The continuing EU sovereign debt crisis caused considerable concerns in financial markets, and to manage the counterparty risk, the Council approved counterparty criteria and limits that seek to minimise the risks. Additional treasury restrictions are also put in place by the Chief Financial Officer during periods of banking instability.

The Council is bound by the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both these Codes through Regulations issued under the Local Government Act 2003.

The Prudential Indicators and Treasury Management Strategy for 2011/12 to 2014/15 have been agreed by the Council. Performance is monitored and reported during the year.

For 2011/12 the Council has complied with all agreed internal procedures and the Prudential Indicators set for borrowing have been managed within the limits set.

A key Prudential Indicator for every Council is the Capital Financing Requirement (CFR). The CFR is the amount that the Council needs to borrow in order to fund its capital expenditure requirements: it is in effect the Council's underlying need to borrow. The CFR for Fylde Borough Council for the year ended 31st March 2012 was £6.5m. The Council is able to borrow money from either the Public Works Loans Board PWLB (an agency of HM Treasury), from banks, building societies, or from other public bodies. The Council's borrowing need as at 31st March 2012 was met by a combination of PWLB borrowing of £3.8m and internal cash balances. These amounts are analysed in the notes to the Balance Sheet. The interest payable in relation to the Council's borrowing was £91k in 2011/12.

The Authorised Limit for External Debt is a further key Prudential Indicator that controls the overall level of borrowing and is a statutory limit set by the Council that must not be breached. The Council's authorised limit for external debt for 2011/12 was £13.0m. The Council's actual total debt at 31st March 2012 was £3.8m which is well below the Authorised Limit.

Pension Fund

The pension fund deficit as at 31st March 2012 is £20.464m. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. Statutory arrangements for funding the deficit mean that the deficit on the pension fund will be made good by increased contributions over the remaining working life of employees as assessed periodically by the pension fund actuary.

6. REVIEW OF THE COUNCIL'S FINANCIAL POSITION

Over a number of years the Council has adopted a planned and systematic approach to financial management and corporate governance, safeguarding public monies and ensuring accountability. In 2011 KPMG audited the Council and gave an "unqualified opinion", which indicated that they were satisfied with the Council's financial and governance arrangements.

In managing its financial planning the Council continues to be acutely aware that the Local Government Finance Reform plans from 2013/14 which could bring a further reduction in local government funding levels.

It is recognised that any further spending reductions may require a further review of corporate priorities and service delivery arrangements. Cabinet members are engaged in this process as part of the annual budget planning framework. More specifically, budget planning workshops are held between Cabinet and Corporate Management Team to formulate budget options and proposals which are refined through stakeholder consultation activities.

The Council received details of its 2012/13 grant settlement in December 2011 as expected. The detail of the grant settlement from 2013/14 onwards is unknown and the Council is taking a prudent approach to manage this future uncertainty.

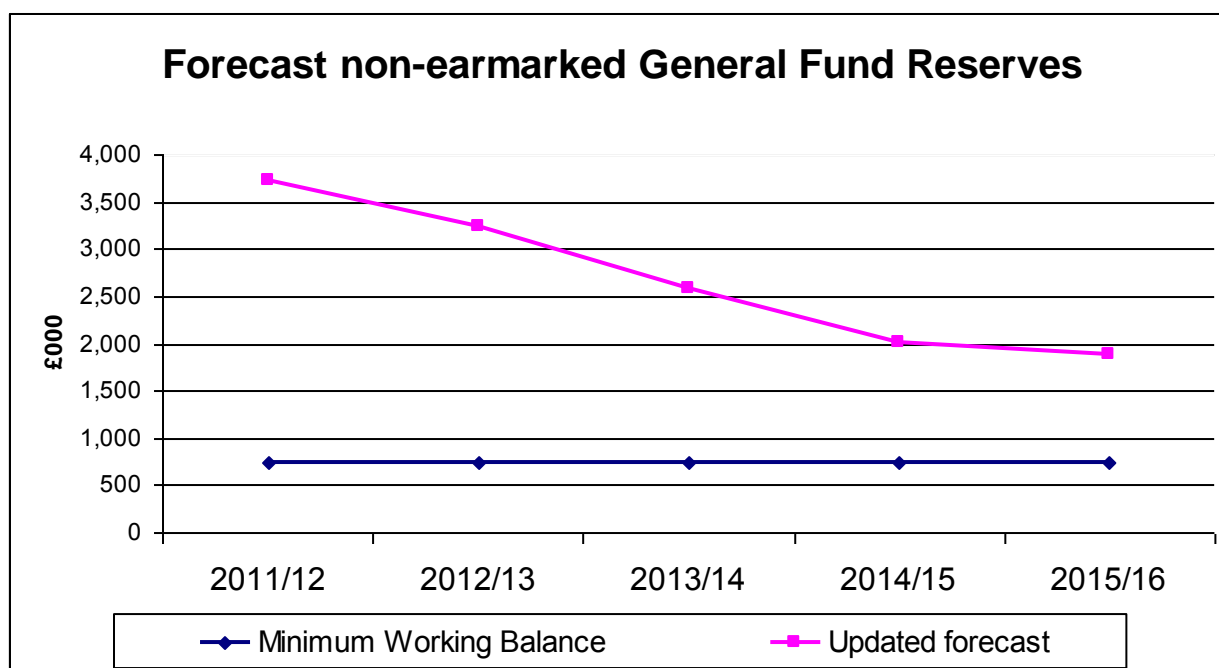
Instructions remained in place throughout 2011/12 that officers should not commit to any unnecessary expenditure and should seek to maximise efficiencies. This approach has a downward impact on costs incurred by the Council and has resulted in an underspend against budget. There was an in-year revenue surplus of resources in 2011/12 of £1.1m. After taking account of transfers to earmarked reserves of £360k (as detailed in section 4.1 above), the remaining surplus of £740k was transferred to general fund revenue balances, which improves the Council's short term financial position.

The Council's latest published financial forecast identifies that expenditure is estimated to exceed income by an average of £603k per annum over each of the next 4 financial years. This position is not sustainable over the longer term. However, the current level of reserves as identified in the forecast and supplemented by the favourable outturn position for 2011/12 mean that the Budget approved in March 2012 ensures the Council has a balanced revenue budget for at least the next four financial years.

Over the medium term the annual forecast deficit will need to be addressed. To this end Cabinet will be continuously monitoring all areas of concern and will work to ensure that the Council's Revenue Budget is robust and sustainable. It is anticipated that Members may have more difficult decisions to make to enable the approval of a robust revenue budget in future years.

The approved forecast also includes "payroll efficiency" savings targets considered as part of the budget setting process. The savings target for 2011/12 was £150k and this was achieved through a combination of measures including an authority wide salary sacrifice scheme for all staff, a number of flexible retirements, a restructure of the senior management team, and a review of external contracts with the Council's partners. The "payroll efficiency" saving targets increase to £300k for 2012/13 and £400k per annum for 2013/14 and beyond, and the Council is currently on target to meet or exceed these targets by implementing an authority wide staffing restructure in addition to the measures already referred to.

After reflecting the impact of the favourable outturn position for 2011/12, revenue balances at the 31st March 2012 were £3.731m, which is higher than the recommended minimum general reserve balance of £750k. The Chart below shows the forecast levels of non-earmarked General Fund Reserves for the next five years as reported in the March 2012 Medium Term Financial Strategy, updated to reflect the impact of outturn for 2011/12:



The current Capital Programme as updated is fully funded. The consequence of Cabinet's proposals to limit capital scheme growth is a reduced overall requirement to borrow. This will generate ongoing revenue savings against previously assumed revenue costs in relation to borrowing for approved capital schemes.

Due to the ongoing risks faced by the Council, the Capital Programme will continue to be closely monitored and reviewed on a regular basis. A review of the Council's accommodation needs, programme of capital works and identification of surplus assets is currently underway. This may result in additional expenditure on assets being required but could result in surplus assets being identified that would provide funding for the Programme.

Any additional expenditure which is not funded by external finance would require the generation of capital receipt or additional borrowing. The latter would place further pressure on the revenue budget from the consequent repayment costs.

It is good practice to maintain a surplus in capital resource to mitigate the risks to the programme.

7. OUTLOOK FOR THE FUTURE

External pressures outside the Council's control are impacting on all local authorities. The Council continues to face a turbulent future in respect of its finances, with a great degree of uncertainty from April 2013. The Council's financial forecast has a number of high risk assumptions which are largely outside the Council's control.

A number of these risks, as well as being significant, have a high probability factor. In particular the future of Central Government Grant Funding and the localising of support for Council Tax bring with them the greatest concern. It is not yet clear what the outcome of the final proposals will be, even though some of the changes will be implemented with effect from April 2013. Government grant is one of the Councils largest funding sources, and whilst reductions of 7.5% per annum for 2013/14 and 2014/15 have already been reflected in the forecast, any further reductions may be significant in their impact. Given the significant uncertainty and turbulence of the current economic climate and potential further Government spending cuts in future years, further revisions to the figures and assumptions in the Council's forecast will be necessary over the coming

months.

It is clear from the forecast that the financial situation the Council faces continues to be an uncertain one. The gap between in year income and expenditure will need to be addressed. Pressure continues on income streams given the current economic circumstances. The current level of interest earned from investment of the Council day-to day cash balances is reduced due to the low level of interest rates. Cabinet will be continuously monitoring all areas of concern and will work to ensure the Council's Revenue Budget is sustainable. It is anticipated that Members may have more difficult decisions to make to enable the approval of a robust revenue budget in future years.

The revenue outturn position for 2011/12 resulted in an in-year contribution to reserves which improves the Council's short-term position by increasing the overall revenue balance position. However, this may not be a long-term sustainable position as the in-year underspend is made up of a variety of items, some of which are one-off and non-recurring in nature.

An ongoing concern is that in the latter years of the forecast base expenditure is forecast to reduce from £10.902m to £10.609m whilst income from Council Tax and Government Grant is forecast to reduce from £10.372m to £9.964m, leaving an average resource gap of £603k per annum, which will need to be addressed over the medium term.

The Council's modernisation work continues to make improvements to the Council's efficiency and deliver increased Value for Money for residents. The backcloth of reducing resources makes this initiative more important than ever.

Looking forward, key financial risks to the Council in addition to the impact of the economic downturn include:-

KEY REVENUE RISKS INCLUDE:

Pension Review

The triennial review of the Pension Fund took place during 2010/11 with the results being implemented from 1st April 2011. The review has increased employer contributions by 3.8% over the next three years (rising to a total contribution rate of 22% by 2013/14). Consequently, the short term risk has diminished, but in the long term pension fund costs continue to be a significant risk. National negotiations are underway following the recommendations of the Hutton Review regarding the future of public sector pensions and the impact of any proposed changes to the rate of employer contributions will need to be further assessed during 2012.

This is a low level risk in the short term but a high level risk in the medium to long term.

Government Grant Support

As part of the Comprehensive Spending Review (CSR) the Coalition Government committed to only two years formula grant support (2011/12 and 2012/13) on the basis that the grant allocation system would be reviewed as part of a "Local Government Resource Review" with a new regime in place by April 2013. The Government has stated the continued commitment to reducing public expenditure causing uncertainty on how Local Authorities will be financed by Central Government grant from April 2013. In line with the headline indications of grant settlements announced in the CSR, the financial forecast assumes a 7.5% annual grant reduction in 2013/14 and 2014/15 and then remains at the 2014/15 level of £3.213m for 2015/16.

This is a high level risk.

Business Rates Retention

As part of the Local Government Resource Review the Government has issued consultation and guidance documents on proposals to fundamentally review the current regime of Central Government grant support (currently known as "formula" grant) to Local Authorities. Under these proposals Local Authorities would retain a proportion of business rates linked to local economic growth instead of a reliance on Central Government grant.

Given the uncertainties about how the proposed new mechanism will work, for the purposes of the forecast no adjustment has been made until there is more certainty on future grant arrangements.

This is a high level risk.

Consultation Paper – Localising Support for Council Tax

Following the issue of a consultation paper the Government is committed to proposals to localise Council Tax Benefit, developed as part of its ongoing plans for welfare reform. Under these proposals responsibility for determining the scheme of “Support for Council Tax” will be transferred to Local Authorities. The Government believes that Councils will then have a significant degree of control over how a 10 per cent proposed reduction in grant to fund expenditure on Council Tax Benefit is achieved. The proposals will also “cash limit” the grant and the Council will need to deal with any shortfall from its own resources.

For the purposes of the forecast no adjustment has been made until there is more certainty on the future arrangements.

This is a high level risk.

KEY CAPITAL RISKS INCLUDE:

Accommodation Project

The accommodation project is currently included in the programme with the scheme being self-financing from capital receipts from the sale of three sites (St David’s Road Depot, Derby Road, Wesham and The Public Offices in St Annes). If either the estimated cost of the refurbishment, the capital receipts achieved or the phasing of this scheme changes, there could be revenue implications i.e. costs of displacing staff / vehicles and equipment which would be reported to Members and reflected in future revenue budget forecasts accordingly. Actual asset sales and receipts are dependent on market conditions and cannot be predicted with certainty. Furthermore there remains uncertainty over operational depot requirements following the asset disposals identified above. These issues result in an inherent risk in the forecast level of programmed resources in respect of this scheme.

Cabinet’s budget proposals contain a revenue growth option to create a budget for the cost of displacing staff during the refurbishment in order to help mitigate this risk, and the Accommodation Working Group continue to meet on a regular basis to manage the delivery of this scheme.

This is a high level risk.

KEY TREASURY MANAGEMENT RISKS INCLUDE:

- (i) Unexpected movements in cash flow;
- (ii) Differences between the actual interest rate and rates used in the forecast; and,
- (iii) The security of monies invested with counterparties.

CONCLUSION

In conclusion, the Council’s finances, although under constant pressure, remain robust. Monitoring systems and procedures are in place to react to any significant changes. In addition the Council has a track record of making savings as dictated by resource availability. I am therefore confident that the Council will continue to maintain a balanced budget position in the medium term.

This is the Statement of Accounts upon which the auditor should enter his certificate and opinion, and has been prepared under the Local Government Finance Act 1982.

Signed



**P. O'Donoghue, ACMA
Chief Financial Officer**

Date: 20th September 2012

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

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 Authority, that officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

The Chief Financial Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2012.



P. O'Donoghue, ACMA
Chief Financial Officer

Date: 20th September 2012

RISK MANAGEMENT POLICY STATEMENT

The diversity of services offered by the Council presents a vast potential for personal injury, loss and damage. It is essential for the Council to develop Risk Management programmes which ensure that, in discharging its responsibilities to the citizens, the likelihood of personal injury and loss or damage to physical assets is minimised by means of anticipating and controlling our exposure to risk.

Accordingly it is the responsibility of every member of staff to identify, analyse, eliminate and control exposure to risk and to minimise such losses as they may occur. The purpose of the risk management policy is to achieve the following:

1. To support operating units in their efforts to appraise the risks to which they are exposed.
2. To provide advice through networks of specialists.
3. To provide guidance on best practice in loss control.
4. To motivate managers and others to manage risk effectively.
5. To provide incentives in order to increase the level of risk management.
6. To ensure that adequate risk financing is available.

The Council's Strategic and Operational Risk Management Groups are fundamental to this process. Elected Members, the Chief Executive, Directors and staff of all directorates must be fully supportive of the initiative.

It is the responsibility of every directorate to implement a sound Risk Management strategy. Management at directorate and cost centre level has the responsibility and accountability for managing the risks to which their area is exposed.

This philosophy has the support of the Council which recognises that any reduction in injury, illness or damage benefits the whole community.

CORE FINANCIAL STATEMENTS

INTRODUCTION TO THE CORE FINANCIAL STATEMENTS

Introduction to the Core Financial Statements

Set out below is a brief explanation of the Core Financial Statements which are presented on the following pages:

- **The Comprehensive Income and Expenditure Statement (Page 19)**

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **The Movement in Reserves Statement (Page 20)**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

- **The Balance Sheet (Page 21)**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories, useable reserves and unusable reserves (see Notes 26 and 27 for further details and Glossary for further explanation).

- **The Cash Flow Statement (Page 22)**

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2010/11 | | | | | | | 2011/12 | | |
|-------------------|-----------------|-----------------|--|-------|-------------------|-----------------|-----------------|--|--|
| Gross Expenditure | Gross Income | Net Expenditure | | Notes | Gross Expenditure | Gross Income | Net Expenditure | | |
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 | | |
| 1,401 | (416) | 985 | Central Services to the Public | | 1,460 | (558) | 902 | | |
| 2,902 | (682) | 2,220 | Cultural and Related Services | | 3,721 | (990) | 2,731 | | |
| 10,674 | (7,579) | 3,095 | Environmental and Regulatory Services | | 10,584 | (7,546) | 3,038 | | |
| 1,918 | (806) | 1,112 | Planning Services | | 2,304 | (842) | 1,462 | | |
| 1,918 | (1,182) | 736 | Highways and Transport Services | | 594 | (701) | (107) | | |
| 24,043 | (23,415) | 628 | Housing Services | | 26,060 | (25,648) | 412 | | |
| 2,255 | (207) | 2,048 | Corporate and Democratic Core | | 2,075 | (70) | 2,005 | | |
| (3,598) | - | (3,598) | Non distributed costs – change in inflation factor for retirement benefits | | - | - | - | | |
| 120 | - | 120 | Non distributed costs - other | | 405 | - | 405 | | |
| 205 | - | 205 | Exceptional Items | 47 | - | - | - | | |
| 41,838 | (34,287) | 7,551 | Cost of Services | | 47,203 | (36,355) | 10,848 | | |
| 616 | (32) | 584 | Other Operating Expenditure | 8 | 1,280 | (1,439) | (159) | | |
| 1,163 | (82) | 1,081 | Financing and Investment Income and Expenditure | 9 | 524 | (54) | 470 | | |
| - | (13,188) | (13,188) | Taxation and Non-Specific Grant Income | 10 | - | (11,475) | (11,475) | | |
| | | (3,972) | (Surplus)/Deficit on Provision of Services | | | | (316) | | |
| | (4,397) | | (Surplus)/Deficit on Revaluation of Property, Plant and Equipment | 48 | | | (157) | | |
| | (6,044) | | Actuarial (Gains)/Losses on Pension Assets/Liabilities | | | | 4,146 | | |
| | | (10,441) | Other Comprehensive Income and Expenditure | | | | 3,989 | | |
| | | (14,413) | Total Comprehensive Income and Expenditure | | | | 3,673 | | |

MOVEMENT IN RESERVES STATEMENT

| Note | General Fund Balance | Earmarked General Fund Reserves | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves (Note 26) | Unusable Reserves (Note 27) | Total Authority Reserves |
|---|----------------------|---------------------------------|--------------------------|--------------------------|---------------------------------|-----------------------------|--------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 01/04/10 | 1,500 | 1,439 | - | 141 | 3,080 | (8,812) | (5,732) |
| Movement in Reserves during 2010/11 | | | | | | | |
| Surplus/(Deficit) on the Provision of Services | 3,972 | - | - | - | 3,972 | - | 3,972 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | 10,441 | 10,441 |
| Total Comprehensive Income and Expenditure | 3,972 | - | - | - | 3,972 | 10,441 | 14,413 |
| Adjustments between accounting basis and Funding under Regulations 6 | (2,251) | - | - | (110) | (2,361) | 2,361 | - |
| Net Increase/(Decrease) before transfers to Earmarked Reserves | 1,721 | - | - | (110) | 1,611 | 12,802 | 14,413 |
| Transfers to/from Earmarked Reserves 7 | (231) | 231 | - | - | - | - | - |
| Increase/(Decrease) Movement in 2010/11 | 1,490 | 231 | - | (110) | 1,611 | 12,802 | 14,413 |
| Balance at 31st March 2011 carried forward | 2,990 | 1,670 | - | 31 | 4,691 | 3,990 | 8,681 |
| Movement in Reserves during 2011/12 | | | | | | | |
| Surplus/(Deficit) on the Provision of Services | 316 | - | - | - | 316 | - | 316 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | (3,989) | (3,989) |
| Total Comprehensive Income and Expenditure | 316 | - | - | - | 316 | (3,989) | (3,673) |
| Adjustments between accounting basis and Funding under Regulations 6 | 362 | - | 32 | (31) | 363 | (363) | - |
| Net Increase/(Decrease) before transfers to Earmarked Reserves | 678 | - | 32 | (31) | 679 | (4,352) | (3,673) |
| Transfers to/from Earmarked Reserves 7 | 62 | (62) | - | - | - | - | - |
| Increase/(Decrease) Movement in 2011/12 | 740 | (62) | 32 | (31) | 679 | (4,352) | (3,673) |
| Balance at 31st March 2012 carried forward | 3,730 | 1,608 | 32 | - | 5,370 | (362) | 5,008 |

THE BALANCE SHEET

| Restated As at 1 st April 2010 * | Restated As at 31 st March 2011 * | | Notes | Balance As at 31 st March 2012 |
|---|--|---|-------|---|
| £'000 | £'000 | | | £'000 |
| 11,004 | 18,006 | Property, Plant and Equipment | 11 | 16,434 |
| 4,659 | 4,659 | Heritage Assets | 12 | 4,628 |
| 3,904 | 3,161 | Investment Properties | 13 | 2,761 |
| 114 | 213 | Intangible assets | 14 | 146 |
| 38 | 19 | Long Term Debtors | 19 | 14 |
| 19,719 | 26,058 | Long Term Assets | | 23,983 |
| - | 700 | Assets held for sale | 20 | 2,350 |
| 128 | 137 | Inventories | 21 | 105 |
| 5,777 | 5,357 | Short Term Debtors | 22 | 3,412 |
| 2,487 | 997 | Cash and Cash equivalents | 23 | 5,501 |
| 8,392 | 7,191 | Current Assets | | 11,368 |
| (1,025) | (1,024) | Short Term Borrowing | | (35) |
| (2,878) | (2,534) | Short Term Creditors | 24 | (2,801) |
| (3) | (3) | Leases (repayable within one year) | 41 | (3) |
| (3,906) | (3,561) | Current Liabilities | | (2,839) |
| (18) | (5) | Leases (repayable after more than one year) | 41 | (1) |
| (2,456) | (2,418) | Long Term Creditors | 25 | (3,208) |
| (31) | (18) | Provisions | | (31) |
| (2,500) | (2,500) | Long Term Borrowing | 17 | (3,800) |
| (24,932) | (16,066) | Other Long Term Liabilities | 27 | (20,464) |
| (29,937) | (21,007) | Long Term Liabilities | | (27,504) |
| (5,732) | 8,681 | NET ASSETS | | 5,008 |
| 3,080 | 4,691 | Usable Reserves | 26 | 5,370 |
| (8,812) | 3,990 | Unusable Reserves | 27 | (362) |
| (5,732) | 8,681 | TOTAL RESERVES | | 5,008 |

* Both Balance Sheets have been restated due to the changes required by the Code of Practice on Local Authority Accounting 2011/12. For details of these changes, see note 49 on page 78.

CASH FLOW STATEMENT

| 2010/11 £'000 | | Notes | 2011/12 £'000 |
|------------------|---|-------|------------------|
| 3,972 | Net Surplus / (Deficit) on the Provision of Services | | 316 |
| (1,649) | Adjustments for non-cash movements | 29 | 4,763 |
| (912) | Adjust for movements relating to investing and financing activities | 30 | (505) |
| 1,411 | Net Cash Flows from Operating Activities | | 4,574 |
| (3,778) | Investing Activities | 31 | (431) |
| 877 | Financing Activities | 32 | 361 |
| (1,490) | Net Increase or (Decrease) in Cash and Cash Equivalents | | 4,504 |
| 2,487 | Cash and Cash Equivalents at the beginning of the reporting period | | 997 |
| 997 | Cash and Cash Equivalents at the end of the reporting period | | 5,501 |

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NOTES TO THE ACCOUNTS

1 Accounting Policies

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings are accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Discontinued Operations

Where, and if, appropriate, income and expenditure directly relating to discontinued operations is shown separately on the face of the Comprehensive Income and Expenditure Statement under the heading of Discontinued Operations.

d) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

e) Exceptional Items

Material items of income and expense are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the overall financial performance of the Authority.

f) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

The effect of Prior Year Adjustments arising from changes in accounting policies or from the correction of fundamental errors are disclosed in the Statement of Accounts showing the effect of the change on the results of the current period and explaining the necessity for the adjustments.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

g) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Non-Current Assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible Non-Current Assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and,
- Amortisation (depreciation) of intangible Non-Current Assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the MRP contribution, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

h) Employee Benefits

(i) Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in which the holiday absence occurs.

(ii) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in

the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

(iii) **Post-employment Benefits**

Employees of the Council are members of the Local Government Pensions Scheme administered by Lancashire County Council. The scheme provides defined benefits to members, earned as employees worked for the Council.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates,
- employee turnover rates, etc. and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a real discount rate of 4.9% determined by reference to market yields at the balance sheet date based on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value.
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in the net pensions liability is analysed into seven components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - 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 – charged to the Pensions Reserve.
 - Contributions made to the Lancashire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative

balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority 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 the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

i) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

j) Financial Instruments

The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

(i) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

(ii) Financial Assets

Financial assets are classified into three types:

- a) **Loans and Receivables** – assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

- b) **Fair Value through Income and Expenditure Account** – assets that are held for trading.

Investments that are held for trading can be classified as fair value through the Comprehensive Income and Expenditure Statement depending on the instructions given to the fund manager. Unrealised gains and losses are accounted for in the Comprehensive Income and Expenditure Statement when they arise.

- c) **Available for Sale Assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

Available for sale assets are initially measured and carried at fair value.

Financial Instruments are accounted for in accordance with the following Financial Reporting Standards (FRS): -

FRS25 - Financial Instruments: Presentation and Disclosures,

FRS26 - Financial Instruments: Recognition and Measurement, and

FRS29 - Financial Instruments Disclosures (this FRS has replaced the disclosure requirements of FRS25 but not the presentation requirements).

Note - leases and employers rights and obligations under pensions schemes are not accounted for as financial instruments under FRS25, FRS26 and FRS29.

k) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

l) Heritage Assets

Heritage assets are defined as assets which have historical, artistic or cultural qualities and that are held and maintained principally for their contribution to knowledge and culture.

The 2010/11 Code did not require heritage assets to be reported separately. These will have previously been reported as part of Community Assets in the balance sheet.

There is no IFRS that deals with tangible heritage assets. Authorities are therefore required to account for tangible heritage assets in accordance with FRS 30 Heritage Assets. The introduction of FRS 30 Heritage

Assets has resulted in the requirement for this standard to be included within the council's accounting policies for 2011/12. As required by The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 those changes in accounting policy have been fully reflected in the preparation of the 2011/12 Statement of Accounts.

Accounting for Heritage Assets in 2011/12

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets are presented below.

Heritage assets should normally be included in the balance sheet at their current value. Where it is not practical to obtain a valuation at a reasonable cost heritage assets should be valued at cost.

Where the Council has information on the cost or value of a heritage asset that value has been used in compilation of the 2011/12 balance sheet. Where this information is not available and the historical cost information cannot easily be obtained the asset can be excluded from the balance sheet.

Valuations may be made by any method that is appropriate. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. However where heritage assets are valued at their current value that value has to be reviewed with sufficient frequency to ensure the valuation is up to date.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

As the requirement to value heritage assets at their cost or current value is a change in accounting policy the balance sheet for 1 April 2010 and 31 March 2011 has been re-stated in the 2011/12 accounts.

The Authority's collections of heritage assets are as follows.

- **Art Collection**

The art collection comprises approximately 200 paintings of a wide range of subjects most of which have been donated or bequeathed to the Council and a number of which are by local artists and depict scenes from around the local area. Prominent amongst the collection is a painting by Johann Henreich Fuseli, R.A. entitled 'Vision of Catherine of Aragon'. This work is of significant merit and is periodically loaned to public galleries in order that it may be widely viewed.

The collection was been professionally valued for insurance purposes in 2003 in the sum of £4.4M.

These insurance valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years.

Public access to the collection is afforded by exhibition in a local gallery space and the loan of the more significant components to local, national and international galleries.

Donations are recognised at valuation with valuations provided by the external valuers.

- **Memorials & Monuments**

The Council owns a range of memorials and monuments situated within the borough including a number of war memorials.

The Authority does not consider that reliable cost or valuation information can be obtained for all except one of the items within this category of heritage assets. This is because of the unique nature of the assets held and lack of comparable market values. Consequently the Authority recognises these assets on the balance sheet at a nominal value. The single item for which a value is included in the balance sheet is a memorial sculpture which is valued for insurance purposes in the sum of £40,000. This insurance valuation will be regularly reviewed and the value updated as necessary.

The Authority does not intend to extend the range of this class of assets.

Public access is afforded by the location of the items in prominent and accessible locations within the borough.

- **Sculptures / Ivories**

The Council owns a range of sculptures including a collection of Japanese ivory figurines all of which have been donated or bequeathed.

The collection has been professionally valued for insurance purposes in 2003 in the sum of £88,000.

These insurance valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years.

Public access to the collection is afforded by exhibition in a local gallery space and loan of the more significant components to local galleries upon request.

Donations are recognised at valuation with valuations provided by the external Valuers.

- **Trophies & Other Items**

The Council owns a number of trophies of a sporting heritage and other miscellaneous items of a ceremonial nature. These have been valued by a local jewellers and valuers in 1994 in the sum of £25,000.

In the opinion of the Council's insurance officer this valuation remains current due to the fall in the price of precious metals of which the items are largely constructed. However in future these valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years in line with the revaluation policy for the art collection.

Public access to these items is limited to the display of the items at civic events.

- **Civic Regalia**

The Council owns a variety of chains, pendants and badges which together with the ceremonial mace comprise the civic regalia. These have been valued by a local jewellers and valuers in 1994 in the sum of £69,000.

In the opinion of the Council's insurance officer this valuation remains current due to the fall in the price of precious metals of which the items are largely constructed. However in future these valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years in line with the revaluation policy for the art collection.

Public access to these items is limited to the display of the items at civic events and occasionally as components of an exhibition.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see accounting policy on page 34.

m) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

o) Inventories and Long Term Contracts

All stocks and works in progress are valued at the lower of cost and net realizable value. The cost of inventories is assigned using the FIFO costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

p) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used for the delivery of the Council's services or is held for sale.

q) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the

minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability.

Operating Leases

Rentals paid under operating leases are treated as revenue transactions and are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

r) Central Support Service Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

s) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

(i) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

(ii) Measurement

Non-Current Assets are valued on the basis recommended by CIPFA (Chartered Institute of Public Finance & Accountancy) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the RICS (The Royal Institute of Chartered Surveyors). Non-Current Assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

All valuations have been undertaken in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards by our in house surveyor. The values have been arrived at by having regard to market evidence and the Surveyor's knowledge and experience of the properties involved.

Operational properties have been valued on the basis of Existing Use Value, unless they are Specialised, in which case they have been valued on the basis of Depreciated Replacement Cost. All Depreciated Replacement Cost valuations are subject to the prospect and viability of the continued occupation and use of the properties concerned.

Non-operational properties have been valued on the basis of Market Value. In the case of the **Community assets** they have been valued on either Existing Use Value or Market Value.

Heritage Assets

Valuation methodologies in respect of heritage assets are outlined in note I) on Heritage Assets above.

Definitions of each of the valuation methodologies used are:

Market Value - *“The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.*

Depreciated Replacement Cost - *“The current cost of replacing an asset with its modern equivalent asset less deductions for the physical deterioration and all relevant forms of obsolescence and optimisation.”*

Existing Use Value - *“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost”.*

Revaluations of Non-Current Assets included in the balance sheet at current value are planned at five yearly intervals. Investment properties are reviewed every year to consider that the value of the assets are fairly reflected in the Balance Sheet. In addition material changes in asset values are recorded as they occur.

(iii) **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

(iv) **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment with a finite useful life. Useful life is estimated at the time of acquisition or revaluation. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset
- infrastructure – straight-line allocation as advised by a suitable qualified officer

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Newly acquired assets are depreciated fully in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use, thereafter an equal charge to revenue is made over the useful life of all assets.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

(v) Disposals and Non-current Assets Held for Sale

Non-current assets are now classified as 'Held for Sale' if their carrying amount will be recovered principally through a sale transaction rather than through its continuing use. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

t) Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are a charge to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

u) Contingent Liabilities

A contingent liability arises either:-

- where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.
- where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

v) Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

w) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

The Council operates a number of different reserves, the purpose of each is laid out in note 7 on page 41.

x) Revenue Expenditure Funded by Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

y) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 Accounting Standards that have been issued but have not yet been adopted

IFRS 7 Financial Instruments: Disclosures (transfer of financial asset) adoption of the new standard on the 2012/13 Financial Statements.

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to the disclosures required for Financial Instruments. The change in the disclosures of IFRS 7 are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Authority's financial position. The Authority at present does not meet this criteria and is of the view that the change in disclosure of the standard would not apply.

3 Critical Judgements in applying accounting policies

In applying the accounting policies set out in pages 25 to 36, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future event. The critical judgements made in the Statement of Accounts are:

The Authority continues to face significant financial uncertainty in future years and in turn the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

4 Assumptions made about the future and other major sources of estimation uncertainty

There is only one item in the Authority's Balance Sheet for which there is a significant risk of material adjustment in the forthcoming financial year, namely the liability related to the defined benefit Pension Scheme.

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% per annum increase in the discount rate assumption would result in a decrease in the pension liability of £1.031m. Also, a one year addition to the members life expectancy would result in an increase in the pension liability of £1.293m.

5 Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 29th June 2012. This is the date up to which post balance sheet events have been considered.

6 Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

| 2011/12 | Usable Reserves | | | Movement in Unusable Reserves |
|---------|----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | |
| | £'000 | £'000 | £'000 | £'000 |

Adjustments primarily involving the Capital Adjustment Account

Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement

| | | | | |
|--|-------|---|---|---------|
| Charges for depreciation and impairment of non-current assets | 1,055 | - | - | (1,055) |
| De-Minimis Capital Expenditure | 99 | - | - | (99) |
| Capital Grants and Contributions Unapplied | (795) | - | - | 795 |
| Revenue Expenditure funded from Capital under Statute | 1,636 | - | - | (1,636) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 682 | - | - | (682) |

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement

| | | | | |
|---|-------|---|---|-----|
| Statutory provision for the financing of capital investment (MRP) | (472) | - | - | 472 |
| Capital Expenditure charged against the General Fund balance | (222) | - | - | 222 |

Adjustments primarily involving the Capital Grants Unapplied Account

| | | | | |
|---|-------|---|-------|-----|
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (475) | - | 475 | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | (506) | 506 |

| 2011/12 | Usable Reserves | | | Movement in Unusable Reserves |
|--|----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | |
| | £'000 | £'000 | £'000 | £'000 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (1,404) | 1,404 | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | (1,372) | - | 1,372 |
| <u>Adjustments primarily involving the Deferred Capital Receipts Reserve</u> | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | - | - | - |
| <u>Adjustments primarily involving the Pensions Reserve</u> | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 252 | - | - | (252) |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account</u> | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income collected for the year in accordance with statutory requirements | (7) | - | - | 7 |
| <u>Adjustments primarily involving the Accumulated Absences Account</u> | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements | 13 | - | - | (13) |
| Total Adjustments | 362 | 32 | (31) | (363) |

Comparatives for 2010/11:

| 2010/11 | Usable Reserves | | | Movement in Unusable Reserves |
|--|----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | |
| | £'000 | £'000 | £'000 | £'000 |
| <u>Adjustments primarily involving the Capital Adjustment Account</u> | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Charges for depreciation and impairment of non-current assets | 1,631 | - | - | (1,631) |
| De-Minimis Capital Expenditure | 9 | - | - | (9) |
| Capital Grants and Contributions Unapplied | (902) | - | - | 902 |
| Revenue Expenditure funded from Capital under Statute | 1,140 | - | - | (1,140) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 96 | - | - | (96) |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Statutory provision for the financing of capital investment (MRP) | (143) | - | - | 143 |
| Capital Expenditure charged against the General Fund balance | (289) | - | - | 289 |
| <u>Adjustments primarily involving the Capital Grants Unapplied Account</u> | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (802) | - | 802 | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | (912) | 912 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (32) | 32 | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | (37) | - | 37 |
| <u>Adjustments primarily involving the Deferred Capital Receipts Reserve</u> | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | 5 | - | (5) |
| <u>Adjustments primarily involving the Pensions Reserve</u> | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (2,822) | - | - | 2,822 |

| 2010/11 | Usable Reserves | | | Movement in Unusable Reserves |
|--|----------------------|--------------------------|--------------------------|-------------------------------|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | |
| | £'000 | £'000 | £'000 | £'000 |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account</u> | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income collected for the year in accordance with statutory requirements | (124) | - | - | 124 |
| <u>Adjustments primarily involving the Accumulated Absences Account</u> | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements | (13) | - | - | 13 |
| Total Adjustments | (2,251) | - | (110) | 2,361 |

7 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

| | Balance at 1 st April 2010 | Transfer In 2010/11 | Transfer Out 2010/11 | Balance at 31 st March 2011 | Transfer In 2011/12 | Transfer Out 2011/12 | Balance at 31 st March 2012 |
|------------------------------------|--|---------------------------|----------------------------|---|---------------------------|----------------------------|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| General Fund | | | | | | | |
| Capital Projects Fund – Bus Monies | 22 | - | - | 22 | - | - | 22 |
| Building Control Regs. | 3 | - | (3) | - | - | - | - |
| IT Reserve | 84 | - | (27) | 57 | 100 | - | 157 |
| Vehicle Maintenance | 27 | - | - | 27 | 100 | - | 127 |
| Land Charges | 14 | - | (14) | - | - | - | - |
| Parks/Open Spaces | 39 | - | - | 39 | - | - | 39 |
| Business Improvement Grant (NNDR) | 34 | - | - | 34 | - | - | 34 |
| Economic Promotion and Recovery | 40 | 30 | (10) | 60 | 30 | (24) | 66 |
| Comprehensive Spending Review | 520 | 1 | - | 521 | - | - | 521 |
| Concessionary Fares | 177 | - | (177) | - | - | - | - |
| Performance Reward Grant | 479 | 169 | (85) | 563 | - | (327) | 236 |
| Vehicle Replacement Financing | - | 212 | - | 212 | - | - | 212 |
| Land Charges New Burdens | - | 34 | - | 34 | 55 | - | 89 |
| Direct Revenue Financing | - | 25 | - | 25 | - | (25) | - |
| Core Strategy Financing | - | 113 | (37) | 76 | - | (76) | - |
| MMI Insurance | - | - | - | - | 105 | - | 105 |
| Total Earmarked Reserves | 1,439 | 584 | (353) | 1,670 | 390 | (452) | 1,608 |

Purpose of Earmarked Reserves

Reserves are those sums set aside for purposes falling outside the definition of provisions. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

The Council operates a number of different earmarked reserves, the purpose of each is summarised below:-

- **Capital Project Fund (Ansdell Bus Money) Reserve** – Set aside from the revenue receipts on the sale of the Bus Company allocated to each area of the Authority. Balance to be expended in Ansdell on schemes to be identified.
- **Building Control Regulations Reserve** – A fundamental principle of the Building Regulations Scheme introduced 1st April, 1999, is that there is a three year rolling accounting period over which costs should equate with charge income. This reserve will assist in achieving that aim in future periods.

- **IT Reserve (formerly Replacement Systems Reserve)** – for the funding of new IT initiatives and the development of IT systems.
- **Vehicle Maintenance Reserve** – created in 2008/09 to contribute towards the cost of vehicle maintenance repairs.
- **Land Charges Reserve** – Surpluses generated on land charges set aside for reinvestment into the service.
- **Parks & Open Spaces Reserve** – Developers who seek the adoption of areas of open space by the Council are required to deposit a commuted sum that is used to support additional grounds maintenance expenditure incurred by the Council following adoption.
- **Business Improvement Grant (NNDR) Reserve** – Created in 2005/06. The Council was awarded additional monies that have been earmarked for general use to support Economic Development wherever possible.
- **Economic Promotion and Recovery Reserve** – Created in 2009/10, this reserve was established in order to support and promote economic recovery.
- **Comprehensive Spending Review Reserve** – Created in 2009/10, this is a voluntary set-aside established to enable the Council to prepare for future financial pressures in a planned and cost effective way.
- **Concessionary Fares Reserve** – Created in 2009/10, this is a voluntary set-aside in respect of the concessionary fares scheme for the potential repayment of an additional reimbursement rate which is still subject to a legal challenge from Bus Operators.
- **Performance Reward Grant Reserve** – Created in 2009/10, this is a voluntary set-aside of performance reward grant (PRG). Although Fylde Borough Council is the Accountable Body for the Fylde PRG, the Fylde Local Strategic Partnership are the appointed decision making body in relation to the allocation of the PRG.
- **Vehicle Replacement Financing Reserve** – Created in 2010/11, this is a voluntary set-aside established to meet the cost of future debt repayments in respect of the replacement and purchase of vehicles.
- **Land Charges New Burdens Reserve** – Created in 2010/11, this is a voluntary set-aside towards potential third party claims in relation to historic Land Charge enquiries.
- **Direct Revenue Financing Reserve** – Created in 2010/11, this is a voluntary set-aside of funds to help finance approved future capital projects.
- **Core Strategy Financing Reserve** – Created in 2010/11, this is funding set-aside to finance expenditure incurred on delivering the Council's Core Strategy.
- **MMI Insurance Reserve** – Created in 2011/12, this is a voluntary set-aside to cover the Council's maximum exposure in relation to the potential clawback of previously paid claims under the scheme of arrangement with the Council's previous Insurer, Municipal Mutual Insurance.

8 **Other Operating Expenditure**

| 2010/11 | | 2011/12 |
|------------|--|--------------|
| £'000 | | £'000 |
| 520 | Parish Council Precepts | 563 |
| 64 | (Gains)/Losses on the disposal of non-current assets | (722) |
| 584 | Total | (159) |

9 Financing and Investment Income and Expenditure

| 2010/11 | | 2011/12 |
|--------------|---|------------|
| £'000 | | £'000 |
| 121 | Interest payable and similar charges | 92 |
| 1,042 | Pensions Interest cost and expected return on pensions assets | 432 |
| (82) | Interest Receivable and similar Income | (54) |
| 1,081 | Total | 470 |

10 Taxation and Non-Specific Grant Income

| 2010/11 | | 2011/12 |
|-----------------|----------------------------------|-----------------|
| £'000 | | £'000 |
| (6,153) | Council Tax Income | (6,218) |
| (5,116) | Non-Domestic Rates | (3,330) |
| (1,007) | Non-Ringfenced Government Grants | (1,422) |
| (912) | Capital Grants and Contributions | (505) |
| (13,188) | Total | (11,475) |

11 Property, Plant and Equipment

| 2011/12 | Other Land and Buildings | Vehicles, Plant & Equipment | Community | Infra- Structure | Surplus Assets | Total |
|--|--------------------------------|-----------------------------------|--------------|---------------------|-------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | |
| at 1 April 2011 | 12,999 | 4,920 | 4,195 | - | - | 22,114 |
| Additions | - | 823 | 310 | - | - | 1,133 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 36 | - | (40) | - | - | (4) |
| Derecognition - disposals | (723) | (624) | - | - | - | (1,347) |
| Other movements in cost or valuation | (850) | - | 150 | - | - | (700) |
| At 31 March 2012 | 11,462 | 5,119 | 4,615 | - | - | 21,196 |
| Accumulated Depreciation and Impairment | | | | | | |
| at 1 April 2011 | (1,007) | (3,101) | - | - | - | (4,108) |
| Depreciation Charge | (189) | (648) | - | - | - | (837) |
| Depreciation written out to the Revaluation Reserve | 56 | 624 | - | - | - | 680 |
| Impairment (losses) / reversals recognised in the Surplus/Deficit on the Provision of Services | (29) | (47) | (421) | - | - | (497) |
| At 31 March 2012 | (1,169) | (3,172) | (421) | - | - | (4,762) |
| Net Book Value of Assets at 31 March 2012 | 10,293 | 1,947 | 4,194 | - | - | 16,434 |
| Net Book Value of Assets | | | | | | |
| At 31 March 2012 | 10,293 | 1,947 | 4,194 | - | - | 16,434 |
| At 31 March 2011 | 11,992 | 1,819 | 4,195 | - | - | 18,006 |

| Comparatives for 2010/11 | Other Land and Buildings | Vehicles, Plant & Equipment | Community | Infra-Structure | Surplus Assets | Total |
|--|--------------------------|-----------------------------|--------------|-----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | |
| at 1 April 2010 | 6,861 | 3,296 | 3,514 | - | - | 13,671 |
| Additions | 1,688 | 1,696 | 772 | - | - | 4,156 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 4,389 | - | - | - | - | 4,389 |
| Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - |
| Derecognition - disposals | (67) | (85) | - | - | - | (152) |
| Other movements in cost or valuation | 128 | 13 | (91) | - | - | 50 |
| At 31 March 2011 | 12,999 | 4,920 | 4,195 | - | - | 22,114 |
| Accumulated Depreciation and Impairment | | | | | | |
| at 1 April 2010 | (319) | (2,348) | - | - | - | (2,667) |
| Depreciation Charge | (221) | (806) | - | - | - | (1,027) |
| Depreciation written out to the Revaluation Reserve | 3 | 53 | - | - | - | 56 |
| Impairment (losses) / reversals recognised in the Surplus/Deficit on the Provision of Services | (470) | - | - | - | - | (470) |
| At 31 March 2011 | (1,007) | (3,101) | - | - | - | (4,108) |

Depreciation Methodologies

Depreciation is charged on a straight line basis on all fixed and intangible assets with a finite useful life. Newly acquired assets are depreciated fully in the year of acquisition in line with the SORP.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

There has been no change during the period in either the estimate of useful lives or the estimate of any residual values.

Commitments under Capital Contracts

Capital projects often take several years to complete. This means that the Authority is often committed to capital expenditure in later years arising from contracts entered into at the balance sheet date whereby all or part of the capital work has yet to be undertaken. The estimated value of capital expenditure committed at 31st March 2012 to be paid from 2012/13 onwards is £0 (2011/12 £0.093m).

Asset Valuation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost. The following statement shows the progress of the Authority's rolling programme for the revaluation of Property, Plant and Equipment including additions and disposals.

Valuation methodologies in respect of heritage assets are outlined in note 12 on Heritage Assets.

| | Other Land and Buildings | Vehicles, Plant & Equipment | Community | Infra- Structure | Surplus Assets | Total |
|--|--------------------------------|-----------------------------------|--------------|---------------------|-------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Carried at Historical Cost | 15,552 | 2,262 | 71 | - | - | 17,885 |
| Valued at fair value as at: | | | | | | |
| 31 March 2006 | 1,500 | 557 | 6 | - | - | 2,063 |
| 31 March 2007 | (1,153) | (20) | 996 | - | - | (177) |
| 31 March 2008 | 225 | 362 | 390 | - | - | 977 |
| 31 March 2009 | (9,390) | 114 | 182 | - | - | (9,094) |
| 31 March 2010 | 127 | 21 | 1,902 | - | - | 2,050 |
| 31 March 2011 | 6,138 | 1,624 | 648 | - | - | 8,410 |
| 31 March 2012 | (2,213) | 189 | 420 | - | - | (1,604) |
| Current Value 2011/2012 Total | 10,786 | 5,109 | 4,615 | - | - | 20,510 |

12 Heritage Assets

| 2011/12 | Art Collection | Memorials & Monuments | Sculptures / Ivories | Trophies & Other Items | Civic Regalia | Total |
|--|-------------------|-----------------------------|-------------------------|------------------------------|------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | |
| at 1 April 2011 | 4,406 | 71 | 88 | 25 | 69 | 4,659 |
| Additions | - | - | - | - | - | - |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | - | - | - | - | - | - |
| Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - |
| At 31 March 2012 | 4,406 | 71 | 88 | 25 | 69 | 4,659 |
| Accumulated Depreciation and Impairment | | | | | | |
| at 1 April 2011 | - | - | - | - | - | - |
| Depreciation Charge | - | - | - | - | - | - |
| Depreciation written out to the Revaluation Reserve | - | - | - | - | - | - |
| Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services | - | (31) | - | - | - | (31) |
| At 31 March 2012 | - | (31) | - | - | - | (31) |
| Net Book Value of Assets at 31 March 2012 | 4,406 | 40 | 88 | 25 | 69 | 4,628 |
| Net Book Value of Assets | | | | | | |
| At 31 March 2012 | 4,406 | 40 | 88 | 25 | 69 | 4,628 |
| At 31 March 2011 | 4,406 | 71 | 88 | 25 | 69 | 4,659 |

| Comparatives for 2010/11 | Art Collection | Memorials & Monuments | Sculptures / Ivories | Trophies & Other Items | Civic Regalia | Total |
|--|-------------------|-----------------------------|-------------------------|------------------------------|------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | |
| at 1 April 2010 | 4,406 | 71 | 88 | 25 | 69 | 4,659 |
| Additions | - | - | - | - | - | - |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | - | - | - | - | - | - |
| Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - |
| At 31 March 2011 | 4,406 | 71 | 88 | 25 | 69 | 4,659 |
| Accumulated Depreciation and Impairment | | | | | | |
| at 1 April 2010 | - | - | - | - | - | - |
| Depreciation Charge | - | - | - | - | - | - |
| Depreciation written out to the Revaluation Reserve | - | - | - | - | - | - |
| Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - |
| At 31 March 2011 | - | - | - | - | - | - |

Heritage assets are defined as assets which have historical, artistic or cultural qualities and that are held and maintained principally for their contribution to knowledge and culture.

The 2010/11 Code did not require heritage assets to be reported separately. These will have previously been reported as part of Community Assets in the balance sheet prior to the re-statement.

There is no IFRS that deals with tangible heritage assets. Authorities are therefore required to account for tangible heritage assets in accordance with FRS 30 Heritage Assets. The introduction of FRS 30 Heritage Assets has resulted in the requirement for this standard to be included within the council's accounting policies for 2011/12. As required by The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 those changes in accounting policy have been fully reflected in the preparation of the 2011/12 Statement of Accounts.

Accounting for Heritage Assets in 2011/12

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets are presented below.

Heritage assets should normally be included in the balance sheet at their current value. Where it is not practical to obtain a valuation at a reasonable cost heritage assets should be valued at cost.

Where the Council has information on the cost or value of a heritage asset that value has been used in compilation of the 2011/12 balance sheet. Where this information is not available and the historical cost information cannot easily be obtained the asset can be excluded from the balance sheet.

Valuations may be made by any method that is appropriate. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. However where heritage assets are valued at their current value that value has to be reviewed with sufficient frequency to ensure the valuation is up to date.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

As the requirement to value heritage assets at their cost or current value is a change in accounting policy the balance sheet for 1st April 2010 and 31st March 2011 has been re-stated in the 2011/12 accounts.

The Authority's collections of heritage assets are as follows.

Art Collection

The art collection comprises approximately 200 paintings of a wide range of subjects most of which have been donated or bequeathed to the Council and a number of which are by local artists and depict scenes from around the local area. Prominent amongst the collection is a painting by Johann Henreich Fuseli, R.A. entitled 'Vision of Catherine of Aragon'. This work is of significant merit and is periodically loaned to public galleries in order that it may be widely viewed.

The collection was been professionally valued for insurance purposes in 2003 in the sum of £4.4M.

These insurance valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years.

Public access to the collection is afforded by exhibition in a local gallery space and the loan of the more significant components to local, national and international galleries.

Donations are recognised at valuation with valuations provided by the external valuers.

Memorials & Monuments

The Council owns a range of memorials and monuments situated within the borough including a number of war memorials.

The Authority does not consider that reliable cost or valuation information can be obtained for all except one of the items within this category of heritage assets. This is because of the unique nature of the assets held and lack of comparable market values. Consequently the Authority recognises these assets on the balance sheet at a nominal value. These assets comprise Ashton War Memorial, Ashton Memorial Rose Garden, Lytham War Memorial, Kirkham War Memorial and the Life Boat Mexico Monument. The one item for which a value is included in the balance sheet is a memorial sculpture which is valued for insurance purposes in the sum of £40,000. This insurance valuation will be regularly reviewed and the value updated as necessary.

The Authority does not intend to extend the range of this class of assets.

Public access is afforded by the location of the items in prominent and accessible locations within the borough.

Sculptures / Ivories

The Council owns a range of sculptures including a collection of Japanese ivory figurines all of which have been donated or bequeathed.

The collection has been professionally valued for insurance purposes in 2003 in the sum of £88,000.

These insurance valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years.

Public access to the collection is afforded by exhibition in a local gallery space and loan of the more significant components to local galleries upon request.

Donations are recognised at valuation with valuations provided by the external Valuers.

Trophies & Other Items

The Council owns a number of trophies of a sporting heritage and other miscellaneous items of a ceremonial nature. These have been valued by a local jewellers and valuers in 1994 in the sum of £25,000.

In the opinion of the Council's insurance officer this valuation remains current due to the fall in the price of precious metals of which the items are largely constructed. However in future these valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years in line with the revaluation policy for the art collection.

Public access to these items is limited to the display of the items at civic events.

Civic Regalia

The Council owns a variety of chains, pendants and badges which together with the ceremonial mace comprise the civic regalia. These have been valued by a local jewellers and valuers in 1994 in the sum of £69,000.

In the opinion of the Council's insurance officer this valuation remains current due to the fall in the price of precious metals of which the items are largely constructed. However in future these valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 10 years in line with the revaluation policy for the art collection.

Public access to these items is limited to the display of the items at civic events and occasionally as components of an exhibition.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

13 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used for the delivery of the Authority's services or is held for sale.

Investment Properties are initially measured at cost. After initial recognition they are measured at fair value. The fair value reflects market conditions at the balance sheet date.

The following table summarises the movement in the fair value of investment properties over the year.

| 2010/11 | | 2011/12 |
|----------------|---|----------------|
| £'000 | | £'000 |
| 3,904 | Balance at start of year | 3,161 |
| | Additions: | |
| - | Purchase | - |
| - | Construction | - |
| - | Subsequent expenditure | - |
| - | Disposals | (15) |
| 7 | Net gains /losses from fair value adjustments | 190 |
| | Transfers: | |
| - | (To) / from Property, Plant and Equipment | 135 |
| - | (To) / from Assets Held for Sale | (710) |
| (750) | Other changes | - |
| 3,161 | Balance at end of year | 2,761 |

14 Intangible Assets

Intangible assets comprise the software licences for the main Authority systems, and other new e-government systems. The policy adopted is to depreciate over a 3 to 5 year useful life.

| 2010/11 £'000 | | 2011/12 £'000 |
|------------------|---|------------------|
| | Balance at start of year | |
| 287 | Gross carrying amounts | 520 |
| (173) | Accumulated amortisation | (307) |
| <u>114</u> | Net carrying amount at 1st April | <u>213</u> |
| | Additions: | |
| - | Internal development | - |
| 233 | Purchases | 27 |
| (134) | Acquired through business combinations | |
| | Amortisation for the period | (94) |
| <u>213</u> | Net carrying amount at 31st March | <u>146</u> |
| | Comprising: | |
| 520 | Gross carrying amounts | 547 |
| (307) | Accumulated amortisation | (401) |
| <u>213</u> | | <u>146</u> |

15 Financial Instrument – Borrowings and Investments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Long Term | | Current | |
|--|------------------|-----------------|-----------------|-----------------|
| | 31/03/11 | 31/03/12 | 31/03/11 | 31/03/12 |
| | £'000 | £'000 | £'000 | £'000 |
| Financial liabilities (principal amount) | 2,500 | 3,800 | 1,000 | - |
| Add Accrued Interest | - | - | 24 | 35 |
| Total Borrowings | <u>2,500</u> | <u>3,800</u> | <u>1,024</u> | <u>35</u> |
| Finance Lease Liabilities | 5 | 2 | 3 | 3 |
| | <u>5</u> | <u>2</u> | <u>3</u> | <u>3</u> |
| Loans and receivables | - | - | - | - |
| Add Accrued Interest | - | - | - | - |
| Loans and receivables at amortised cost | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Investments | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

All financial liabilities are classified as amortised cost.

16 Financial Instruments Gains/Losses

The gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments are made up as follows:

| 2010/11 | | | | |
|---|-----------------------|---------------------------|---|--------------|
| Financial Liabilities | Financial Assets | | | |
| Liabilities measured at Amortised cost | Loans and receivables | Available for sale assets | Fair Value through Income & Expenditure Account | Total |
| £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest expense | (121) | - | - | (121) |
| Interest payable & similar charges | (121) | - | - | (121) |
| Interest income | - | 82 | - | 82 |
| Interest and investment income | - | 82 | - | 82 |
| Net income/(expense) for the year | | | | (39) |

| 2011/12 | | | | |
|---|-----------------------|---------------------------|---|-------------|
| Financial Liabilities | Financial Assets | | | |
| Liabilities measured at amortised cost | Loans and receivables | Available for sale assets | Fair Value through Income & Expenditure Account | Total |
| £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest expense | (92) | - | - | (92) |
| Interest payable & similar charges | (92) | - | - | (92) |
| Interest income | - | 54 | - | 54 |
| Interest and investment income | - | 54 | - | 54 |
| Net income/(expense) for the year | | | | (38) |

17 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- The fair values for financial liabilities have been determined by reference to the Public Work Loan Board (PWLb) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for Borrowings repayable within 12 months and finance leases has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.
- No early repayment or impairment is recognised;
- The fair value of trade and other receivables is taken to the invoiced or billed amount.

The fair values calculated are as follows:

| | 31 March 2011 | | 31 March 2012 | |
|---|-----------------|--------------|-----------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| PWLB Debt | 2,500 | 2,610 | 3,800 | 4,179 |
| Total Borrowings | 2,500 | 2,610 | 3,800 | 4,179 |
| Creditors | 4,723 | 4,723 | 5,745 | 5,745 |
| Finance Leases repayable within 12 months | 3 | 3 | 3 | 3 |
| Finance Leases repayable greater than 12 months | 5 | 5 | 2 | 2 |
| Bank Overdraft | - | - | - | - |
| Borrowing repayable within 12 months | 1,024 | 1,024 | 35 | 35 |
| Total financial liabilities | 8,255 | 8,365 | 9,585 | 9,964 |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

| | 31 March 2011 | | 31 March 2012 | |
|------------------------------------|-----------------|--------------|-----------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Cash and Cash Equivalents | 997 | 997 | 5,501 | 5,501 |
| Investments < 1 year | - | - | - | - |
| Investments > 1 year | - | - | - | - |
| Long Term Debtors | 19 | 19 | 14 | 14 |
| Debtors | 2,454 | 2,454 | 2,024 | 2,024 |
| Total Loans and receivables | 3,470 | 3,470 | 7,539 | 7,539 |

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

The Council does not have any loans and receivables greater than 1 year in duration.

18 **Nature and Extent of Risks arising from Financial Instruments**

(i) **Key Risks**

The Council's activities expose it to a variety of financial risks. The key risks are;

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 commitments to make payments;

Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

(ii) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management procedures within the constitution.
- by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures of the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting meeting. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to the Portfolio Holder (Finance & Resources).

The annual Treasury Management Strategy for 2011/12 which incorporates the prudential indicators was approved by Council on 2nd March 2011. The strategy was revised and approved again by Council on 28th November 2011. These reports are available on the Council's website.

Treasury policies are implemented by an in-house treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

(iii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria approved by Council.

The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F1, Long Term A, Support C and Individual 3
- UK institutions provided with support from the UK Government

The full Investment Strategy for 2011/12 was approved by Council on 2nd March 2011 and is available on the Council's website.

Recent experience has shown that it is rare for counterparties to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits but there was no evidence at the 31st March 2012 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Authority's potential maximum exposure to credit risk from trade debtors based on local historical experience over the last three financial years.

| | As at 31st March 2012 | Historical experience of default | Adjustment for market conditions at 31/03/12 | Estimated maximum exposure to default | Estimated maximum exposure At 31/03/11 |
|---------|---|---|---|--|---|
| | £'000 | % | % | £'000 | £'000 |
| | a | b | c | a * c | |
| Debtors | 2,024 | 16% | 16% | 324 | 488 |

The Council does not generally allow credit for its trade debtors. Of the £2.024m (£2.442m 2010/11) outstanding for trade debtors, £1.116m (£1.629m 2010/11) is overdue. The past due amount can be analysed by age as follows:

| 2010/11 | | 2011/12 |
|----------------|--------------------------|----------------|
| £'000 | | £'000 |
| 1,420 | Less than three months | 967 |
| 68 | Three months to one year | 13 |
| 141 | More than one year | 136 |
| <u>1,629</u> | | <u>1,116</u> |

Collateral - During the reporting period the Council held no collateral as security.

(iv) Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow requirements, and access to the PWLB and money markets for longer term funds. The Council is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

Amounts payable relating to statutory debts, e.g. council tax, non-domestic rates are not included in the analysis above. The maturity analysis of financial liabilities is as follows:

| 2010/11 | | 2011/12 |
|----------------|----------------------------|----------------|
| £'000 | | £'000 |
| 3,332 | Less than one year | 2,575 |
| 449 | Between one and two years | 290 |
| 1,687 | Between two and five years | 2,953 |
| 2,315 | Between five and ten years | 3,294 |
| 472 | More than ten years | 473 |
| <u>8,255</u> | | <u>9,585</u> |

Amounts payable relating to statutory debts, e.g. council tax, non-domestic rates are not included in the analysis above as they are outside the scope of the Financial Instrument provisions.

The maturity analysis of financial assets is as follows:

| 2010/11 | | 2011/12 |
|--------------|-----------------------------|--------------|
| £'000 | | £'000 |
| 3,451 | Less than one year | 7,525 |
| 5 | Between one and two years | 2 |
| 2 | Between two and three years | 2 |
| 12 | More than three years | 10 |
| <u>3,470</u> | | <u>7,539</u> |

(v) Market risk

(a) Interest rate risk – The Council has limited exposure to interest rate movements on its borrowings and investments.

Borrowings are not carried at “Fair Value” on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income & Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The in-house treasury team will monitor market and forecast interest rates within the year to adjust exposures approximately.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

| | £'000 |
|---|-----------|
| Increase in interest payable on variable rate borrowings* | - |
| Increase in interest receivable on investments | 85 |
| Impact on Income and Expenditure Account | <u>85</u> |
| Decrease in fair value of fixed rate investment assets | - |
| Impact on Statement of Recognised Gains & Losses | <u>-</u> |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on Income & Expenditure Account or Statement of Recognised Gains & Losses) | <u>42</u> |

*The Council's long-term borrowing is all at fixed rates.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

(b) Price risk – The Council, excluding the pension fund, does not generally invest in instruments with this type of risk, e.g. equity shares or marketable bonds.

(c) Foreign exchange risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

19 Long Term Debtors

These relate to amounts owing to the Council which are being repaid over various periods longer than one year.

| 2010/11 | | 2011/12 |
|-----------|-----------------------------------|-----------|
| £'000 | | £'000 |
| 16 | Parish Council Interest Free Loan | 14 |
| 3 | Car Loans | - |
| 19 | | 14 |

20 Assets Held for Sale

All assets held for sale are anticipated to be disposed of in a period of less than one year.

| 2010/11 | | 2011/12 |
|------------|---|--------------|
| £'000 | | £'000 |
| - | Balance outstanding at start of year | 700 |
| - | Revaluations of Assets Held for Sale | (250) |
| - | | 450 |
| | Assets newly classified as held for sale | |
| 700 | Property, Plant & Equipment | 565 |
| - | Investment Properties | 710 |
| - | Revaluations | 625 |
| 700 | Balance outstanding at year end | 2,350 |

21 Inventories

The Council only holds an inventory of consumable materials, no other types of inventories are held.

| 2010/11 | | 2011/12 |
|------------|--|------------|
| £'000 | | £'000 |
| 128 | Balance at start of the year | 137 |
| 649 | Purchases | 733 |
| (643) | Recognised as an expense in the year | (765) |
| 1 | Written off balances | - |
| 2 | Reversal of write-offs in previous years | - |
| 137 | Balance outstanding at year-end | 105 |

22 Short-Term Debtors

| 2010/11 | | 2011/12 |
|--------------|---------------------------------------|--------------|
| £'000 | | £'000 |
| 2,538 | Central Government Bodies | 1,516 |
| 456 | Other Local Authorities | 781 |
| 1 | NHS Bodies | 45 |
| 7 | Public Corporations and Trading Funds | - |
| 2,355 | Other entities and individuals | 1,070 |
| 5,357 | | 3,412 |

23 Cash and Cash Equivalents

| 2010/11 | | 2011/12 |
|------------|----------------------------|--------------|
| £'000 | | £'000 |
| 1 | Cash held by the Authority | 1 |
| 996 | Bank Current Accounts | 5,500 |
| 997 | | 5,501 |

24 Short-Term Creditors

| 2010/11 | | 2011/12 |
|--------------|---------------------------------------|--------------|
| £'000 | | £'000 |
| 263 | Central Government Bodies | 378 |
| 742 | Other Local Authorities | 713 |
| - | NHS Bodies | 45 |
| - | Public Corporations and Trading Funds | - |
| 1,529 | Other entities and individuals | 1,665 |
| 2,534 | | 2,801 |

25 Long-Term Creditors – Section 106 Agreements

Section 106 Agreements are for the fulfilment of obligations under certain Planning Application Approvals.

| 2010/11 | | 2011/12 |
|--------------|--|--------------|
| £'000 | | £'000 |
| 2,456 | Balance brought forward as at 1 st April | 2,528 |
| 162 | Contributions Received – Revenue Schemes | 1,390 |
| - | Contributions Received – Capital Schemes | - |
| 2,618 | | 3,918 |
| | Less: Contributions Applied in Year | |
| (35) | - Revenue Schemes | (206) |
| (55) | - Capital Schemes | (100) |
| 2,528 | Balance carried forward as at 31st March | 3,612 |

The balances available to the Council can be further analysed between revenue and capital schemes:

| 2010/11 | | 2011/12 |
|--------------|-----------------|--------------|
| £'000 | | £'000 |
| 2,493 | Revenue Schemes | 3,576 |
| 35 | Capital Schemes | 36 |
| 2,528 | | 3,612 |

Expenditure commitments against the s106 agreements are due within the following financial years:

| 2010/11 | | 2011/12 |
|--------------|---|--------------|
| £'000 | | £'000 |
| 110 | Short Term Creditors (Due within 12 months) | 404 |
| 2,418 | Long Term Creditors (Due after more than 12 months) | 3,208 |
| 2,528 | | 3,612 |

26 Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement on page 20.

| 2010/11 | | 2011/12 |
|--------------|---------------------------------|--------------|
| £'000 | | £'000 |
| 2,990 | General Fund Balance | 3,730 |
| 1,670 | Earmarked General Fund Reserves | 1,608 |
| - | Capital Receipts Reserve | 32 |
| 31 | Capital Grants Unapplied | - |
| 4,691 | Total Usable Reserves | 5,370 |

27 Unusable Reserves

Movements in the Authority's unusable reserves are detailed in the Movement in Reserves Statement on page 20.

| 2010/11 | | 2011/12 |
|--------------|------------------------------------|--------------|
| £'000 | | £'000 |
| 11,617 | Revaluation Reserve | 11,773 |
| 8,368 | Capital Adjustment Account | 8,264 |
| (16,066) | Pensions Reserve | (20,464) |
| 89 | Collection Fund Adjustment Account | 96 |
| (18) | Accumulated Absences Account | (31) |
| 3,990 | Total Unusable Reserves | (362) |

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated to the balance on the Capital Adjustment Account.

| 2010/11 | | 2011/12 |
|---------------|---|---------------|
| £'000 | | £'000 |
| 7,220 | Balance at 1st April | 11,617 |
| 4,771 | Upward Revaluation of assets | 473 |
| (374) | Downward Revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services | (317) |
| 4,397 | Surplus or deficit on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services | 156 |
| - | Difference between fair value depreciation and historic cost depreciation | - |
| - | Accumulated gains on assets sold or scrapped | - |
| - | Amounts written off to the Capital Adjustment Account | - |
| 11,617 | Balance as at 31st March | 11,773 |

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2010/11 | Capital Adjustment Account | 2011/12 |
|--------------|--|--------------|
| £'000 | | £'000 |
| 8,961 | Balance at 1st April | 8,368 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | |
| (1,497) | • Charges for depreciation and impairment of non-current assets | (960) |
| - | • Revaluation losses on Property, Plant and Equipment | - |
| (134) | • Amortisation of Intangible Assets | (94) |
| (1,140) | • Revenue expenditure funded from capital under statute | (1,636) |
| (96) | • Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (682) |
| (9) | • De-minimis Capital Expenditure | (99) |
| (2,876) | | (3,471) |
| - | Adjusting amounts written out of the Revaluation Reserve | - |
| (2,876) | Net written out amount of the cost of non-current assets consumed in the year | (3,471) |
| | Capital Financing applied in the year | |
| 37 | • Use of the Capital Receipts Reserve to finance new capital expenditure | 1,372 |
| 902 | • Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 795 |
| 912 | • Application of grants to capital financing from the Capital Grants Unapplied Account | 506 |
| 143 | • Statutory provision for the financing of capital investment charged against the General Fund | 472 |
| 289 | • Capital expenditure charged against the General Fund | 222 |
| 2,283 | | 3,367 |
| - | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | - |
| 8,368 | Balance as at 31st March | 8,264 |

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2010/11 | | 2011/12 |
|---------|--|---------|
| £'000 | | £'000 |
| 5 | Balance at 1st April | - |
| - | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - |
| (5) | Transfer to the Capital Receipts Reserve upon receipt of cash | (-) |
| - | Balance as at 31st March | - |

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2010/11 | | 2011/12 |
|----------|--|----------|
| £'000 | | £'000 |
| (24,932) | Balance at 1st April | (16,066) |
| 6,044 | Actuarial gains or losses on pension assets and liabilities | (4,146) |
| 2,822 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (252) |
| - | Employers pension contributions and direct payments to pensioners payable in the year | - |
| (16,066) | Balance as at 31st March | (20,464) |

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2010/11 | | 2011/12 |
|-----------|--|-----------|
| £'000 | | £'000 |
| (35) | Balance at 1st April | 89 |
| 124 | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 7 |
| 89 | Balance as at 31st March | 96 |

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2010/11 | | 2011/12 |
|-------------|---|-------------|
| £'000 | | £'000 |
| (31) | Balance at 1st April | (18) |
| - | Settlement or cancellation of accrual made at the end of the preceding year | 18 |
| - | Amounts accrued at the end of the current year | (31) |
| 13 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (13) |
| (18) | Balance as at 31st March | (31) |

28 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2010/11 | | 2011/12 |
|-----------|---|-----------|
| £'000 | | £'000 |
| (82) | Interest Received | (54) |
| 119 | Interest Paid | 90 |
| 2 | Interest Element of finance lease rental payments | 2 |
| 39 | | 38 |

29 Cash Flow Statement – Adjustment for non-cash movements

| 2010/11 | | 2011/12 |
|----------------|---|--------------|
| £'000 | | £'000 |
| 1,162 | Depreciation | 930 |
| 470 | Impairment | 124 |
| 206 | Increase/(Decrease) in impairment for Bad Debts | 108 |
| (415) | Increase/(Decrease) in Creditors | 1,244 |
| (663) | (Increase)/Decrease in Debtors | 1,825 |
| (9) | (Increase)/Decrease in Inventories | 32 |
| (2,822) | Movement in Pension Liability | 252 |
| 422 | Other non-cash items charged to the net surplus or deficit on the provision of services | 248 |
| (1,649) | | 4,763 |

30 Cash Flow Statement – Adjustments for movements relating to investing and financing activities

| 2010/11 | | 2011/12 |
|--------------|---|--------------|
| £'000 | | £'000 |
| (912) | Capital Grants included in the net surplus/deficit on the provision of services | (505) |
| (912) | | (505) |

31 Cash Flow Statement – Investing Activities

| 2010/11 | | 2011/12 |
|----------------|--|--------------|
| £'000 | | £'000 |
| (5,519) | Purchase of property, plant and equipment, investment property and intangible assets | (3,106) |
| 37 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,405 |
| 1,704 | Other receipts from investing activities | 1,270 |
| (3,778) | Net cash flows from investing activities | (431) |

32 Cash Flow Statement – Financing Activities

| 2010/11 | | 2011/12 |
|------------|---|------------|
| £'000 | | £'000 |
| 1,000 | Cash receipts of short- and long-term borrowing | 1,300 |
| 890 | Other receipts from financing activities | 64 |
| (13) | Cash payments for the reduction of the outstanding liabilities relating to finance leases | (3) |
| (1,000) | Repayments of short- and long-term borrowing | (1,000) |
| 877 | Net cash flows from financing activities | 361 |

33 Amounts Reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- no charges are budgeted for in relation to the year end accrual for Accumulated Absences (Annual and Flexi leave accrued but not yet claimed)

The income and expenditure of the Authority's directorates recorded in the budget reports for the year is as follows:

| 2011/12 | Chief Executive | Community Services | Resources | Development Services | Total |
|---|-----------------|--------------------|--------------|----------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Directorate Income and Expenditure | | | | | |
| Fees, charges and other service income | (669) | (10,246) | (4,689) | (5,153) | (20,757) |
| Government Grants | - | - | (24,496) | (22) | (24,518) |
| Total Income | (669) | (10,246) | (29,185) | (5,175) | (45,275) |
| Employee Expenses | 364 | 5,532 | 2,322 | 2,263 | 10,481 |
| Other service Expenses | 313 | 8,060 | 28,050 | 2,353 | 38,776 |
| Support Service Recharges | 138 | 1,018 | 2,315 | 3,395 | 6,866 |
| Total Expenditure | 815 | 14,610 | 32,687 | 8,011 | 56,123 |
| Net Expenditure | 146 | 4,364 | 3,502 | 2,836 | 10,848 |

| Comparative figures for 2010/11 | Chief Executive | Community Services | Resources | Development Services | Total |
|---|-----------------|--------------------|--------------|----------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Directorate Income and Expenditure | | | | | |
| Fees, charges and other service income | (711) | (10,028) | (4,371) | (4,898) | (20,008) |
| Government Grants | (68) | (24) | (22,688) | (713) | (23,493) |
| Total Income | (779) | (10,052) | (27,059) | (5,611) | (43,501) |
| Employee Expenses | 355 | 5,595 | 2,002 | 2,203 | 10,155 |
| Other service Expenses | 354 | 6,788 | 26,021 | 3,449 | 36,612 |
| Support Service Recharges | 146 | 1,937 | 2,320 | 3,275 | 7,678 |
| Total Expenditure | 855 | 14,320 | 30,343 | 8,927 | 54,445 |
| Net Expenditure | 76 | 4,268 | 3,284 | 3,316 | 10,944 |

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

| 2010/11 | | 2011/12 |
|--------------|---|---------------|
| £'000 | | £'000 |
| 10,944 | Net Expenditure in the directorate analysis | 10,848 |
| (3,393) | Net expenditure not included in the analysis: <ul style="list-style-type: none"> Exceptional Items | - |
| 7,551 | Cost of Services in the Comprehensive Income and Expenditure Statement | 10,848 |

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| 2011/12 | Directorate Analysis | Exceptional Items | Cost of Services | Corporate Amounts | Total |
|--|----------------------|-------------------|------------------|-------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees, Charges and other service income | (20,757) | - | (20,757) | (505) | (21,262) |
| Surplus or deficit on associates and joint ventures | - | - | - | - | - |
| Interest and Investment Income | - | - | - | (54) | (54) |
| Income from Council Tax | - | - | - | (6,218) | (6,218) |
| Government Grants and Contributions | (24,518) | - | (24,518) | (4,752) | (29,270) |
| Total Income | (45,275) | - | (45,275) | (11,529) | (56,804) |
| Employee expenses | 10,481 | - | 10,481 | 432 | 10,913 |
| Other service expenses | 38,776 | - | 38,776 | - | 38,776 |
| Support service recharges | 6,866 | - | 6,866 | - | 6,866 |
| Depreciation, amortisation and impairment | - | - | - | 563 | 563 |
| Interest payments | - | - | - | 92 | 92 |
| Precepts and Levies | - | - | - | - | - |
| Gain or Loss on disposal of Non-Current Asset | - | - | - | (722) | (722) |
| Total Expenditure | 56,123 | - | 56,123 | 365 | 56,488 |
| (Surplus) or Deficit on the provision of services | 10,848 | - | 10,848 | (11,164) | (316) |

| Comparative figures for 2010/11 | Directorate Analysis | Exceptional Items | Cost of Services | Corporate Amounts | Total |
|--|----------------------|-------------------|------------------|-------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees, Charges and other service income | (20,008) | - | (20,008) | (912) | (20,920) |
| Surplus or deficit on associates and joint ventures | - | - | - | - | - |
| Interest and Investment Income | - | - | - | (82) | (82) |
| Income from Council Tax | - | - | - | (6,153) | (6,153) |
| Government Grants and Contributions | (23,493) | - | (23,493) | (6,123) | (29,616) |
| Total Income | (43,501) | - | (43,501) | (13,270) | (56,771) |
| Employee expenses | 10,155 | - | 10,155 | 1,042 | 11,197 |
| Other service expenses | 36,612 | (3,393) | 33,219 | - | 33,219 |
| Support service recharges | 7,678 | - | 7,678 | - | 7,678 |
| Depreciation, amortisation and impairment | - | - | - | - | - |
| Interest payments | - | - | - | 121 | 121 |
| Precepts and Levies | - | - | - | 521 | 521 |
| Gain or Loss on disposal of Non-Current Asset | - | - | - | 63 | 63 |
| Total Expenditure | 54,445 | (3,393) | 51,052 | 1,747 | 52,799 |
| (Surplus) or Deficit on the provision of services | 10,944 | (3,393) | 7,551 | (11,523) | (3,972) |

34 Agency Services

The Council acts as agent for Lancashire County Council in respect of:

- Highways work in the urban core and also street lighting, gully cleansing and special maintenance

A summary of the Off-Street CPE Parking Accounts, as required by Section 55 of the Road Traffic Regulation Act 1984, is shown below:

| 2010/11 | | 2011/12 |
|-----------|-------------------------------------|----------|
| £'000 | | £'000 |
| (55) | Income (Penalty Charge Notice only) | (64) |
| 90 | Expenditure | 73 |
| 35 | (Surplus) Deficit | 9 |

35 Members Allowances

The Authority paid the following amounts to members of the council during the year:

| 2010/11 | | 2011/12 |
|------------|--------------|------------|
| £'000 | | £'000 |
| 240 | Allowances | 241 |
| 4 | Expenses | 4 |
| 244 | Total | 245 |

36 Officers Remuneration

The following table sets out the remuneration of Senior Officers whose salary was £50,000 or more, excluding employer's pension contributions, in 2011/12.

| Post-holder | Remuneration | Expense Allowances | Compens'tn for loss of office (Redundancy Payment) | Total Remuneration excl. pension contributions | Pension contrib'tns (Incl.strain/Augmented costs) | Total Remuneration incl. pension contributions |
|--|--------------|--------------------|--|--|---|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Chief Executive | 79 | - | 54 | 133 | 91 | 224 |
| Director – Customer & Operational Services/Chief Executive | 66 | - | - | 66 | 13 | 79 |
| Director – Strategic Development | 61 | - | - | 61 | 12 | 73 |
| Director – Community Services | 61 | - | - | 61 | 12 | 73 |
| Director – Resources | 61 | - | - | 61 | 12 | 73 |
| Monitoring Officer | 52 | - | - | 52 | 10 | 62 |

Note 1: The Chief Executive left the employment of the Council under an agreed arrangement on 31st December 2011.

Note 2: The Director of Customer and Operational Services was appointed to the role of Chief Executive on 1st January 2012. The post of Director of Customer and Operational Services was subsequently deleted and responsibilities redistributed following a review and restructure of the Council's senior management.

For comparative purposes the equivalent figures for 2010/11 are shown in the table below:

| Post-holder | Remuneration | Expense Allowances | Compens'tn for loss of office | Total Remuneration excl. pension contributions | Pension contrib'tns | Total Remuneration incl. pension contributions |
|--|--------------|--------------------|-------------------------------|--|---------------------|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Chief Executive | 103 | 1 | - | 104 | 18 | 122 |
| Director – Customer and Operational Services | 62 | - | - | 62 | 11 | 73 |
| Director – Strategic Development | 62 | - | - | 62 | 11 | 73 |
| Director – Community Services | 62 | - | - | 62 | 11 | 73 |
| Director – Governance and Partnerships | 61 | - | - | 61 | 11 | 72 |
| Monitoring Officer | 55 | - | - | 55 | 10 | 65 |

Officers Remuneration

The number of employees whose total remuneration, excluding employer's pension contributions, exceeds £50,000 in bands of £5,000 were as follows:-

| 2010/11 | Remuneration Bands | 2011/12 |
|---------|---------------------|---------|
| - | £50,000 - £54,999 | 1 |
| 1 | £55,000 - £59,999 | 0 |
| 4 | £60,000 - £64,999 | 3 |
| - | £65,000 - £69,999 | 1 |
| - | £70,000 - £74,999 | - |
| - | £75,000 - £79,999 | - |
| | Other Bands: | |
| 1 | £100,000 - £104,999 | - |
| - | £130,000 - £134,999 | 1 |

Exit Packages

The table below includes payments made in respect of additional employer pension contributions for employees for whom a flexible retirement arrangement has been agreed. These employees are still engaged by the Council on contracts with reduced working hours and therefore these are not exit costs within the strict definition. However these costs have been included in the table above in the interests of full disclosure of employee costs of this nature. The number of posts included in the table below which are of this type are:

- 2010/11: 2 posts in the 'agreed departures' category both in the £20,001 to £40,000 range; total cost £44,209.
- 2011/12: 1 post in the 'agreed departures' category in the £80,001 to £100,000; total cost £87,192.

In all cases in which payments have been made as a consequence of agreed departures, the longer-term savings to the Council in the form of reduced future employee costs are greater than the one-off payments that are shown in the table below.

Of the 16 compulsory redundancies in 2011/12 a large proportion (10 of the posts listed) were as a consequence of the ending of the contract for waste collection with Wyre Borough Council on 31st March 2012.

| Exit Package Cost band (incl. special payments) | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total cost of exit packages by each band £'000 |
|---|-----------------------------------|-----------------------------------|--|---|
| £0 – £20,000 | 11 | 3 | 14 | 45 |
| £20,001 – £40,000 | 3 | - | 3 | 76 |
| £40,001 – £60,000 | 1 | - | 1 | 57 |
| £60,001 – £80,000 | - | - | - | - |
| £80,001 – £100,000 | - | 1 | 1 | 87 |
| £100,001 – £150,000 | - | 1 | 1 | 131 |
| | 15 | 5 | 20 | 396 |

For comparative purposes the equivalent figures for 2010/11 are shown in the table below:

| Exit Package Cost band (incl. special payments) | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total cost of exit packages by each band £'000 |
|---|-----------------------------------|-----------------------------------|--|---|
| £0 – £20,000 | 3 | 2 | 5 | 37 |
| £20,001 – £40,000 | - | 2 | 2 | 44 |
| £40,001 – £60,000 | - | - | - | - |
| £60,001 – £80,000 | - | - | - | - |
| £80,001 – £100,000 | - | - | - | - |
| £100,001 – £150,000 | - | - | - | - |
| | 3 | 4 | 7 | 81 |

37 External Audit costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

| 2010/11 | Audit Fee Type | 2011/12 |
|------------|--|------------|
| £'000 | | £'000 |
| 104 | Fees payable with regard to external audit services | 96 |
| - | Fees payable in respect of statutory inspection | - |
| 20 | Fees payable for the certification of grant claims and returns | 27 |
| 15 | Fees payable in respect of other services | - |
| <u>139</u> | | <u>123</u> |

38 Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

| 2010/11 | | 2011/12 |
|-----------------|---|-----------------|
| £'000 | | £'000 |
| | Credited to Taxation and Non Specific Grant Income | |
| (743) | Revenue Support Grant | (1,029) |
| - | New Homes Bonus | (279) |
| - | Council Tax Freeze Grant | (140) |
| (169) | Lancashire Performance Reward Grant | - |
| (35) | Area Based Grant | - |
| (26) | Local Authority Business Growth Incentive Grant | 26 |
| (34) | New Burdens Grant | - |
| <u>(1,007)</u> | Total | <u>(1,422)</u> |
| | Credited to Services | |
| (22,550) | Housing & Council Tax Benefits | (24,382) |
| (114) | Department for Communities & Local Government | (113) |
| (651) | National Concessionary Travel Pass | - |
| (912) | Revenue Expenditure funded from Capital under Statute | (506) |
| (24) | Department for Culture, Media & Sport | - |
| (498) | Other | (247) |
| <u>(24,749)</u> | | <u>(25,248)</u> |
| <u>(25,756)</u> | Total | <u>(26,670)</u> |

39 Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

(a) Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments are set out in a note to the cash flow statement.

(b) Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. Each Councillor has agreed to be bound by a code of conduct, requiring them to disclose certain personal interests on a register, which is available for public inspection at the Town Hall, Lytham St Annes.

A full list of Member appointments to outside bodies is available to the public and detailed in the Council's agenda for 23rd May 2011.

The Council makes a financial contribution to a number of partner organisations, most notably:

- Fylde Borough Council Lancashire Strategic Partnership
- Fylde Citizens Advice Bureau
- Age Concern
- Face to Face

(c) Senior Council Officers

Members of the Council's Management Team may exert influence control over the Council's financial and operating policies. In the furtherance of transparency each member of the Management Team has submitted information regarding outside bodies with which they have an association. These are shown below:

Director of Community Services: Governor of Myerscough College (a further education establishment).

Director of Resources: Chairman of Lansdowne Park residents group (a group aimed at the renovation of the park).

(d) Partnership working

During 2011/12 the Council continued to work both formally and informally in partnership with neighbouring authorities. The main partnership operations were as follows :

| | |
|-------------------|--|
| Blackpool Council | <ul style="list-style-type: none">• Payroll services• Human Resources• Health & Safety• Revenues & Benefits Services• Coastal defence strategy (Shoreline Management Plan) |
| Wyre BC | <ul style="list-style-type: none">• Streetscene Services (incl. Refuse Collection & Street Cleansing) Note 1• Building maintenance• Coastal defence maintenance• Procurement |
| Preston CC | <ul style="list-style-type: none">• Financial Services Note 2• Benefit Fraud & Revenue Advice |

Note 1: This contract came to an end at 31st March 2012.

Note 2: This contract was amended from 31st January 2012. Prior to this date the contract included provision of the role of Section 151 Officer and general Financial Services. The new contract is for Financial Services only.

(e) Other Public Bodies

Precepts were raised for Lancashire County Council, Lancashire Police Authority, Lancashire Combined Fire Authority, and local Parish Councils within the Fylde area. Details of these are contained within the Collection Fund statements.

(f) Associated Companies and Joint Venture Partners

- (i) In 2007, the Council set up the company registered as FBC Solutions Ltd. The Council's Chief Executive and Monitoring Officer were Directors of the company. The company has never traded and has subsequently been wound up during 2011/12.
- (ii) Clifton (Lytham) Housing Association Ltd. The Board of this association comprised serving Members of the Council and the administration of the Association was provided by Officers of the Council. The Council's interests in this body were disposed of during 2011/12.

(g) Lowther Trust

A Trust board was formed in 2009/10 consisting of 7 Trustees, one being an elected member of Fylde Borough Council. The remaining Trustees were appointed from interested members of the public following an open application process. Prior to this the Council was the sole Trustee. During 2011/12 the Council continued to provide all the finance required for the Trust operations, by way of a subsidy, and the day-to-day administration of the Trust was also assisted by officers of the Council, as required. The Trust appointed its own Theatre Manager in September 2011 and throughout the year has gradually assumed greater responsibility for the affairs of the Trust. As at 31st March 2012 a new arrangement between the Council and the Trust was in the process of being agreed which would transfer responsibility for all day-to-day management to the Trust with the Council meeting an agreed level of deficit over the subsequent five-year period.

40 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

The CFR is analysed in the second part of this note.

| 2010/11 £'000 | Capital Financing Requirement | 2011/12 £'000 |
|------------------|---|------------------|
| 3,513 | Opening Capital Financing Requirement | 6,768 |
| | Capital Investment | |
| 4,165 | Property, Plant and Equipment | 1,225 |
| - | Investment Properties | - |
| 233 | Intangible Assets | 34 |
| 1,140 | Revenue Expenditure Funded from Revenue Under Statute | 1,636 |
| | Sources of Finance | |
| (37) | Capital Receipts | (1,373) |
| (1,814) | Government Grants and Other Contributions | (1,301) |
| - | Sums set aside from Revenue | - |
| (289) | Direct Revenue Contributions | (221) |
| (143) | MRP/Loans Fund Principal | (472) |
| 6,768 | Closing Capital Financing Requirement | 6,296 |
| | Explanation of Movements in Year | |
| 3,255 | Increase in underlying need to borrowing (unsupported by government financial assistance) | (472) |
| 3,255 | Increase/Decrease in Capital Financing Requirement | (472) |

41 Leases

Authority as Lessee

Finance Leases

The Council has one vehicle which was acquired by way of a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at the following net amount:

| 2010/11 £'000 | | 2011/12 £'000 |
|------------------|-------------------------------|------------------|
| <u>8</u> | Property, Plant and Equipment | <u>4</u> |

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments comprise the following amounts:

| 31 st March 2011 £'000 | | 31 st March 2012 £'000 |
|---|--|---|
| 7 | Finance Lease Liabilities (Net Present Value of future payments) | 3 |
| 1 | Finance costs payable in future years | 1 |
| <u>8</u> | Minimum Lease Payments | <u>4</u> |

The Council was committed at 31st March 2012 to making future payments of £4,894 for Finance Leases. This relates to one vehicle for which these commitments are due within the following financial years:

| | Minimum Lease Payments | Finance Lease Liabilities |
|--|---------------------------------------|--|
| | £'000 | £'000 |
| At 31st March 2011: | | |
| Not Later than one year | 3 | 3 |
| Later than one year but not later than 5 years | 5 | 4 |
| Later than 5 years | - | - |
| | <u>8</u> | <u>7</u> |
| At 31st March 2012 | | |
| Not Later than one year | 3 | 3 |
| Later than one year but not later than 5 years | 1 | 1 |
| Later than 5 years | - | - |
| | <u>4</u> | <u>4</u> |

Operating Leases

The Authority was committed at 31st March 2012 to making future payments of £132,868 under operating leases (£1,018,531 at 31st March 2011). These commitments are due within the following financial years:

| 31st March 2011 | | 31st March 2012 |
|---------------------------------------|--|---------------------------------------|
| £'000 | | £'000 |
| | Vehicles, Plant and Equipment Leases | |
| 43 | Not Later than one year | 65 |
| 938 | Later than one year but not later than 5 years | 68 |
| - | Later than 5 years | - |
| <u>981</u> | | <u>133</u> |
| | Land and Property Leases | |
| 38 | Not Later than one year | - |
| - | Later than one year but not later than 5 years | - |
| - | Later than 5 years | - |
| <u>38</u> | | <u>-</u> |

Authority as Lessor

Operating Leases

The Council acts as lessor in respect of land and property owned by it and leased to tenants. The value of the income from rents associated with these agreements, and included within the Council's Income and Expenditure account, is as follows:

| 2010/11 | | 2011/12 |
|----------------|---------------------------------|----------------|
| £'000 | | £'000 |
| <u>287</u> | Land and Property Leases | <u>290</u> |

The capital value held within the balance sheet at 31st March 2012 in respect of land and property generating leasehold income is £2.761m. The accumulated depreciation charge applicable to these assets reflected in the 2011/12 financial statements is nil.

The future lease payments receivable under non-cancellable leases in future years are:

| 31 st March 2011 | | 31 st March 2012 |
|--------------------------------|--|--------------------------------|
| £'000 | | £'000 |
| 87 | Not Later than one year | 87 |
| 349 | Later than one year but not later than 5 years | 349 |
| 5,175 | Later than 5 years | 5,088 |
| 5,611 | | 5,524 |

42 Impairment Losses

An impairment review during the course of the year identified significant reductions in the value of a number of the Council's Non-Current Assets. A summary of these impairments are shown below:

At a meeting of the Council on 23rd January 2012 it was determined that the open space assets located within the town of Kirkham would transfer to the ownership of Kirkham Town Council from 1st April 2012 who would, thereafter, be responsible for the maintenance of the assets.

Consequently an impairment review of these assets has been undertaken to reflect the fact that the assets transfer to the ownership of Kirkham Town Council on 1st April 2012 and therefore an adjustment to the valuation at the balance sheet date of 31st March 2012 was appropriate.

| 31 st March 2011 | | 31 st March 2012 |
|--------------------------------|--|--------------------------------|
| £'000 | | £'000 |
| 6 | Conveniences – Pleasant Street | - |
| 27 | Conveniences – Market Square | - |
| 205 | Snowdon Road Depot | - |
| 175 | Car Park – Lytham Station | - |
| 55 | Car Park – Mill Street | - |
| 2 | Car Park – Orders Lane | - |
| - | Wesham Depot | (145) |
| - | Public Offices | (270) |
| - | Kirkham War Memorial | 31 |
| - | Ground Rents – Lancs Fire & Rescue – St Andrews Road North | 1 |
| - | Former C.A.B. Kirkham | 5 |
| - | Garages, Moreland Ave Wesham | 4 |
| - | Conveniences, Moor Street – Kirkham | 1 |
| - | Land at Meadow Park, Staining | 1 |
| - | Kirkham Memorial Gardens | 229 |
| - | William Segar Hodgson | 13 |
| - | Calder Close – Site | 9 |
| - | Allotments – Moreland Ave, Wesham | 3 |
| - | Land around 'The Chimes' Kirkham | 22 |
| - | Hope Street Playing Field – Workshop Store | 22 |
| - | William Segar Hodgson Changing Pavilion | 122 |
| - | Playground Equipment – Kirkham Barnfield | 47 |
| - | Toms Croft Car Park | 29 |
| 470 | | 124 |

43 Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £396,064 (£81,001 in 2010/11).

Of this total, £163,900 was payable in the form of compensation for loss of office and £232,164 for enhanced pension benefits, payable for 21 officers who were made redundant as part of the Authority's rationalisation of services.

44 **Defined Benefit Pension Schemes**

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The authority participates in one major pension scheme, the Lancashire County Pension Fund, administered by Lancashire County Council. This is a defined benefit scheme, meaning retirement benefits are determined independently of scheme investments and the authority must contribute to any deficit where assets are insufficient to meet retirement benefits.

The cost of retirement benefits is recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

a) Comprehensive Income and Expenditure Statement

| 2010/11 £'000 | Local Government Pension Scheme | 2011/12 £'000 |
|------------------|---|------------------|
| | Cost of Services: | |
| 1,218 | - Current Service Cost | 1,110 |
| - | - Past Service Cost | - |
| (3,598) | - Exceptional Item | - |
| - | - Curtailments | 111 |
| | Financing and Investment Income and Expenditure | |
| 3,746 | - Interest Cost | 3,232 |
| (2,704) | - Expected Return on Assets in the Scheme | (2,800) |
| (1,338) | Total Retirement Benefits Charged to the Surplus or Deficit on the Provision of Services | 1,653 |
| | Other Retirement Benefits Charged to the Surplus or Deficit on the Provision of Services | |
| (6,044) | - Actuarial (gains) and losses | 4,146 |
| (6,044) | Total Retirement Benefits Charged to the Comprehensive Income and Expenditure Statement | 4,146 |
| | Movement in Reserves Statement | |
| 1,338 | - Reversal of net charges made for retirement benefits in accordance with the Code | (1,653) |
| | Actual amount charged against the General Fund Balance for pensions in the year: | |
| 1,333 | - Employers' contributions payable to scheme | 1,183 |
| 151 | - Retirement benefits payable to pensioners | 218 |
| 1,484 | | 1,401 |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2012 is a loss of £9.8m (£5.6m at 31st March 2011).

Employer's contributions into the Superannuation Fund, represent 19.5% of pensionable pay (2010/11 18.2%). The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being at the end of March 2010. Under Superannuation Fund Regulations contribution rates are set to meet the overall liabilities of the Fund in future years.

Further information can be found in the Lancashire County Pension Fund Annual Report which is available upon request from the Superannuation Manager (email Pensions.Helpdesk@Lancashire.gov.uk or call 01722 530530). The Fund Actuary is Mercer Human Resource Consulting Limited (0151 236 9771).

b) Assets and Liabilities in relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities:

| 2010/11 | | 2011/12 |
|---------------|--|---------------|
| £'000 | | £'000 |
| 67,085 | Balance b fwd as at 1 st April | 59,450 |
| 1,218 | Current service cost | 1,110 |
| 3,746 | Interest cost | 3,232 |
| 399 | Member contributions | 391 |
| (7,381) | Actuarial (gains)/losses on liabilities | 2,051 |
| (2,019) | Benefits/transfers paid | (2,880) |
| 0 | Curtailments | 111 |
| 0 | Past service costs | - |
| (3,598) | Exceptional Item (see below) | - |
| <u>59,450</u> | Balance c fwd as at 31 st March | <u>63,465</u> |

Reconciliation of the fair value of the scheme assets:

| 2010/11 | | 2011/12 |
|---------------|--|---------------|
| £'000 | | £'000 |
| 42,153 | Balance b fwd as at 1 st April | 43,384 |
| 2,704 | Expected return on plan assets | 2,800 |
| (1,337) | Actuarial gains/(losses) on assets | (2,095) |
| 1,484 | Employer contributions | 1,401 |
| 399 | Member contributions | 391 |
| (2,019) | Benefits/transfers paid | (2,880) |
| - | Actuarial Revaluation | - |
| <u>43,384</u> | Balance c fwd as at 31 st March | <u>43,001</u> |

The expected return on assets is based on market expectations at the beginning of the period for investment returns over the entire life of the related obligations. The assumed investment return on government bonds and equities is the yield on a 20 year fixed interest gilt. The expected return on corporate bonds is based on market yields at the balance sheet date.

The actual return on scheme assets in the year was £0.704m (2010/11 £3.396m).

Scheme History

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---------------------------------|----------|----------|----------|----------|----------|----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present value of liabilities | (49,334) | (58,671) | (49,770) | (67,085) | (59,450) | (63,465) |
| Fair value of assets | 40,335 | 41,406 | 32,412 | 42,153 | 43,384 | 43,001 |
| Surplus/(Deficit) in the Scheme | (8,999) | (17,265) | (17,358) | (24,932) | (16,066) | (20,464) |

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total net liability of £20.464m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy and the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2013 is £1.4m.

Basis for Estimating Assets & 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 Pension Fund liabilities has been assessed by Mercer Human Resource Consulting Ltd, an independent actuary, estimates for the pension fund being based on the last valuation of the Scheme as at 31st March 2010.

The main assumptions used in their calculations have been:

| 31 st March 2011 | | 31 st March 2012 |
|--------------------------------|--|--------------------------------|
| % | | % |
| | Long-term expected rate of return on assets in the scheme: | |
| 7.50 | Equity investments | 7.00 |
| 4.40 | Government Bonds | 3.10 |
| 5.10 | Other Bonds | 4.10 |
| 6.50 | Property | 6.00 |
| 0.50 | Cash/Liquidity | 0.50 |
| 7.50 | Other | 7.00 |
| 3.40 | Rate of inflation | - |
| 2.90 | Rate of CPI inflation | 2.50 |
| 4.90 | Rate of increase in salaries | 4.50 |
| 2.90 | Rate of increase in pensions | 2.50 |
| 5.50 | Rate for discounting scheme liabilities | 4.90 |
| 50% | Take-up of option to convert annual pension into retirement lump sum | 50% |
| | Longevity at 65 for current pensioners | |
| 21.6 years | Men | 21.7 years |
| 24.2 years | Women | 24.3 years |
| | Longevity at 65 for future pensioners (aged 65 in 20 years' time) | |
| 23.0 years | Men | 23.1 years |
| 25.8 years | Women | 25.9 years |

The Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| 31 st March 2011 | Split of assets between categories | 31 st March 2012 |
|--------------------------------|------------------------------------|--------------------------------|
| % | | % |
| 64.0 | Equity investments | 58.0 |
| 7.0 | Government bonds | 5.0 |
| 14.0 | Other bonds | 15.0 |
| 8.0 | Property | 10.0 |
| 1.0 | Cash/Liquidity | 5.0 |
| 6.0 | Other assets | 7.0 |

History of Experience of Gains and Losses

The actuarial gains/(losses) identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of the schemes assets or liabilities at 31st March 2012:

| | 2006/07 | 2007/8 (restated) | 2008/09 (restated) | 2009/10 | 2010/11 | 2011/12 |
|--|---------|----------------------|-----------------------|---------|---------|---------|
| | % | % | % | % | % | % |
| Experience Gains/(Losses) on Assets | 0.7 | 3.1 | 34.5 | 20.2 | 3.1 | 4.9 |
| Experience Gains/(Losses) on Liabilities | 0.0 | 5.4 | 0.0 | 0.0 | 12.3 | 0.0 |

45 Contingent Assets and Contingent Liabilities

Contingent Liabilities:

- **Insurance Claims** - As at 31st March 2012, the Council has outstanding insurance claims against it with a reserve amount of £413,899. However, the Council's liability is limited to the excess on the insurance policy, with the maximum amount payable by the Council on these claims being £8,200 for revenue items. No adjustments have been made within the Accounts for these revenue items as, at the balance sheet date, it was not known if the claims were successful.
- **Housing Stock Transfer - Property Warranties** - The Council has made a number of warranties with New Fylde Housing in respect of the stock transfer of 2nd October 2000. The liability of the Council in this respect terminates on the fifteenth anniversary of the date of transfer, on 2nd October 2015. The Council has made duplicate warranties with Halifax PLC which terminate on the thirty sixth anniversary of the date of transfer, on 2nd October 2036. The maximum that New Fylde Housing may recover is £12,192 per dwelling subject to the claim; except for any claim arising out of breach of the environmental pollution warranty which shall not exceed £5m.
- **Section 106 (s106) Agreements** - S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter in to a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a S106 Agreement and S106 monies received by the Council are increasingly used to support the provision of services and infrastructure such as highways, recreational facilities, education, health and affordable housing, which is necessary as part of the development or to mitigate its impact. Such agreements or obligations may lay down conditions that monies must be spent by a specified date and on specified items, if these conditions are not met then monies must be returnable and in some cases with interest applied. The Council has a number of S106 agreements. These accounts have been prepared on the basis that no monies are returnable at the balance sheet date.
- **Accountable Body Status** - The Authority has been appointed Accountable Body status for a number of schemes and projects operated by the Government and related agencies. Accountable Bodies have to operate within rigorous and stringent Government regulations giving wide ranging rights for grant to be clawed back if specific output targets are not met by the partner organisations. These accounts have been prepared on the basis that none of the grants involved will either be clawed back or withheld.
- **Planning Appeals** - During the year the Council received several large planning appeals, some of which remain ongoing. At the time of preparing these accounts the cost of defending the ongoing appeals cannot accurately be assessed. As the remaining appeals progress any additional costs incurred beyond the budgeted level will be dealt with via updates to the Council's Medium Term Financial Strategy.

Contingent Assets:

• **Claims for recovery of overpaid VAT**

- **Trade Waste:** The Council has been charging VAT on the collection and disposal of trade waste. In February 2011 HM Revenue & Customs accepted that collection and disposal of trade waste by a local authority is not subject to VAT. Following advice from external advisors PriceWaterhouseCoopers the Council has submitted a retrospective VAT claim for the overpaid VAT. If the claim is successful the amount due to the Council for both the claim and accumulated interest could be significant. At the time of writing, there is no certainty that the amount claimed will be received or the timescale on when the outcome will be known as the claim is being considered by HM Revenue & Customs policy section.
 - **Off Street Car Parking:** The VAT liability of car parking provided by a Local Authority has been the subject of a dispute between local authorities and HM Revenue & Customs for a number of years. The lead case in this matter is the Isle of Wight Council & Others started in 2000. The Council has submitted a VAT claim going back to 2004. If the claim is successful the amount due to the Council for both the claim and accumulated interest could be significant. At the time of writing, there is no certainty that the amount claimed will be received or the timescale on when the outcome will be known.
 - **Interest:** The Council has also submitted a claim to the High Court for the interest on both the sports tuition claim and the leisure and culture claim (each of which were settled in 2009/10) to be calculated on a compound basis rather than a simple basis. It is expected that this claim will take approximately three to five years before a decision is reached, but if successful, the amount due to the Council could be significant.
- **Housing Stock Transfer - Right to Buy (RTB) Sharing Arrangements** - Following the transfer of housing stock from the Council, New Fylde Housing has agreed to share RTB receipts, calculated according to the formula as set out in the transfer agreement of 2nd October 2000. This arrangement will terminate at the end of the financial year 2029/30, on 31st March 2030. The amount the Council receives in any given year is dependent on prevailing market conditions. Due to current economic conditions and the stagnant state of the housing market there were no sales during 2011/12.
 - **Housing Stock Transfer - Development Clawback Agreement** - New Fylde Housing has agreed to pay the Council a proportion of any development gain, as defined in the transfer agreement of 2nd October 2000. This arrangement will terminate on the fifteenth anniversary of the date of transfer, on 2nd October 2015.

46 Events after the Balance Sheet Date

Kirkham Asset Transfer

At a meeting of the Council on 23rd January 2012 it was determined that the open space assets located within the town of Kirkham would transfer to the ownership of Kirkham Town Council from 1st April 2012 who would, thereafter, be responsible for the maintenance of the assets.

Consequently an impairment review of these assets has been undertaken to reflect the fact that the assets transfer to the ownership of Kirkham Town Council on 1st April 2012 and therefore an adjustment to the valuation at the balance sheet date of 31st March 2012 was appropriate.

47 Exceptional Items

| 2010/11 | | 2011/12 |
|------------|---|----------|
| £'000 | | £'000 |
| 205 | Impairment relating to Snowden Road Depot | - |
| 205 | Total | - |

48 (Surplus)/Deficit on Revaluation of Property, Plant and Equipment

| 2010/11 | | 2011/12 |
|----------------|------------------------|--------------|
| £'000 | | £'000 |
| (3,898) | St Annes Swimming Pool | - |
| (499) | Other revaluations | (157) |
| (4,397) | Total | (157) |

The most significant item within the upward revaluation of assets relates to the Art Collection which has been re-categorised as heritage assets and revalued on an insurance basis. The upward revaluation has been taken to the Revaluation Reserve.

The art collection comprises approximately 200 paintings of a wide range of subjects most of which have been donated or bequeathed to the Council and a number of which are by local artists and depict scenes from around the local area. Prominent amongst the collection is a painting by Johann Henreich Fuseli, R.A. entitled 'Vision of Catherine of Aragon'.

49 Heritage Assets – Effect on Opening Balance Sheet 1st April 2010

The fully restated 1st April 2010 Balance Sheet is shown on page 21. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

| | Published Balance Sheet as at 1 st April 2010 | Restatement | Restated Balance Sheet as at 1 st April 2010 |
|-------------------------------|--|--------------|---|
| | £'000 | £'000 | £'000 |
| Property, Plant and Equipment | 11,037 | (33) | 11,004 |
| Heritage Assets | - | 4,659 | 4,659 |
| Long Term Assets | 15,093 | 4,626 | 19,719 |
| Unusable Reserves | (13,438) | 4,626 | (8,812) |
| Total Reserves | (10,358) | 4,626 | (5,732) |

The resulting restated Balance Sheet as at 31st March 2011 is also shown on page 21. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

| | Published Balance Sheet as at 31 st March 2011 | Restatement | Restated Balance Sheet as at 31 st March 2011 |
|-------------------------------|--|--------------|--|
| | £'000 | £'000 | £'000 |
| Property, Plant and Equipment | 18,039 | (33) | 18,006 |
| Heritage Assets | - | 4,659 | 4,659 |
| Long Term Assets | 21,432 | 4,626 | 26,058 |
| Unusable Reserves | (636) | 4,626 | 3,990 |
| Total Reserves | 4,055 | 4,626 | 8,681 |

The effect of the change in Accounting Policy in 2010/11 has been that Heritage Assets are recognised at £4.659m on the Balance Sheet, resulting in an increase in the Revaluation Reserve of £4.626m, and Property Plant and Equipment being restated by the amount of Heritage Assets subsequently reclassified, in the amount of £33k.

COLLECTION FUND

1. Foreword

These statements represent the transactions of the Collection Fund. This is a statutory fund set up to account separately Council Tax and National Non-Domestic Rates (and also previously Community Charge) on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. Administration costs are borne by the billing authority's General Fund Revenue Account.

2. Statement of Accounting Policies

The Accounts have been prepared on an accruals basis and in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3. Collection Fund Income and Expenditure Account

| 2010/11 £'000 | Notes | 2011/12 £'000 | £'000 |
|---------------------------------------|---|------------------|-----------------|
| <u>INCOME:-</u> | | | |
| (41,102) | Income from Council Tax | | (41,365) |
| (5,205) | Transfers from General Fund - Council Tax Benefit | | (5,168) |
| (20,478) | Income collectable from Business Ratepayers | | (21,967) |
| (66,785) | TOTAL INCOME | | (68,500) |
| <u>EXPENDITURE:-</u> | | | |
| 45,598 | Precepts and Demands | 4a | 45,945 |
| 20,364 | Business Rate | | |
| 114 | - Payment to National Pool | 21,854 | |
| | - Costs of Collection Allowance | 113 | 21,967 |
| | Bad and Doubtful Debts | | |
| 294 | - Write offs | 463 | |
| 38 | - Provisions | (139) | 324 |
| | Contributions | | |
| (569) | - Towards the previous year's Collection Fund (deficit)/surplus | 4b | 208 |
| 65,839 | TOTAL EXPENDITURE | | 68,444 |
| (946) | Movement in Collection Fund Balance in Year | | (56) |
| <u>Collection Fund Balance</u> | | | |
| 284 | Balance at 1 st April | | (662) |
| (946) | (Surplus) / Deficit for Year | | (56) |
| (662) | Balance at 31st March – Accumulated (Surplus) / Deficit | | (718) |

4. NOTES TO THE COLLECTION FUND

a) Precepts and Demands

| 2010/11 | | 2011/12 |
|----------------|-----------------------------|----------------|
| £'000 | | £'000 |
| 33,206 | Lancashire County Council | 33,431 |
| 4,383 | Lancashire Police Authority | 4,412 |
| 1,907 | Lancashire Fire Authority | 1,920 |
| 6,102 | Fylde Borough Council | 6,182 |
| <u>45,598</u> | | <u>45,945</u> |

b) Distribution of Collection Fund Prior Year Balance

| 2010/11 | | 2011/12 |
|----------------|-----------------------------|----------------|
| £'000 | | £'000 |
| (418) | Lancashire County Council | 152 |
| (54) | Lancashire Police Authority | 20 |
| (24) | Lancashire Fire Authority | 8 |
| (73) | Fylde Borough Council | 28 |
| <u>(569)</u> | | <u>208</u> |

c) Income from Business Ratepayers

The total non-domestic rateable value at 31st March 2012 was £62,553,895. The Government set a National Non-domestic multiplier (rate in the pound) of 43.3 pence in the pound for 2011/12 and a Small Business non-domestic multiplier of 42.6 pence.

The rateable value figure shown above is different from the income figure in the Collection Fund due to various adjustments. A reconciliation of the figures is shown below:

| 2010/11 | | 2011/12 |
|----------------------|---|----------------------|
| £'000 | | £'000 |
| 25,041 | Gross Rates Due | 26,078 |
| | (rateable value x appropriate multiplier) | |
| (4,228) | Less: Reliefs and Exemptions | (3,731) |
| 20,813 | | 22,347 |
| (274) | Less: Write Offs/Bad Debt Provision | (345) |
| (61) | Less: Interest paid on Refunds | (35) |
| 20,478 | Income Due from NNDR Payers | 21,967 |
| (114) | Less: Cost of collection Allowance | (113) |
| <u>20,364</u> | Contribution to NNDR Pool | <u>21,854</u> |

d) Council Tax

The Council Tax base for 2011/12 was calculated at 30,164 and a Band D Council Tax set at £1,456.22, split £1,108.30 for Lancashire County Council, £138.00 for Fylde Borough Council, £146.27 for Lancashire Police Authority and £63.65 for Lancashire Fire Authority. In addition, Parish Councils agreed additional Council Taxes of between £14.93 and £86.65 at Band D level.

The tax base was calculated as follows:-

| | (a) | Multiplier | (b) |
|--|---------------|------------|----------------------|
| Additional Band (Disabled) | 15 | 5/9 | 8 |
| Band A | 5,040 | 6/9 | 3,360 |
| Band B | 4,879 | 7/9 | 3,795 |
| Band C | 7,446 | 8/9 | 6,618 |
| Band D | 6,005 | 9/9 | 6,005 |
| Band E | 4,018 | 11/9 | 4,911 |
| Band F | 2,155 | 13/9 | 3,112 |
| Band G | 1,363 | 15/9 | 2,272 |
| Band H | 79 | 18/9 | 157 |
| Other Adjustments | 45 | - | 45 |
| | <u>31,045</u> | | <u>30,283</u> |
| Collection Rate 98.25%, = (b) x 0.9825 | | | 29,753 |
| Add: Other Adjustments | | | 411 |
| Council Tax Base | | | <u>30,164</u> |

(a) = Total number of chargeable dwellings.

(b) = Number of dwellings (a) adjusted where discounts apply and converted to an equivalent number of Band D dwellings.

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

Fylde Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and 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 for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes 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 Good Governance in Local Government. A copy of the code is on our website at www.fylde.gov.uk or can be obtained from the Town Hall, St Annes Road West, St Annes. This statement explains how the council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide 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. It enables the authority 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 governance framework has been in place at the Fylde Borough Council for the year ended 31st March 2012 and up to the date of approval of the annual report and statement of accounts.

The governance environment

Principles

The council has adopted a code of corporate governance ("the Code") and recognises that effective governance is achieved through the core principles enshrined in it. These are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members to be effective and ensuring that officers - including the statutory officers - also have the capability and capacity to deliver effectively.
6. Engaging with local people and other stakeholders to ensure robust accountability.

The council's corporate governance environment comprises a multitude of systems and processes designed to regulate, monitor and control the various activities of the authority in its pursuit of its vision and objectives. The following describes the key elements:

Constitution

The Council's constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The constitution also identifies the principal obligations and functions of the council.

The constitution and its appendices clearly explain how the different elements of the council interact and work together. It sets out procedure rules to which members and officers must adhere, codes of conduct and protocols.

The constitution builds on model constitutions and guidance maintained by the Department for Communities and Local Government.

The monitoring officer has a standing obligation to keep the operation of the constitution under review and recommend any changes to help better achieve its objectives. The constitution is also presented annually to the council for re-adoption and updating to ensure that it remains relevant to its purposes.

Political structure

The council, meeting as a body, is responsible under the constitution and the Local Government Act 2000 for setting the policy framework and the budget for the authority. It also exercises certain other functions that are reserved to it. The council appoints, and can remove, the council leader.

The council meeting also acts as a channel for executive accountability through mechanisms such as notices of motion and cabinet questions.

The authority operates a leader and cabinet form of executive comprising the council leader and six other cabinet members. The role of the cabinet, as set out in the constitution and relevant legislation, is to be responsible for those matters not expressly reserved to the council meeting.

Meetings of the Cabinet are open to the public even when not required to by legislation, except where personal or confidential matters may be disclosed. Public platform allows members of the public to make a point and seek to have it addressed during the course of the meeting. Members of the council who are not members of the cabinet can ask questions at cabinet meetings. This helps ensure robust accountability of cabinet decisions.

Accountability of cabinet decisions is also achieved through scrutiny mechanisms, including the ability of a scrutiny committee to call-in a Cabinet decision, and by the power of the full council meeting to remove the council leader.

In addition to the statutory Forward Plan of key decisions to be taken by the cabinet, the Council publishes forward plans showing non-key decisions to be taken by the Cabinet and business expected to be considered by scrutiny committees, Audit Committee and the full council. Each plan gives details of when decisions are expected to be made, who will take the decision, who will be consulted before the decision is made and how representations can be made.

The Council has established two overview and scrutiny committees to assist the cabinet in policy development and review, to scrutinise decisions made by the Cabinet and analyse the performance of the Council in meeting its policy objectives and performance targets. The work of the Committees is co-ordinated by a Scrutiny Management Board consisting of the chairmen and vice chairmen of the overview and scrutiny committees.

The Council's Standards Committee deals with all aspects of advice and guidance for Members on matters of conduct, ethics, propriety and declaration of interest. It also assesses, oversees and determines complaints made against Members under the Code of Conduct. The Committee has four independent persons appointed to it. An independent person chairs the committee and all of its subcommittees.

The Committee is a point of reference for the Monitoring Officer who investigates or arranges for the investigation of any allegations of misconduct in accordance with agreed procedures and statutory regulations.

The Standards Committee framework will be subject to review in the summer of 2012 due to new legislation and a new framework will be put before the Council in July 2012.

The monitoring and performance of the Council's assurance and governance framework is led by the Council's Audit Committee. This is a committee independent of the executive and scrutiny processes and reports directly to

Council. The committee has the responsibility to ensure that the monitoring and probity of the Council's governance framework is undertaken to the highest standard and in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines.

Decisions on planning, licensing and other regulatory or quasi-judicial matters are taken by committees of the council in accordance with the principles of fairness and natural justice and, where applicable, article 6 of the European Convention on Human Rights. Such committees always have access to legal and other professional advice.

Officer structure

The authority implements its priorities, objectives and decisions through officers, partnerships and other bodies. Officers can also make some decisions on behalf of the authority.

The Chief Executive is designated as the head of the authority's paid service. As such, legislation and the constitution make him responsible for the corporate and overall strategic management of the authority. He is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation.

The Council has designated its Director of Resources as Monitoring Officer. The Monitoring officer must ensure compliance with established policies, procedures, laws and regulations. She must report to the full Council or cabinet as appropriate if she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council has designated the Chief Financial Officer as the officer responsible for the proper administration of its financial affairs in accordance with Section 151 of the Local Government Act 1972. The principal responsibilities of this officer include financial management, reporting and monitoring financial information, ensuring compliance with financial codes of practice including the Accounts and Audit Regulations 2003.

Both statutory officers referred to above have unfettered access to information, to the Chief Executive and to Councillors so they can discharge their responsibilities effectively. The functions of these officers and their roles are clearly set out in the Council's Constitution. In particular, the role of the Chief Finance Officer accords with the principles set out in the CIPFA Statement on the Role of the Chief Finance Officer.

Three directors report to the chief executive and collectively form the authority's management team. The Management Team assists the Chief Executive with the strategic and overall management of the organisation. The constitution makes it responsible for overseeing and co-ordinating the management, performance and strategic priorities of the authority within the agreed policy framework and budget. Each member of the management team takes lead responsibility for major elements of the authority's business and manages a business unit.

The Management Team collectively and individually are responsible for securing the economical, effective and efficient use of resources as required by the duty of best value.

Powers delegated to each member of management team are documented in the constitution.

The Council maintains an independent Internal Audit Service, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the United Kingdom'.

A Corporate Governance Group has been established to co-ordinate the receipt and actioning of reports from the various sources of audit and inspection. The group also is responsible to the Audit Committee and Management Team and to compile, maintain and monitor the Code.

Operational

The Corporate Plan establishes Fylde Borough Council's corporate priorities and reflects the Council's principal statutory obligations. Performance against the plan is supported by a performance management system.

The financial management of the authority is conducted in accordance with the Financial Regulations set out in Appendix 4 of the Constitution. The Council has in place a Medium Term Financial Strategy, updated annually, to support the aims of the Corporate Plan.

The Council ensures continuous improvement in the economy, efficiency and effectiveness of services through the annual service and financial planning process. All services are reviewed annually to ensure that they meet the needs of customers and that performance targets for quality improvements are set and monitored. The Medium Term Financial Strategy includes targets for efficiency savings, to be met across all service areas.

Annual budgets are set by the Council in the context of the Medium Term Financial Strategy, and each budget is allocated to a named budget holder. The responsibilities of budget holders in financial management are clearly set out within Financial Regulations.

A robust process of financial monitoring is in place. Budgets are regularly reviewed, the regularity and depth of attention is linked to the risks associated with each budget area. The financial position of the Council is reported to the Management Team and the Cabinet. Corrective action is required where there is any indication of a likely variance against budget.

The Council has adopted a "Local Code of Corporate Governance" in accordance with the CIPFA/SOLACE Framework for Corporate Governance. The local code contains appropriate monitoring and reporting procedures, and can be found on the Council's website.

The Council had adopted and implemented a Corporate Risk Management Strategy, which incorporates the identification and management of existing risks to the achievement of corporate objectives in accordance with recognised standards of control assurance. A Corporate Risk Register is in place and is monitored and regularly reviewed, combined with action planning for risks identified. Appropriate employees have been trained in the assessment, management and monitoring of risks.

A corporate Risk Management Group (RMG) has been established with an effective monitoring and reporting mechanism. A member of Management Team is the nominated chair of the RMG and the executive portfolio-holder and member risk champion attend group meetings.

The authority's risk management policy requires that officers understand and accept their responsibility for risk and for implementing appropriate controls to mitigate those risks. To this end, executive managers are required to incorporate a register of risks relevant to their unit within each unit's service plan.

Internal Audit provides in its annual report an independent and objective opinion on the effectiveness and operation of the internal control framework during the year. The Internal Audit Team is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by the team.

The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Council services are delivered by trained and experienced people. All posts have a detailed job description and person specification and training needs are identified through the Personal Development Appraisal Scheme.

In addition the Council has comprehensive policies and procedures in place, which provide the framework for the operation of its services and ensure that its actions and decisions are undertaken within the framework of effective internal control.

The authority has a zero tolerance policy towards fraud and corruption. The Council's Whistleblowing Policy provides the opportunity for anyone to report their concerns confidentially and enable these to be investigated impartially.

The authority is committed to working in partnership with public private and voluntary sector organisations where this will enhance its ability to achieve its identified aims.

Review of effectiveness

The authority supplements the mandatory external audit judgements by assessing itself against the good practice elsewhere. This, together with the authority's own Performance Management Framework, provides the evidence needed to ensure a culture of continuous performance improvement.

Inherent within the review of internal control arrangements is the need to assess the extent of compliance with statutory requirements and the authority's rules and regulations, which includes not only its Financial and Contract Procedure Rules but also its Scheme of Delegation, and Codes of Conduct. In addition, the Head of Internal Audit is required to produce an Annual Report and provide an opinion on the effectiveness of the authority's internal control system.

Fylde Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Corporate Governance Group, which comprises the Chief Executive, Section 151 Officer, Monitoring Officer, Head of Governance and the Head of Internal Audit, has been given the responsibility to annually review the Corporate Governance Framework and to report to Audit Committee on the adequacy and effectiveness of the Code and the extent of compliance with it.

The review of effectiveness is informed by the work of the directors within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Group has also received unit assurance statements from each of the authority's directorates. These assurance statements show the extent of compliance within the unit concerned with key corporate procedures designed to embed good governance and internal control. In addition, the group has taken account of external assurance sources including the external auditor's Annual Audit Letter, Use of Resources scored assessment and interim report.

In accordance with the Accounts and Audit (Amendment) Regulations 2006, a review of the system of internal audit has been carried out by the Council's external auditors against the Code of Practice for Internal Audit in Local Government and the results reported to the Audit Committee. The review concluded that internal audit met the appropriate professional standards required by the Code.

Internal Audit has carried out an annual programme of reviews as approved by the Audit Committee. The managers of the services and functions reviewed have each agreed actions and priorities arising from the review and the achievement of those actions is monitored on an ongoing basis by the authority's internal audit service. Any significant failure to achieve agreed actions is reported to the Audit Committee, who can require an explanation from the director concerned.

The Strategic Risk Management Group meets regularly to review achievement of control measures in relation to strategic risks identified in the annual risk identification exercise. In addition, Internal Audit now carries out an annual review of the Risk Management Framework in accordance with the terms of the Risk Management Policy.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is set out below.

Governance Issues

The Council, via its Corporate Governance Group's recommendations, has identified the following areas where it wishes to see improvements in 2012/13:

1. *100% implementation rate in staff appraisals*
2. *The development and delivery of a programme of equalities training*
3. *A review of procurement arrangements to see the most effective use of resources*
4. *Review of Codes of Conduct for both members (in light of new standards framework) and officers with appropriate training/guidance*
5. *A refresh of the Communications Strategy*
6. *Further refinements to reporting capabilities on the revenues and benefits academy system*
7. *A revision in business continuity arrangements*

8. *A refresh of the Project Management Framework*

On the basis of the work carried out, which has been reviewed by the Audit Committee, we are satisfied that the Governance Framework is effective. We propose over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation as part of our next annual review.

Councillor D Eaves
Leader of the Council

Date:

Allan Oldfield
Chief Executive

Date:

GLOSSARY OF ACCOUNTING TERMS

This Glossary of Terms is designed to aid interpretation of the Council's Statement of Accounts.

- **Accounting Policies**
These specify how transactions and other events should be reflected in financial statements.
- **Accruals**
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.
- **Actuary**
An actuary is an expert on pension scheme assets and liabilities.
- **Actuarial Gains and Losses**
Changes in the actuarial deficits or surpluses over time arising from either or both of i) differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation (known as experience gains and losses), and ii) changes in the actuarial assumptions.
- **Amortisation**
An annual charge to the revenue account that spreads the cost of an asset over a period of time.
- **Appropriation**
A contribution to or from a financial reserve.
- **Audit Commission**
An independent body, established under the Local Government Finance Act 1982, which has a duty to ensure that local authorities secure economy, efficiency and effectiveness in their use of resources.
- **Best Value Accounting Code Of Practice (BVACOP)**
A code of practice prepared to provide accounting guidance on financial reporting to stakeholders which is designed to enhance the comparability of local authority financial information. The code represents proper accounting practice for the purpose of best value reporting.
- **Budget**
A statement of the Council's spending plans for revenue and capital expenditure over a specified period of time.
- **Capital Expenditure**
Expenditure on the acquisition and/or improvement of an existing Non-Current Asset which adds to, and not merely maintains, its value. Expenditure that does not fall within the definition must be charged to a revenue account.
- **Capital Receipts**
Proceeds from the sale of capital assets which can only be used to repay the original loan or to finance new capital expenditure. Any receipts which have not yet been utilised as described are referred to as 'capital receipts unapplied'.
- **Collection Fund**
The Collection Fund is a separate statutory fund which billing authorities have to maintain. It shows the transactions in relation to non-domestic rates, any residual Community Charge and the Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund.

- **Community Assets**
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
- **Consistency**
This is a concept that the accounting treatment of like items, within an accounting period and from one period to the next, is the same.
- **Contingency**
This is a condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Contingent assets and contingent liabilities should not be recognised in the accounting statements but be disclosed by way of notes.
- **Corporate and Democratic Core**
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.
- **Council Tax**
This is a banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1st April 1991. The level of tax is set annually by each local authority for the properties in its area.
- **Creditors**
Amounts owed by the Council for work done, services rendered or goods received for which payment has not been made by the balance sheet date.
- **Current Assets**
Current assets are items that can be readily converted into cash.
- **Current Liabilities**
Amounts which will become payable or could be called in within the next accounting period.
- **Current Service Cost (Pensions)**
The increase in the pension liabilities as a result of years of service earned this year.
- **Curtailment**
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employees' services earlier than expected and termination of, or amendment to the terms of, a defined benefits scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.
- **Debtors**
Amounts owed to the Council for work carried out, services rendered or goods provided by the Council for which income has not been received by the balance sheet date.
- **Debt Redemption**
This is where a debt is repaid early.
- **Deferred Credits**
These represent capital income to be received in the future, when disposals have taken place, and deferred payments have been agreed.

- **Defined Benefit Scheme**
A pension or other retirement benefits scheme other than a defined contribution scheme, where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
- **Depreciation**
This is the measure of the cost or revalued amount of the benefits of the Non-Current Asset that have been consumed during the period.
- **Direct Revenue Financing**
Resources provided from an authority's revenue budget to finance the cost of capital projects.
- **Discontinued Operations**
An operation should be classified as discontinued when the activities related to the operation have ceased permanently and the termination has a material effect on the nature and focus of the authority's operations and represents a material reduction in its provision of services.
- **Emoluments**
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.
- **Estimation Techniques**
The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves.
- **Events after the Balance Sheet Date**
These are events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.
- **Exceptional Items**
Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
- **Expected Rate of Return on Pensions Assets**
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
- **Fair Value**
Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
- **Financial Instruments**
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives and embedded derivatives.
- **Finance Lease**
This is a lease that transfers substantially all of the risks and rewards of ownership of a Non-Current Asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

- **Financial Reporting Standards (FRSs)**
FRSs are statements which deal with accounting issues of fundamental importance and general application. They are applicable to all published accounts and compliance is mandatory. The Code of Practice on Local Authority Accounting in UK applies FRSs to Councils' accounts as appropriate.
- **Financial Year**
The Council's financial year runs from the 1st April to 31st March.
- **General Fund**
This is the main revenue account of the Council covering day to day spending on services other than the provision of housing. Credited to the fund are charges made by the authority, specific Government and other grants and receipts from the Collection Fund.
- **Going Concern**
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
- **Government Grants**
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.
- **Heritage Assets**
Heritage assets are defined as assets which have historical, artistic or cultural qualities and that are held and maintained principally for their contribution to knowledge and culture.
- **Historic Cost**
The cost of an asset at the time it was bought.
- **Housing Revenue Account (HRA)**
The HRA is an account which includes the expenditure and income arising from the direct provision of housing by the Council.
- **Impairment**
This is a reduction in the value of a Non-Current Asset below its carrying amount on the balance sheet.
- **Infrastructure Assets**
Non-Current Assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
- **Intangible Assets**
These are non-financial Non-Current Assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. Examples are purchased software licences.
- **Inventories**
The amount of unused or unconsumed stocks bought but not used at the end of the accounting period, held in expectation of future use. E.g.: goods or other assets purchased for resale, consumable stores, raw materials and components purchased for incorporation into products for sale, products and services in intermediate stages of completion, long term contract balances and finished goods.
- **Investments - Non Pension Fund**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments, other than those in relation to the pensions fund, that do not meet the above criteria should be classified as current assets.

- **Investment Properties**
This represents an interest in land and/or buildings in respect of which construction work and development have been completed, and which is held for its investment potential, with any rental income being negotiated at arm's length.
- **Leasing**
Leasing is a method of utilising assets where a rental charge is paid for a specified period of time, instead of outright purchase.
- **Liquid Resources**
Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.
- **Local Public Service Agreement (LPSA)**
Government initiative whereby demanding performance targets are set to deliver improvements for local people through partnerships with district Councils and other organisations.
- **Materiality**
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by the reader.
- **Minimum Revenue Provision (MRP)**
The minimum amount (as laid down in Statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.
- **National Non Domestic Rates (NNDR)**
NNDR is a tax levied on business properties and sometimes known as Business Rates. This tax is set nationally by the Government. Sums based on rateable values are collected by billing authorities and paid into a national pool. The proceeds are then redistributed by central government as a grant to local authorities in proportion to adult population.
- **Net Book Value**
The amount at which Non-Current Assets are included in the balance sheet i.e. their historical cost or current value less the cumulative amount provided for depreciation.
- **Net Current Replacement Cost**
This is the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.
- **Net Debt**
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.
- **Net Realisable Value**
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
- **Non-cash Adjustments**
Changes in debtors' and creditors' balances over the year
- **Non-Current Assets**
Assets that yield benefits to the Council and the services it provides for a period of more than one year.
- **Non-distributable Costs**
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

- **Non-Operational Assets**
Non-Current Assets held by a local authority but not directly occupied, used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.
- **Operating Leases**
An operating lease is a lease other than a finance lease. This is a method of financing assets which allows the Council to use, but not own an asset. A third party purchases the asset on behalf of the Council, who then pay the lessor an annual rental over the life of the asset. Expenditure financed by operating leasing does not count against capital allocations.
- **Operational Assets**
Non-Current Assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Examples include Council dwellings, other land and buildings, vehicles, plant, equipment, infrastructure assets and community assets.
- **Past Service Cost**
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.
- **Post Balance Sheet Events**
These are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.
- **Precept**
This is a charge levied by one Council which is collected on its behalf by another by adding the precept to its own Council Tax and paying over the appropriate cash collected.
- **Principal**
The amount of money borrowed, not including interest charges.
- **Principal Repayment of Debt**
Repayment of a loan, not including interest charges.
- **Prior Year Adjustments**
Prior year adjustments are material adjustments, arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.
- **Projected Unit Method**
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:
 - the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and;
 - the accrued benefits for members in service on the valuation date.
 - The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.
- **Provision**
These are monies set aside for liabilities or losses which are likely or certain to be incurred but the exact amount and dates are not currently known.

- **Prudence**
The concept that revenue is not anticipated but is recognised only when realisation in cash is reasonably certain. Conversely, provisions should be made for all known liabilities.
- **Prudential Code for Capital Finance**
This Code was introduced from 1st April 2004. The basic principle of the Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Code sets out indicators that the authority must use and factors that they must take into account to demonstrate that they have fulfilled this objective.
- **Public Works Loan Board (PWLB)**
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.
- **Related Parties**
Two or more parties are related parties when at any time during the financial period:
 - one party has direct or indirect control of the other party; or
 - the parties are subject to common control from the same source; or
 - one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or
 - the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests
- **Related Party Transactions**
A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.
- **Reserves**
Amounts set aside in one year's accounts which can be spent in later years. Reserves are often earmarked for specific purposes, including the financing of future capital expenditure, replacement or renewals and the funding of future defined Council initiatives.
- **Residual Amount**
The amount an asset can be sold for, less the cost of selling it.
- **Retirement Benefits**
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by the employee.
- **Revenue Expenditure**
This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.
- **Revenue Expenditure Funded from Capital Under Statute**
A new term introduced in 2008/09 accounts. Expenditure that is not capital in accordance with UK GAAP is allowed by statute to be funded from capital resources and hence such expenditure would have no impact on council tax in the year that it was incurred.
- **Revenue Support Grant (RSG)**
This is a general grant received from Central Government to contribute towards the cost of providing services. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

- **Scheme Liabilities**
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method, reflect the benefits that the employer is committed to provide for service up to the valuation date.
- **Settlement**
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:
 - a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
 - the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
 - the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.
- **Specific Grants**
Government grants for a particular service.
- **Statement of Recommended Practice – (SORP)**
This is the Code of Practice on Local Authority Accounting in the United Kingdom.
- **Tangible Non-Current Assets**
Assets which have a physical form e.g. buildings, equipment.
- **Total Cost**
The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges. This includes an appropriate share of all support services and overheads which need to be apportioned.
- **Total Net Worth**
The total net value of resources available to or owned by the Council.
- **Unapportionable Central Overheads**
Overheads for which no user now benefits and that are not apportioned to services.
- **Useful Life**
The period over which the local authority will derive benefits from the use of a Non-Current Asset.

REPORT

| REPORT OF | MEETING | DATE | ITEM NO |
|--|-----------------|----------------------|---------|
| KPMG, THE COUNCIL'S EXTERNAL AUDITORS / DIRECTOR OF RESOURCES | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 6 |

REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2011/12

Public Item

This item is for consideration in the public part of the meeting.

Summary

The attached report, which has been prepared by the Council's external auditors KPMG, summarises:

- i) The key issues identified during the audit of the Council's financial statements for the year ended 31st March 2012, and
- ii) KPMG's assessment of the Council's arrangements to secure value for money in its use of resources.

The report concludes, that having regard to the relevant criteria for principal authorities as published by the Audit Commission, the Council has secured economy, efficiency and effectiveness. It also provides an opinion to verify that the Council has complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

Recommendation

1. That the report is noted and KPMG thanked for its report
2. That the Audit Committee notes the work undertaken by the Council over the course of the last year resulting in an extremely positive audit opinion of the Council's effectiveness.

Reasons for recommendation

It is part of the Government's current regulatory framework that each Council must make proper arrangements to secure economy, efficiency and effectiveness and comply with accounts production practices and reporting.

Alternative options considered and rejected:

No applicable alternative options as part of a regulatory framework

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance and Resources: Councillor Karen Buckley

Report

To receive the report of KPMG (attached) which will be reported on by the Council's external auditors, KPMG.

Risk Assessment

There are some minor risks associated with the actions referred to in this report. Appropriate amendments have been made to the directorate operational risk register to accommodate these risks where necessary.

| Report Author | Tel | Date | Doc ID |
|----------------|----------------|----------------|------------------------------------|
| Tracy Morrison | (01253) 658521 | September 2012 | Annual Report of External Auditors |

| List of Background Papers | | |
|---|------|--------------------------------|
| Name of document | Date | Where available for inspection |
| Report to those charged with Governance (ISA 260) 2011/12 | | Attached |

Attached document:

1. KPMG Report to those charged with Governance (ISA 260) 2011/12

| IMPLICATIONS | |
|-------------------------------------|--|
| Finance | Implications are detailed within the body of the report. |
| Legal | Implications are detailed within the body of the report. |
| Community Safety | None arising directly from the report. |
| Human Rights and Equalities | None arising directly from the report. |
| Sustainability | None arising directly from the report. |
| Health & Safety and Risk Management | None arising directly from the report. |



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Report to those charged with governance (ISA 260) 2011/12

Fylde Borough Council

5 September 2012

The contacts at KPMG in connection with this report are:

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Report sections

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This report summarises:

- the key issues identified during our audit of Fylde Borough Council's ('the Authority's') financial statements for the year ended 31 March 2012; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

We do not repeat matters we have previously communicated to you.

Financial statements

Our audit of the financial statements can be split into four phases:



This report focuses on the final two stages: substantive procedures and completion. It also includes any findings in respect of our control evaluation that we identified during our interim audit.

Our final accounts visit on site took place between 9 July 2012 and 20 July 2012. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2011/12 VFM conclusion. This included:

- carrying out a risk assessment to identify any risks in relation to securing financial resilience and securing economy, efficiency and effectiveness; and
- where risks have been identified, we have undertaken appropriate audit work to gain assurance that these risks have not impacted on the authorities ability to deliver VFM.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

| | |
|---------------------------------------|---|
| Proposed audit opinion | We anticipate issuing an unqualified audit opinion by 30 September 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding. |
| Audit adjustments | Our audit has identified a small number of presentational and disclosure adjustments. We have raised two recommendations in relation to the matters highlighted above. These are summarised in Appendix 1. |
| Critical accounting matters | We have worked with Officers throughout the year to discuss specific risk areas. The risk areas identified in our External Audit Plan 2011/12 were: <ul style="list-style-type: none"> • Achievement on the budgeted savings plan and the impact that non-achievement would have on the in year financial position; • The impact of changes to the Code regarding Heritage Asset accounting. The Authority addressed the issues appropriately, however an issue has been identified regarding the Authority's valuation policy for Heritage Assets. |
| Accounts production and audit process | We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has made good progress with the implementation of the recommendations in our <i>ISA 260 Report 2010/11</i> relating to the financial statements. |

Section two

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

| | |
|-------------------------------|---|
| Completion | <p>At the date of this report our audit of the financial statements is complete.</p> <p>Before we can issue our opinion we require a signed management representation letter. We understand that this will be signed by a representative of the Authority at the Audit Committee on 20 September 2012 when the accounts are approved.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p> |
| VFM assessment and conclusion | <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.</p> |

Section three – financial statements

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2012.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12* ('the Code'). We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made one comment in respect of its format and content which the Authority has agreed to amend. The authority had not disclosed its compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Movements on the General Fund 2011/12

| £m | Pre-audit | Post-audit |
|--|------------|------------|
| Surplus on the provision of services | 316 | 316 |
| Adjustments between accounting basis & funding basis under Regulations | 362 | 362 |
| Transfers from earmarked reserves | 62 | 62 |
| Increase in General Fund | 740 | 740 |

Balance Sheet as at 31 March 2012

| £m | Pre-audit | Post-audit |
|-------------------------------|----------------|----------------|
| Property, plant and equipment | 16,434 | 16,434 |
| Other long term assets | 7,549 | 7,549 |
| Current assets | 11,368 | 11,368 |
| Current liabilities | (2,839) | (2,839) |
| Long term liabilities | (27,504) | (27,504) |
| Net worth | 5,008 | 5,008 |
| General Fund | (5,370) | (5,370) |
| Other reserves | 362 | 3,62 |
| Total reserves | (5,008) | (5,008) |

Changes in the Code of Practice on Local Authority Accounting the United Kingdom 2011/12 from 2010/11 require the Authority to disclose the Heritage Assets it holds.

Heritage Assets – Accounting Treatment

The 2011/12 Code of Practice includes a number of accounting changes, including a new requirement to carry 'Heritage Assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The Authority has performed an exercise in the course of 2011/12 to identify the Heritage Assets which the Authority owns. We were consulted by the authority in the course of this exercise for our opinion on what items should be defined as Heritage Assets and the method of valuation to be used. We reviewed the results of this process and are happy that the authority has appropriately identified the Heritage Assets it currently holds.

The results of the Authority's exercise identified several different classes of Heritage Assets for disclosure. The most significant of these is the Authority's Art Collection. As well as the substantial Art Collection, the Authority also identified Memorials & Monuments, Sculptures/Ivories, Trophies and Civic Regalia which should also be disclosed as Heritage Assets.

The Code of Practice requires the Authority to restate its Balance Sheet at 1st April 2010 and 31st March 2011 in order to recognise Heritage Assets held at these dates. We have reviewed these adjustments and found them to be appropriate.

The effects of the prior period adjustments on the balance sheet as at 31 March 2011 are summarised in the table below:-

| | Published Balance Sheet as at 31 March 2011 | Restatement at 31 March 2011 | Restated Balance Sheet at 31 March 2011 |
|--|---|------------------------------|---|
| Property, Plant & Equipment | £18,039k | - £33k | £18,006k |
| Heritage Assets | £nil | + £4,659k | £4,659k |
| Long Term Assets | £21,432k | + £4,626k | £26,058k |
| Unusable Reserves | - £636k | + £4,626k | £3,990k |
| Total Reserves | £4,055k | + £4,626k | £8,681k |

Changes in the Code of Practice on Local Authority Accounting the United Kingdom 2011/12 from 2010/11 require the Authority to disclose the Heritage Assets it holds.

Assets have been disclosed at Current Value, and where that is not available Historical Cost. Although this is in line with the Code there is some uncertainty around the valuation of these assets as the Art Collection, Sculptures and Ivories were last formally revalued in 2003 and Trophies, Civic Regalia and other items were last in formally revalued in 1994.


55% of the value of heritage assets is represented by seven paintings. Given the uncertainty around the value management agreed to approach Christies Auction House to gain an understanding of whether the carrying value of these assets in the balance sheet is fairly stated at the year end. The response from Christies has provided the Council with a 'valuation at current auction estimates' which gives a value range which the Council could expect to achieve should the paintings be auctioned. Although individual asset values are included in the asset register at differing values, collectively the total value at the lower end of the range provided by Christies is consistent with the carrying value of these assets in the balance sheet at 31 March 2012. The valuation provided by Christies is also used for insurance purposes and the Council has confirmed that the lower end of the value range is the level at which the insurer will provide cover for.

Although this provides assurance that the value of these paintings is not collectively inconsistent with the balance sheet value, there is still some uncertainty around the remaining value of the heritage assets given the time lapse since the last formal valuation. Whilst the approach taken is consistent with the expectations of the Code, the Council needs to ensure that it obtains a formal valuation of all assets by 31 March 2013 so that assets are appropriately stated in the balance sheet and protected by insurance.

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our External Audit Plan 2011/12, presented to you in March, we identified the key risks affecting the Authority's 2011/12 financial statements.

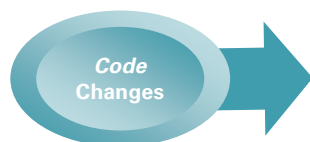
We have now completed our testing of these areas and set out our final evaluation following our substantive work. The table below sets out our detailed findings for each risk.

| Key audit risk | Issue | Findings |
|---|---|--|
|  | <p>As at 1 March 2012 the Authority was forecasting that it would outperform its original 2011/12 budget by £598,000, allowing it to make a £36,000 contribution to reserves compared to the budgeted £562,000 call on reserves.</p> <p>The Authority has also approved savings proposals of approximately £100,000 per annum through the periods 2012/13 to 2015/16. Income forecasts reflect the Authority's expectations of grant reductions throughout the life of the plan, being a 14% reduction in 2012/13 and a further 7.5% year on year reduction in 2013/14 and subsequent periods. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. If there are any related liabilities at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate.</p> <p>The Authority's Medium Term Financial Strategy (MTFS) also sets out the estimated call on reserves each year, and average of £603,000 per annum from 2012/13 to 2015/16, leaving a reserves balance of £1,174,000 at 31 March 2016. This MTFS has been prepared on a prudent basis and includes assumptions for various savings to be made, such as payroll efficiencies. The payroll efficiency targets for 2011/12 and 2012/13 have already been achieved by, amongst other things, the restructure of the management team, flexible retirements, savings from the revised Section 151 officer arrangements and an Authority-wide salary sacrifice scheme.</p> | <p>The Authority has exceeded its savings target for 2011/12. At 31st March 2012, the Authority had achieved £1,662,000 of savings. This allowed it to make a £1.1m contribution to reserves compared to the budgeted call on reserves of £562,000. Of the £1.1m, £740k was transferred into general fund reserves and £360k into earmarked reserves. This demonstrates that the Authority has made significant progress in year towards achieving its savings programme.</p> <p>The 2012/13 budget has been prepared by the Authority. The expected Budget requirement for 2012/13 has increased by £514,000 from 2011/12. The Authority will need to closely monitor its spending to ensure that further expenditure increases do not occur.</p> <p>KPMG has reviewed the 2012/13 budget. The budget has appropriately included the savings identified in the Authority's Medium Term Financial Strategy (MTFS). The Authority is forecasting £530,000 call on reserves for the financial year, which is in line with the MTFS assumption of an average requirements of £603,000 per annum from 2012/13 onwards. Payroll savings achieved have been recognised in the budget for 2012/13. The Authority has achieved £150k of payroll efficiency savings from 2011/12 and is on target to achieve £300k of savings from 2012/13. These will be recurring savings.</p> |

Section three – financial statements

Critical accounting matters (continued)

The Authority needs to consider how frequently revaluations of Heritage Assets are performed in future years.



| Key audit risk | Issue | Findings |
|----------------|--|--|
| | <p>Risk</p> <p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p>Our audit work</p> <p>As part of our interim work we will review the Authority's approach to addressing the <i>Code</i> changes. This will be in two stages:</p> <ol style="list-style-type: none"> 1. Reviewing the process the Authority has adopted to identify assets that fall within the scope of the new accounting requirements for heritage assets; and 2. Considering whether the valuation approach adopted in respect of the assets identified is appropriate. <p>As part of our final accounts audit we will also review the appropriateness of the accounting entries and disclosures in the accounts.</p> | <p>The Authority has performed an exercise in the course of 2011/12 to identify the Heritage Assets which the Authority owns. We were in consultation with the Authority throughout this process. Through discussions with Management and review of this process we confirmed the appropriateness of items the Authority had identified as Heritage Assets.</p> <p>During our Final Audit visit, we performed substantive work to gain assurance over the valuation approach used by the Authority. We reviewed the valuation methodology used and for a sample of Heritage Assets, confirmed that it had been appropriately applied.</p> <p>The <i>Code</i> 2011/12 required the authority to restate its Balance Sheet at 1 April 2010 and 31 March 2011 to reflect the Heritage Assets it held at those dates. To confirm the accuracy of this restatement, we reviewed the Authority's workings and reviewed the Heritage Asset disclosures in the financial statements against the requirements of the <i>Code</i>. As stated on pages six and seven of this report, the valuations of these assets are not current and although the <i>Code</i> does allow flexibility, the Council needs to ensure that it obtains formal valuations to ensure that balance sheet values are appropriate and it is adequately covered by insurance. Given the valuation provided by Christies on the seven paintings, and the requirements of the <i>Code</i>, we are satisfied that any variation in value of the remaining art work would not represent a significant misstatement.</p> <p>Members are asked to note this position and acknowledge the approach taken by officers in arriving at the current value of heritage assets included on the balance sheet at 31 March 2012.</p> |

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has made good progress in implementing the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

| Element | Commentary |
|---|--|
| Accounting practices and financial reporting | <p>The Authority has strengthened its financial reporting process through the implementation of reconciliations between the General Ledger and the Academy Council Tax/NNDR system.</p> <p>We consider that accounting practices are appropriate.</p> |
| Completeness of draft accounts | <p>We received a complete set of draft accounts on 29 June 2012.</p> |
| Quality of supporting working papers | <p>Our <i>Prepared by Client List Protocol</i> was issued to Officers prior to the audit visit. It set out our working paper requirements for the audit.</p> <p>The working papers met these requirements, were provided in line with the agreed timescales and were of a good standard.</p> |
| Response to audit queries | <p>All additional audit queries were resolved quickly and efficiently by the finance staff at the Authority.</p> |

Prior year recommendations

In our *Interim Audit Report 2011/12* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2010/11*.

The Authority has made good progress with the implementation of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements. Appendix 2 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Fylde Borough Council for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer, a draft of which is reproduced in Appendix 4. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no others matters which we wish to draw to your attention.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

| VFM criterion | Met |
|--|-----|
| Securing financial resilience | ✓ |
| Securing economy, efficiency and effectiveness | ✓ |

We reported our risk assessment in our External Audit Plan 2011/12. As we were satisfied that in all cases, sufficient work in relation to these risks had been carried out by the Authority, the Audit Commission, other inspectorates or review agencies to mitigate the residual audit risks for our VFM conclusion, we concluded that we did not need to carry out any specific additional work ourselves.



We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

| Priority rating for recommendations | | | | | |
|-------------------------------------|--|---|--|---|---|
| 1 | Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. | 2 | Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. | 3 | Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. |

| No. | Risk | Issue and recommendation | Management response / responsible officer / due date |
|-----|------|---|---|
| 1 | 2 | <p>Heritage Assets Valuations</p> <p>The Authority last performed a revaluation of its Art Collection, Sculptures and Ivories in 2003 and of its Trophies, Civic Regalia and other items in 1994. Management have confirmed that a revaluation of Heritage Assets will be performed in 2012/13 to bring these valuations up to date.</p> <p>However, the Authority's current stated policy is that going forward revaluations of Heritage Assets should be performed on a 10-yearly basis. In our view, and given the current volatility of the market, this policy may not be appropriate. It exposes the Authority to risk given that the amount it can claim in any insurance claims for loss of or damage to these assets is based on the most recent valuation.</p> <p>Management needs to reassess the proposed period between revaluations to balance the risk of financial loss in the event of damage or loss of assets against the cost of performing the revaluation to the taxpayer.</p> | <p>The Council has committed to carry out a full revaluation of all Heritage Assets in 2012/13. Furthermore, in consultation with professional valuers and the Council's insurers, the current policy on the frequency of valuations of Heritage Assets will be reviewed and the policy will be amended if required following the review.</p> <p>Chief Financial Officer March 2013</p> |

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

| No. | Risk | Issue and recommendation | Management response / responsible officer / due date |
|-----|------|--|--|
| 2 | 3 | <p>Submission of Pension Data to Mercers Actuary</p> <p>The Authority's Payroll function is outsourced to Blackpool Borough Council. Pension information in respect to the Lancashire County Council Pension Scheme is submitted to Lancashire County Council (LCC) on a monthly basis.</p> <p>In January 2012, LCC submitted the Authority's pension data to Mercers (the Actuary used by LCC to produce the scheme information to disclose in the various participants financial statements.) Prior to submission a copy of the return was provided to the Authority for review against their records. The Authority identified numerous errors in the LCC return which Management highlighted to LCC and requested them to amend.</p> <p>However, LCC did not amend one of the erroneous figures. This meant that an additional £83,000 of Other Employee Contributions were incorrectly included in Mercer's Pension calculations.</p> <p>Mercers have confirmed that this error does not have a material impact on the Pension disclosures within the 2011/12 financial statements. They will make the appropriate adjustments in their 2012/13 calculations to ensure that the error is not carried forward into future years' disclosures.</p> <p>However, this error represents a failure in the controls in place to ensure the accuracy of the pension data submitted to the Actuary. The Authority should liaise with LCC to review the existing controls and consider the implementation of additional controls. The Authority should consider requiring the final version of the submission to Mercers to be sent to them for review also. This would allow the Authority to identify any requested amendments that LCC had failed to implement.</p> | <p>The Council will liaise with Lancashire County Council and review the existing controls re the submission of pensions info to the pension fund actuary to ensure that Lancashire County Council only provide pensions info that has been confirmed as accurate by FBC.</p> <p>Chief Financial Officer</p> <p>March 2013</p> |

The Authority has made good progress in implementing the recommendations in our *ISA 260 Report 2010/11*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

| Number of recommendations that were: | |
|--|---|
| Included in original report | 2 |
| Implemented in year or superseded | 2 |
| Remain outstanding (re-iterated below) | 0 |

| No. | Risk | Issue and recommendation | Officer responsible and due date | Status as at 20/09/2012 |
|-----|------|---|--|--|
| 1 | 1 | <p>Academy system reporting for NNDR and Council Tax</p> <p>The Authority has a shared service arrangement in place with Blackpool Borough Council for the provision of the revenues and benefits services. During 2010/11, the system used by Blackpool to administer the service was changed to Academy.</p> <p>Whilst there have been no major issues with the running of the system and the recording of Council Tax and NNDR, the reporting capabilities of the new Academy system have so far not met the requirements of the Authority.</p> <p>Fylde have experienced issues around obtaining reports which reconcile to their general ledger, leading to variances at year end. It has also not been possible to obtain an ageing report for NNDR arrears for the purpose of calculating a bad debt provision.</p> <p>We understand that the Authority are working closely with Blackpool in order to improve this situation for the coming year.</p> <p>We therefore recommend that Fylde continue to communicate clearly to Blackpool their reporting requirements and set agreed timescales in place for improvement.</p> | <p>Fylde –David Bennett</p> <p>The Shared Service – Graeme Ruse/Louise Jones</p> | <p>During 2011/12 the Authority has developed reconciliation controls that allow the Authority to reconcile Council Tax and NNDR payments and refunds between Academy and Civica. This has minimised variances at year end in 2011/12.</p> <p>The Authority has worked with Blackpool BC to ensure that sufficient reports are available at year end to allow the production of the financial statements. Good progress has been made to ensure that required reports are available.</p> <p>The Authority should continue to frequently communicate its reporting requirements to Blackpool BC to ensure that required reports are available to the Authority.</p> |

Appendix 2: Follow up of prior year recommendations (continued)

The Authority has made good progress in implementing the recommendations in our *ISA 260 Report 2010/11*.

| No. | Risk | Issue and recommendation | Officer responsible and due date | Status as at 20/09/2012 |
|-----|------|--|---|--|
| 2 | 3 | <p>Revaluation of investment assets</p> <p>The Authority applies an accounting policy of revaluing all investment assets every two years. However, under the requirements of IFRS, investment assets need to be held at fair value and the Authority needs to ensure that the fair value reflects market value at the balance sheet date. This means that a periodic approach to revaluation may only be used where the carrying amount does not differ materially from fair value at the balance sheet date.</p> <p>Our testing of the revaluation of investment assets this year highlighted that in a small number of cases, assets had not been revalued in the last two years. Therefore in addition to an incorrect accounting policy being in place, this policy had not been applied correctly.</p> <p>It is therefore recommended that the Authority implements a robust control process to ensure that all investment assets are revalued</p> | Gary Sams (Principal Estates Surveyor) | <p>Investment properties are reviewed every year to consider that the value of the assets are fairly reflected in the Balance Sheet. In addition material changes in asset values are recorded as they occur.</p> <p>This recommendation has therefore been addressed.</p> |

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Fylde Borough Council for the financial year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the Authority financial statements of Fylde Borough Council ("the Authority"), for the year ended 31 March 2012, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of Fylde Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
- ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Authority's Movement in Reserves Statement, the Authority's Comprehensive Income and Expenditure Statement, the Authority's Balance Sheet, the Authority's Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of Fylde Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.
4. In respect of the prior period restatement for Heritage Assets required by the Code of Practice 2011/12, the Authority confirms that the restatement is appropriate. The restatement resulted in a £4,659k increase in Heritage Assets and a £33k reduction in Property, Plant and Equipment in the 2010/11 comparative figures.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
8. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
9. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority financial statements communicated by employees, former employees, analysts, regulators or others.
10. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension

scheme liabilities are consistent with its knowledge of the business.

12. The Authority further confirms that:
 - a) all significant retirement benefits, including any arrangements that:
 - are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,have been identified and properly accounted for; and
 - b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 20 September 2012.

Yours faithfully,

[Chair of the Audit Committee] , [Chief Financial Officer]



cutting through complexity™

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REPORT



| REPORT OF | MEETING | DATE | ITEM NO |
|-----------------------|-----------------|-------------------|---------|
| DIRECTOR OF RESOURCES | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 7 |

GUIDE/CRITERIA FOR MEMBERS SERVING ON ELECTED BODIES

Public item

This item is for consideration in the public part of the meeting.

Summary

The scrutiny review of Melton Grove made specific reference to the role of members serving on outside bodies. It was previously endorsed by the Audit Committee that the development of a protocol for members serving on outside bodies would assist in providing clarity on responsibilities. The protocol also seeks to increase transparency through the sharing of information.

Recommendation

1. Approve the Protocol for Members Serving on Outside Bodies and commend the same to Council for approval as a formal procedure to be included within the Council's Constitution.
2. To ask the Audit Committee to formulate a recommendation on the adoption, or otherwise, of the other Core competencies developed by the Member Development Steering Group.

Reasons for recommendation

To provide clarity on the role and remit of elected members serving on outside bodies and to aid transparency.

Alternative options considered and rejected

There are no alternative options available

Cabinet portfolio

The item falls within the following cabinet portfolio: Finance and Resources – Councillor Karen Buckley

Continued....

Report

1. The Audit Committee has previously endorsed, that as part of the actions resulting from the Melton Grove Scrutiny review, there should be a protocol developed for endorsement by the Audit Committee (and subsequently the Council) on the role and remit of elected members serving on outside bodies.
2. The purpose of this report is to provide a draft protocol for the consideration of the Audit Committee with a view to it being referred to Council, for adoption.
3. The protocol provides a schedule of current appointments and colour codes these against a type of appointment, for example, councillors appointed as Directors, Trustees or to act as advisors on unincorporated associations. Guidance notes are then attached which sets out the legal status of each type of appointment, duties which might reasonably be expected and liabilities.
4. In terms of transparency, and ensuring that information relating to the partnership is circulated amongst both members and officers, the previous reporting form is commended for re-adoption. However, it is recommended that each member should produce reports every six months relating to the organisation to which they have been appointed. A request for information will be made with a reminder issued after 10 working days (or thereabouts). All forms will be shared electronically with all members and senior managers. At the next monthly Group Leaders meeting, attention will be drawn to any member who has failed to complete the information. It would then be a matter for Group Leaders to request a Notice of Motion debate at the next Council meeting as to whether the subject member should continue to represent the Council on the particular outside body.
5. There is also the question of the work undertaken by the Member Development Steering Group on this matter. The Steering Group developed core competencies for those members serving on outside bodies, and in a range of other positions, and these are attached as an appendix. The competencies for those members serving on outside bodies have been incorporated into the Protocol and Guidance for Members Serving On Outside Bodies. It would be helpful if Audit Committee members could also formulate a recommendation for Council to consider regarding the other competencies developed by the Steering Group. As previously reported to the Council, if adopted, the competencies could only be as a general guide and are not subject to evaluation in any formal sense.
6. The Member Development Steering Group also developed an application form for elected members who wished to sit on a particular outside body. Appointments to outside bodies are considered by the Council each year. It is suggested that where vacancies arise, those members interested in being considered for the position in question, fill in the application developed by the Steering Group and this is considered by the Council meeting as a part of its decision making process. In addition, where a member wishes to challenge the re-appointment of an existing member on an outside body it is suggested that they complete the application form as the catalyst for debate at the Council meeting where appointments are confirmed.

IMPLICATIONS

| | |
|---------|------|
| Finance | None |
|---------|------|

| | |
|---|------|
| Legal | None |
| Community Safety | None |
| Human Rights and Equalities | None |
| Sustainability and Environmental Impact | None |
| Health & Safety and Risk Management | None |

| REPORT AUTHOR | TEL | DATE | DOC ID |
|----------------|----------------|----------------|--------|
| Tracy Morrison | (01253) 658521 | 24 August 2012 | |

| LIST OF BACKGROUND PAPERS | | |
|-----------------------------|-------------|----------------------------------|
| NAME OF DOCUMENT | DATE | WHERE AVAILABLE FOR INSPECTION |
| Monitoring Officer Protocol | August 2012 | Town Hall, St Annes and attached |

Appendices

Monitoring Officer Protocol

Core competencies for Ward Councillors

- 1 Contributes positively to the running of the council either as a member of the policy committees, overview and scrutiny, regulatory or other council committees
- 2 Represents the views and interests of their ward and individual citizens within it
- 3 Promotes and represents the council in the local community
- 4 Understands how the council operates
- 5 Understands their role as a decision-maker in regulatory committees
- 6 Contributes to the performance management of the council
- 7 Works in collaboration with senior officers to achieve positive outcomes for the community
- 8 Uses ICT to communicate with officers and others
- 9 Maintains proper standards of ethical behaviour

Core competencies for Committee Chairmen

All of the competencies for Ward Councillors, plus

- 1 Chairs meetings effectively
- 2 Knows their committee's work area with its drivers, dynamics and stakeholders
- 3 Consensus building
- 4 Team working with officers and other members
- 5 Assimilates complex information and presents key principles for decision

Core competencies for Cabinet Members

All of the competencies for Ward Councillors, plus

- 1 Thinks strategically
- 2 Knows the broad principles of local government finance
- 3 Sees beyond narrow or sectional interests
- 4 Knows their portfolio with its drivers, dynamics and stakeholders
- 5 Team working with officers and other members
- 6 Assimilates complex information and exercises informed judgment when taking decisions

Core competencies for Council Leader

All of the core competencies for Cabinet Member, plus

- 1 Acts as a community leader
- 2 Enthuses and inspires
- 3 Engages with key partners of the authority

4 Builds consensus

GUIDANCE / PROTOCOL

FOR

MEMBERS SERVING ON OUTSIDE BODIES

This guidance/protocol is broken down into the following elements:

1. Schedule of appointments colour coded against the type of appointment made, for example, councillors appointed as Directors, Trustees or to act as advisors on unincorporated associations .
2. Guidance for councillors serving on outside bodies based on the type of appointment
3. Reporting form to be completed by every member serving on an outside body every six months, with all completed information being circulated to all members of the Council for information. Those members failing to complete the information following a second reminder will be brought to the attention of Group Leaders. Group Leaders must then determine whether they wish to request a Notice of Motion at the next Council meeting as to whether the subject member should continue to represent the Council on the particular outside body
4. Application form for members wishing to submit a challenge to an appointment to an outside body. All appointments are determined at the next ordinary Council following the AGM, except in an election year where appointments are considered to the AGM. The intention is that two months prior to this date that all councillors will be reminded of their opportunity to submit an application for consideration by the Council in none election years.
5. Core competencies for elected members serving on outside bodies are set out below.

Core competencies for members serving on outside bodies

1. Is generally available to attend meetings of the outside body
2. Attends all meetings where circumstances permit
3. Understands the purpose of the outside body
4. Understands their role as the council's representative, including the need to represent the council as a whole
5. Uses their role on the outside body to champion the interests of the people of Fylde, insofar as this is consistent with any other duty
6. Regularly reports on their work with the outside body to all members of the Council
7. Knows the procedure for dealing with conflicts between their own interests, those of the Council and those of the outside body
8. Has appropriate understanding of any regulatory framework that affects the outside body
9. Informs the Council Leader if they are unable to continue to fulfil the competencies

| Outside bodies/partnerships attended by elected members | Previous representation |
|---|--|
| Blackpool Airport Consultative Committee (1 seat) | Planning and Development Portfolio Holder |
| Warton Local Consultative Committee (1 seat) | Councillor Threlfall |
| Fylde Citizens Advice Bureau (3 seats) | Cllrs Ackers, Hardy and Nulty |
| Lancashire Waste Partnership (1 seat) | Portfolio Holder for Customer and Operational Services |
| Local Liaison Committee Springfield Works (2 seats) | Cllrs Collins and Threlfall |
| LSP Executive (1 seat) | Leader |
| Lytham Town Trust (1 seat) | Councillor Ashton |
| Progress Housing (1 seat) | Councillor Willder |

North West Employers Organisation
(1 seat)

Face to Face (1 seat)

Local Strategic Partnership (LSP)
Communities and Environment Group

LSP Community Safety Partnership
Children's Trust
LSP Health and Well Being Group

LSP Economic Development Group

BFW Volunteering Centre
(1 seat)

Council for Voluntary Services, BWF
(1 seat)

Fylde Arts Association - Executive Committee
(3 seats)

Fylde Community Projects Fund
(1 seat)

Kirkham Baths Management Committee
(1 seat)

Portfolio Holder for Customer and Operational Services

Councillor Singleton

Portfolio Holder for Environment and Partnerships and Councillor David Chedd (as shadow Spokesperson)

Portfolio Holder for Social Wellbeing and Councillor Tony Ford (opposition spokesperson)
Portfolio Holder for Finance and Resources and Councillor Nulty (opposition spokesperson)
Portfolio Holder for Social Wellbeing and **VACANY** (opposition spokesperson)

Planning and Development Portfolio Holder and Councillor Elaine Silverwood (opposition spokesperson)

Councillor Jaques

Councillor L Davies

Cllrs Jacques / Henshaw / Harper

The Mayor

Portfolio Holder for Leisure and Culture

| | |
|---|--|
| LCC Adult Social Care & Health Overview and Scrutiny Committee | Councillor Ackers |
| Ormerod Trust (1 seat) | Councillor Jacques |
| Three Tier Forum | Councillors Chedd, Duffy, Eaves, Fazackerley, Goodrich and Redcliffe |
| Lancashire Health and Wellbeing Board | Portfolio Holder for Social Well-Being |
| Fylde and Wyre Health and Well-Being Partnership | Councillor Cheryl Little |
| North West of England and the Isle of Man Reserve Forces and Cadets Association | Councillor E Nash |
| Police and Crime Commissioner Panel | Councillors Eaves and Oades |
| Lowther Trust | Councillor S Fazackerley |
| <p>Green means a limited company Yellow means a charitable trust Blue means an unincorporated association Pink means a limited company that is also a registered charity Grey means a quasi statutory body</p> | |

Guidance for members serving on outside bodies
Councilors appointed as Directors of Limited Liability Companies

Legal Status

1. Upon incorporation a company becomes a separate legal entity, which can hold property in its own right, enter into contracts and sue and be sued in its own name.
2. Companies limited by shares are those which have a share capital e.g. 1000 shares of £1 each. Each member holds shares and receives a share in the profits made by the company in the form of a dividend. Shares can be sold. Liability in the event of a winding-up is limited to any amount unpaid on the shares held.
3. Companies limited by guarantee do not have shares. Instead, each member agrees that in the event of the company being wound up they will agree to pay an agreed amount e.g. £1. This is most common in the public and voluntary sector, particularly where charitable status is sought.

Directors' Duties

4. The role of a councilor who has been appointed as a director will depend upon the company's constitution. A company's constitution will vest most of its powers in the board of directors and the board will exercise these either directly or through managers appointed by the board. Directors must understand the requirements of the Company's constitution and the law in order to fulfill their responsibilities properly.
5. Directors will need to be aware of the requirements of the UK Corporate Governance Code published by the Financial Reporting Council to the extent that this has been adopted by the company, including general management of the company, rules on directors' remuneration, internal financial and operational controls and risk management.
6. Directors, must:
 - act in good faith in what they believe to be in the best interests of the company (not the Council);
 - act with reasonable care, diligence and skill;
 - exercise their powers reasonably and for the purpose for which they are given;
 - keep an open mind when making decisions on company business, in particular a councilor director must exercise independent judgment and not simply follow Council policy when voting on company matters;

- avoid placing themselves in a position where their private interests or their position as a councillor conflict with their duties to the company;
 - be aware of the company's financial position through attendance at board meetings and reading the accounts, agendas and minutes, it is not sufficient to assume that the other directors are doing a good job.
7. Some directors may be given special responsibilities under the company's constitution, for instance a managing director or finance director. Those with special roles will be expected to have the personal and technical skills to perform the duties associated with that role, which may be onerous.
8. The above duties apply to non-executive directors as well as executive directors.
9. There are other statutory requirements which may be relevant depending on the company's business. Directors will need to be familiar with these. For example, if the company is an investment vehicle which engages in fundraising activity, financial services legislation will apply.

Observer status

10. The position of observer has no specific legal status in company or local authority law. Any person appointed as an observer should ensure that their role is clearly defined and avoid involvement in the management of the Company. If an observer acts beyond their remit and exercises real influence over the company's affairs and decision making the observer may be deemed to be a shadow director, with all the responsibilities of an ordinary director.
11. Observers and others, such as professional advisors, may be invited to attend board meetings. Generally the minutes of the meetings will note the names of observers and the fact that they are "in attendance". Persons "in attendance" have no specific legal status and in itself the phrase does not indicate any particular level of participation in the company's affairs.

Personal Liability

12. A director (or shadow director) may incur personal liability if they are in breach of their duties. This may arise where:

- the company is found, in the course of winding up, to have been trading for fraudulent purposes. If a director has acted dishonestly this is also a criminal offence;
- following liquidation, a director is found liable for wrongful trading, i.e. allowing the Company to continue to trade at a time when the director knew or ought reasonably to have known that there was no reasonable prospect that the company would avoid going into insolvent liquidation;

- the company commits a breach of the criminal law, for example, health and safety legislation;
- a director acts negligently or in breach of their duty to the company (including the duty to maintain confidential any confidential information relating to the company that comes into their possession);
- a director knowingly causes the company to act beyond the activities authorized by its constitution;
- there is a breach of trust, such as the misappropriation of company funds or property;
- a director uses their powers improperly or makes a personal profit from their position as director;
- there is a failure to comply with the requirements of companies' legislation, such as the making of returns to the Registrar of Companies.

Insurance

13. Councilors appointed as directors should find out if the company maintains appropriate insurance cover against directors' liability. If this is not in place this should be requested, but this is a matter entirely for the board and the Council cannot insist upon this. It will be necessary to ensure that the company has the resources to maintain payment of the insurance premiums.

14. Further guidance on the responsibilities of company director is available on the websites business link: www.businesslink.gov.uk/bdotg/action/layer?topicid=1073870537

Appointment of a Trustee to a Trust or Charity

Legal Status

1. The role and responsibilities of a trustee will depend, upon the provisions of the trusts governing documents of the trust and the general law relating to trusts and charities. A trusts governing document can be a trust deed or a scheme made by the charity commission.
2. It is quite common for companies to be set up by trusts with charitable objects. In this case the trustees will also be directors of the company and would have the obligations set out in Appendix C above as well as the obligations set out in this section. Councilors involved with charitable companies should ensure that they understand the capacity in which they have been appointed.

Duties

3. The role of a trustee is generally to fulfill the objects of the trust and apply the income and, if appropriate the capital of the trust in accordance with the provisions of its governing documents
4. Trustees are subject to various duties, including the duty to:
 - act for the benefit of the charity and its beneficiaries;
 - preserve the capital of the charity (unless the trust deed gives the trustees the right to spend the capital or the charity is small and the trustees have resolved to spend the capital under the Charities Act 1993)
 - make sure income is spent only on the things authorized in the governing documents;
 - invest the capital only in authorized investments, having first taken professional advice;
 - produce annual accounts;
 - act with reasonable care and skill in administering the trust, and
 - to act unanimously (unless the trust deed allows majority decisions);
 - comply with the Charities Acts and other legislation affecting the charity.
5. The Charity Commission's website – www.charitycommission.gov.uk – contains useful guidance in particular Publication CC3. -'The Essential Trustee' which outlines the basic principles that should guide trustees when administering their charity:

- the income and property of the charity must be applied for the purposes set out in the governing document and for no other purposes;
- the trustees must act reasonably and prudently in all matters relating to the charity and must always bear in mind the interests of the charity. They should not let their personal views or prejudice affect their conduct as trustees;
- trustees should exercise the same degree of care in dealing with the administration of their charity as a prudent businessman would exercise in managing his or her own affairs or those of somebody else for whom he or she was responsible, and
- where trustees are required to make a decision which affects a personal interest of one of their members that person should not be present at any discussion or vote on the matter.

Liability

6. Trustees are jointly and severally liable to the charity for breaches of trust. They may incur personal liability for losses incurred if they:
 - act outside the scope of the trust deed;
 - fall below the required standard of care;
 - make a personal profit from the trust assets;
7. Trustees will incur personal liabilities under contracts they enter into in the name of the charity. They are however, entitled to be reimbursed from the charity's funds for all liabilities and expenses properly incurred by them, provided this is authorized by the trustees in accordance with the trust deed.

Insurance and Indemnity

8. An indemnity can be given from the trust fund provided the trustee has acted properly and within their powers. Trustees may take out insurance to protect themselves against personal liability except criminal liability. Payment of the premiums must be authorized by the trust deed if they are to be met from charitable funds.

Unincorporated Associations

Legal Status

1. Most societies, clubs and similar organizations (other than companies, industrial societies and trusts), are unincorporated associations. This is an informal organisation which may arise where several people join together, with the intention of creating legal relations, to carry out a mutual purpose otherwise than for profit.
2. There is no statutory definition of an unincorporated association but it has been described by the court as 'an association of persons bound together by identifiable rules and having an identifiable membership'. Unlike a company it does not have a separate legal status distinct from its members.
3. Because unincorporated associations are not set up under a particular legislation, their structures may vary. However, the rules of an unincorporated association are usually found in its constitution, which sets out the roles and responsibilities of its members.

Duties

4. An unincorporated association will typically have an executive or management committee with its powers and composition defined by the constitution. Key decisions will usually be made by the members at general meetings. The day to day administration of an association is usually undertaken by the officers and members of the executive or management committee.
5. Broadly, executive or management committee members must act within the constitution and must take reasonable care in exercising their powers.
6. Where an unincorporated association is a registered charity the members of the executive or management committee may also be charity trustees. As such, their role and responsibilities will be determined not only by the association's constitution but also by the general law relating to trusts and charities, as set out Appendix D.

Observer Status

7. The Council may appoint a councilor to the executive or management committee of an unincorporated association as an observer. A councilor acting as an observer should avoid exceeding this role by becoming directly involved in the management of the association as they may be deemed to be an ordinary member for the purposes of determining liability.

Liabilities

8. Members of the management committee are generally liable, jointly and severally, for the acts of the organisation, but are entitled to an indemnity from the funds of the organisation if they have acted properly. If there are insufficient funds the members are personally liable for the shortfall.
9. Particular care should also be taken when entering into contracts on behalf of the association. If the individual lacks the authority to do so, they may find themselves personally liable for the performance of the contract.

Insurance

10. Where the councillor is appointed to represent the interests of the Council then the Councils' insurance will cover them so long as they do not willfully commit an offence.

Quasi Statutory Bodies

1. The responsibilities of a councillor who is appointed as a member of any of these bodies will be determined by the terms of reference, constitution or partnership agreement under which they are established and governed.
2. It is necessary to ensure that the councillor's role on the body is clear, and, in particular, whether they are acting as a delegate or representative of the Council to further the interests of the Council, or whether they are expected to exercise independent judgment in the best interests of the body concerned.
3. Liability will depend on the nature and functions of the body and the constitution or agreement under which it is established. Insurance may be available to cover certain liability.

Outside Bodies - Member Reporting Form

| | | |
|--|-------------------------|--|
| Elected Member | | |
| Organisation Contact Details | Name | |
| | Address | |
| | Telephone number | |
| | Email | |
| | Website | |
| Objectives of Organisation | | |
| Role and responsibility of the Council representative? (For example, Observer, Trustee, Director) | | |
| What have you achieved through the relationship? | | |
| How often does the organisation meet? | | |
| How often have you attended meetings? | | |
| What at key issues have arisen? (continue on separate sheet if required) | | |



**QUESTIONNAIRE FOR MEMBERS ANTICIPATING NOMINATION TO REPRESENT THE COUNCIL
ON AN OUTSIDE BODY**

| | |
|---|--|
| Name of outside body | |
| Description of role (e.g., committee member, director) | |
| What does the role involve? | |
| What experience and/ or interest in this subject makes you suitable for the role? | |
| What skills will you use in the role? | |

| | |
|---|--|
| How will you represent the council in the role? | |
| How will you add value to the outside body in your role? | |
| How would you report to the council on your activities in the role? | |
| What other outside bodies do you sit on? | |
| Will you be able to attend all (or nearly all) of the meetings that you will be expected to attend? | |

The core competencies for members representing the council on outside bodies are:

- 1. Is generally available to attend meetings of the outside body*
- 2. Attends all meetings where circumstances permit*
- 3. Understands the purpose of the outside body*
- 4. Understands their role as the council's representative, including the need to represent the council as a whole*
- 5. Uses their role on the outside body to champion the interests of the people of Fylde, insofar as this is consistent with any other duty*
- 6. Regularly reports on their work with the outside body to all members of the Council*
- 7. Knows the procedures for dealing with conflicts between their own interests, those of the council and those of the outside body*
- 8. Has appropriate understanding of any regulatory framework that affects the outside body*
- 9. Informs the Council Leader if they are unable to continue to fulfil the competencies*

I consider that I fulfil (or will fulfil) the core competencies for representing the council on the outside body named above and would be willing to accept a nomination to do so.

Name

Date

REPORT



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| RESOURCES | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 8 |

INTERNAL AUDIT SERVICE

Public Item

This item is for consideration in the public part of the meeting.

Summary

This report advises the Committee of the final outcome of the negotiations for a shared internal audit service between Fylde and Blackpool Councils. The report explains why the proposal is no longer being pursued and provides assurance about the ongoing service to be provided.

Recommendation

1. To note the outcome of the negotiations with Blackpool Council for a shared internal audit service and to endorse the proposals for the ongoing in-house service.

Cabinet Portfolio

The item falls within the Finance & Resources portfolio (Councillor Karen Buckley)

Report

1 Background

1.1 The Council restructure of January 2012 identified Internal Audit as an area where potentially cost savings could be achieved and a possible partnership opportunity was identified with Blackpool Council for the delivery of a shared internal audit service.

1.2 Subsequently detailed negotiations have taken place between the responsible senior managers of both authorities over an extended period. This report sets out the final outcome of these negotiations and provides assurance concerning the delivery of the ongoing service.

2 Shared Service Negotiations

2.1 During the course of the negotiations with Blackpool Council for a shared service indicative reports both to the Audit Committee and separately to the Chair and Vice Chair made clear the potential advantages to be gained from closer working, in particular that the level of service available met the required standards. Other potential benefits were also explained.

2.2 However, it was also made clear at all stages that a definitive method for cost sharing was subject to agreement between the authorities as part of the final business case. The need to deliver efficiencies and cost savings for the Council was one of the key drivers for the proposal. The constraint applicable was that the proposed shared service should save the Council not less than 10% of the current internal audit budget.

2.3 Unfortunately protracted negotiations on cost could not achieve a position that was acceptable to both parties. As a result negotiations have concluded and the proposed shared service will not now go ahead.

2.4 However, the Internal Audit teams of both Fylde and Blackpool have experienced a good working relationship in recent years following extensive joint working on shared services currently in place, including council tax, business rates, housing benefits, human resources, payroll and health & safety. It is envisaged that this relationship will continue to develop to the benefit of both teams.

3 Internal Audit Service

3.1 Members will recall that in order to facilitate the envisaged shared service it was agreed that the Head of Internal Audit would take voluntary redundancy in November 2012 and that the remaining staff would transfer to Blackpool Council under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

3.2 In the light of current situation it has now been agreed that the Head of Internal Audit will remain in post on a 3-day flexible retirement basis from November 2012. Other associated changes to the responsibilities and employment terms of certain members of the internal audit team will go some way to address the resulting resource issues.

3.3 Currently the internal audit team has 3.35 FTE in post. Following the above changes the team will have 3.1 FTE staff and it is considered that an effective internal audit service can be maintained to a similar high standard as currently. The service will continue to operate in accordance with the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government.

3.4 The above arrangements will achieve savings in excess of the 10% target for the shared service, satisfying the cost reduction potential previously identified at the time of the restructure.

4 Conclusions

6.1 The proposals for the internal audit service provide a robust arrangement and secure a framework of continuity for the medium term. In the longer term management will need to explore and develop alternative succession plans for the service.

| IMPLICATIONS | |
|---|---|
| Finance | <p>The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control (Accounts and Audit Regulations 2011)</p> |
| Legal, human rights and equalities | Effective audit and risk management enhance good governance and probity of Council action |
| Community Safety | None arising directly from this report |
| Sustainability and Environmental Impact | None arising directly from this report |

| Report Author | Tel | Date | Doc ID |
|---------------|----------------|-------------------|--------|
| Savile Sykes | (01253) 658413 | 20 September 2012 | |

| List of Background Papers | | |
|------------------------------|------|--------------------------------|
| Name of document | Date | Where available for inspection |
| None relevant to this report | | |

REPORT



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| RESOURCES DIRECTORATE | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 9 |

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

Public/Exempt item

This item is for consideration in the public part of the meeting

Summary

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarter to June 2012, there were three authorised operations. In the quarter to September 2012, there were no authorised operations.

Recommendation/s

1. Note the information in the report.

Cabinet portfolio

The item falls within the following cabinet portfolio[s]: Finance & resources: (Councillor Karen Buckley).

Report

The RIPA framework

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.

Continued....

2. Fylde Borough Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or a director. All authorisations are recorded centrally by the Head of Governance.
5. Regulations under RIPA require councillors to consider a report on the use of RIPA at least quarterly.
6. This is the required quarterly report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarters concerned.

| Quarter | Directed surveillance | CHIS | Total | Purpose |
|-----------------------------|-----------------------|------|-------|--|
| Mar -Jun 2012 | 3 ¹ | 0 | 3 | Preventing or detecting crime: Benefit fraud |
| Mar - Jun 2012 ² | 0 | 0 | 0 | |

| IMPLICATIONS | |
|------------------|--|
| Finance | No direct financial implications. This work will be delivered within existing revenue budget resources. |
| Legal | <p>The report is for the information of councillors and is produced to comply with the council's obligations under the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010.</p> <p>The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder.</p> |
| Community Safety | An authorising officer should consider any community safety issues among the other relevant factors in deciding whether to authorise surveillance. |

¹ All three of the authorisations related to the same operation.

² Correct at the time the report was written. Any update will be reported verbally at the meeting and in writing in the next quarterly report.

| | |
|-------------------------------------|---|
| Human Rights and Equalities | None arising directly from this report. |
| Sustainability | None arising directly from this report. |
| Health & Safety and Risk Management | None arising directly from this report. |

| REPORT AUTHOR | TEL | DATE | DOC ID |
|---------------|----------------|----------------|--------|
| Ian Curtis | (01253) 658506 | 23 August 2012 | |

| LIST OF BACKGROUND PAPERS | | |
|---------------------------|------|--------------------------------|
| NAME OF DOCUMENT | DATE | WHERE AVAILABLE FOR INSPECTION |
| None | | |

REPORT

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| RESOURCES DIRECTORATE | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 10 |

CORPORATE GOVERNANCE IMPROVEMENT PLAN 2012/13

Public Item

This item is for consideration in the public part of the meeting.

Summary

The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. At the last meeting of the Committee in June the Annual Corporate Governance Statement was approved, and this Action Plan is presented as a result.

Recommendation

1. The Committee approves the Corporate Governance Improvement Plan and an update on achievement of actions is requested for the January Audit Committee.

Reasons for recommendation

The report indicates the current situation

Alternative options considered and rejected

This report is for information and comment only

Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Report

1. The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. At the last meeting of the Committee in June, the Annual Corporate Governance Statement was approved, and this Action Plan is presented as a result.

| Report Author | Tel | Date | Doc ID |
|----------------|----------------|----------------|--------|
| Tracy Morrison | (01253) 658521 | Date of report | 5/9/12 |

| List of Background Papers | | |
|--|------|--|
| Name of document | Date | Where available for inspection |
| Delivering Good Governance in Local Government | 2007 | All background papers or documents can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk |

Attached documents

1. Corporate Governance Improvement Plan 2012/13.

| IMPLICATIONS | |
|-----------------------------|---|
| Finance | Good governance ensures development of the capacity and capability of the Council to be financially effective and efficient |
| Legal | No specific implications |
| Community Safety | No specific implications |
| Human Rights and Equalities | No specific implications |
| Sustainability and | No specific implications |

| | |
|-------------------------------------|--|
| Environmental Impact | |
| Health & Safety and Risk Management | Good governance encourages informed and transparent decisions which are subject to effective risk management |

Corporate Governance Improvement Plan 2012/13

| SIGNIFICANT GOVERNANCE ISSUES | | AGREED IMPROVEMENT PLAN | | | |
|---|--|-------------------------|--------|-------------|---|
| Objective | Actions | Officer | Date | Status | Comment |
| AGS 1. Deliver effective staff appraisals to 100% of workforce as part of the corporate performance management framework, to provide feedback to employees, counselling and professional development opportunities. | 1. Develop and pilot an effective and targeted employee performance appraisal model for use across the whole Council | AO | Sep 12 | In progress | An effective employee performance appraisal model has been developed and the piloting phase is almost completed |
| | 2. Complete the roll-out process such that the standard employee performance appraisal model is delivered to 100% of the Council's workforce. | AO | Mar 13 | Outstanding | |
| AGS 2. Equalities training and guidance will be provided for all employees to help maintain a positive and inclusive culture throughout the workforce and to ensure that corporate practices and the services continue to meet the needs of all citizens. | 3. Develop and deliver a targeted programme of equalities training and guidance for all staff | IC | Mar 13 | Outstanding | Action brought forward from 2011/12 CGIP |
| AGS 3. Procurement arrangements will be reviewed and enhanced to achieve best value and effective use of resources. | 4. Develop and upgrade the Procurement Strategy to achieve best value and effective use of resources subject to review by scrutiny with recommendations to Cabinet | IC | Nov 12 | In progress | Action brought forward from 2011/12 CGIP |
| AGS 4. Review of Codes of Conduct for both members (in light of the new standards framework) and officers with appropriate training/guidance. | 5. Adopt a revised Code of Conduct for Members in accordance with prevailing regulations/guidance and provide appropriate training/guidance | TM | Jul 12 | Complete | Revised Code of Conduct adopted by Council on 30 July 2012 |
| | 6. Review and refresh the Code of Conduct for Officers in line with current best practice and provide appropriate training/guidance for all staff | IC | Mar 13 | Outstanding | |
| AGS 5. Upgrade the Communications Strategy to protect and enhance the Council's reputation and through high quality communications strengthen links with local people, service users, partner organisations and staff | 7. Review and upgrade the corporate Communications Strategy to ensure high quality communications are an integral part of the work of all staff | NG | Dec 12 | In progress | |

Corporate Governance Improvement Plan 2012/13

| SIGNIFICANT GOVERNANCE ISSUES | | AGREED IMPROVEMENT PLAN | | | |
|---|---|-------------------------|--------|-------------|---|
| Objective | Actions | Officer | Date | Status | Comment |
| AGS 6. In agreement with Blackpool Council, achieve further refinements to reporting capabilities on the revenues and benefits Academy system as to the frequency, format and details of all reports required | 8. Secure agreement with the Revenues and Benefits Shared Service Team concerning the Council's reporting requirements and set agreed timescales for implementation | POD | Apr 12 | Complete | |
| AGS 7. Business Continuity arrangements will be reviewed and refreshed to ensure that contingency plans remain robust in light of any emergency which may face the Council | 9. Review and refresh the Business Continuity arrangements to ensure that contingency plans remain robust | AW | Mar 13 | In progress | Action brought forward from 2011/12 CGIP Revised Action Plan agreed by Strategic RM Group |
| AGS 8. Review and refine the project management framework to achieve a consistency of approach and best practice across all Council departments in the delivery of key business objectives | 10. Review and refine the project management framework to meet the Council's requirements in accordance with prevailing best practice | AS | May 12 | Complete | |

REPORT

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| STRATEGIC DEVELOPMENT SERVICES | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 11 |

SANDWINNING OPERATIONS

Public Item

This item is for consideration in the public part of the meeting.

Summary

At its meeting on 22 September 2011 the Committee was presented with a report updating members on matters associated with the sandwinning operation. The Committee resolved to request that the possible removal of sand without payment to the Council is investigated further, and the results reported back to the Committee in January.

At its meeting in January the Committee was presented with a report informing it that vehicles filled with sand seen leaving the beach at Squires Gate are most likely from Greenwood's Transport which has a contract to remove sand from the Blackpool Light Craft Club. The committee resolved that:

- "1) The Committee notes the outcome of the investigation which is that there is no evidence that sand is being removed without payment to the Council.
- 2) The issue referred to in 1) above be monitored and that an update report be submitted to the September meeting of this Committee."

The purpose of this report is to address the second resolution and to inform the Committee that further monitoring has taken place and that there remains no evidence that sand is being removed without payment to the Council.

Recommendation

That the Committee notes the result of the investigation which is that there is no evidence that sand is being removed without payment to the Council.

Alternative options considered and rejected

N/A

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Portfolio Title: Planning

Councillor Name: Cllr. Dr. T. Fiddler

Report

Following the resolution of the Audit Committee in September 2011 “to request that the possible removal of sand without payment to the Council is investigated further, and the results reported back to the Committee in January”, the Principal Estates Surveyor investigated the sighting of heavy goods vehicles laden with sand leaving the beach at Squires Gate.

2. Rainford’s were asked whether they are aware of vehicles from the sandwinning operation leaving the beach at Squires Gate. They responded that under no circumstances does this happen.

2. Several visits to Squires Gate were made in September and October. There were no sightings of HGV’s and no HGV tyre tracks on the beach in this area. Paul McWilliams confirmed that he regularly patrols the beach from Squires Gate and that he has never seen sandwinning vehicles leaving the beach at Squires Gate. He is, however, aware that vehicles belonging to Greenwood’s Transport regularly collect and remove windblown sand from the compound of the Blackpool Light Craft Club at Squires Gate Lane.

4. As a result of his investigations the Principal Estates Surveyor concluded that there was no evidence that sand is being removed without payment to the Council, and that the most likely explanation for the sighting of vehicles at Squires Gate Lane was the removal of sand from the Blackpool Light Craft Club compound.

5. At its meeting in January Audit Committee noted the findings of the investigation and resolved that further monitoring should take place and the findings reported back to this September meeting.

6. Since January the Principal Estates Surveyor has inspected the beach at Squires Gate on around 5 occasions and has seen no evidence of HGV movements between the Rainford’s site and Squires Gate. The Beach Patrol Officer has continued his regular patrols of the beach from Squires Gate and has also seen no evidence of sand being removed from the beach via Squires Gate. He has had further sightings of Greenwoods vehicles leaving at Squires Gate Lane filled with sand from the Blackpool Light Craft Club.

7. The Committee is asked to note that following further monitoring there remains no evidence of the removal of sand without payment to the Council

Risk Assessment

There are no risks associated with this report

| Report Author | Tel | Date | Doc ID |
|---------------------------------------|----------------|----------------|--------|
| Gary Sams. Principal Estates Surveyor | (01253) 658462 | 17 August 2012 | |

| List of Background Papers | | |
|---------------------------|------|--------------------------------|
| Name of document | Date | Where available for inspection |
| None | | |

Attached documents

| IMPLICATIONS | |
|---|---------------------------------------|
| Finance | None arising directly from the report |
| Legal | None arising directly from the report |
| Community Safety | None arising directly from the report |
| Human Rights and Equalities | None arising directly from the report |
| Sustainability and Environmental Impact | None arising directly from the report |
| Health & Safety and Risk Management | None arising directly from the report |

REPORT



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| RESOURCES DIRECTORATE | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 12 |

RISK ACTION PLAN 1 – ACCOMMODATION

Public item

This item is for consideration in the public part of the meeting.

Summary

The report summarises progress to date on the risk actions contained in Risk Action Plan 1 – Accommodation, as requested by the Audit Committee at its meeting on 21 June 2012.

The report links principally to the Corporate Objective - “To meet the expectations of our customers”.

Recommendations

It is recommended that the report of the progress made on Risk Action Plans 1 – Accommodation be noted and appropriate comments made.

Executive Portfolio

The item falls within the following executive portfolio: Finance & Resources (Cllr Karen Buckley)

Report

1 Introduction

1.1 At the 21 June 2012, meeting the Audit Committee approved the Strategic Risk Register for 2012-2013. Action Plan 1 – Accommodation, was included within the Strategic Risk Register. The recommendation of the committee was that an update on progress on action plan 1 be reported to the September 2012, meeting of the Committee.

2 Risk Action Plan 1 - Accommodation

2.1 Risk Action Plan 1 – Accommodation (Appendix 1) is attached to this report. Of the 8 risk actions that should have been completed by the end of August 2012, 3 have been

completed, these being the Cabinet resolution for the sale of the Public Offices, the agreement of the strategy to accommodate operational depot requirements and the final floor plans for the refurbished accommodation. One action (reporting depot arrangements to cabinet) is no longer necessary. The outstanding items are detailed in table 1 below.

Table 1

| Risk Action | Scheduled completion date | Estimated completion Date |
|---|---------------------------|---|
| <u>Complete sale of 3 sites</u> <i>Contracts signed for St Davids Rd and Derby Rd</i> | Joint date of 30/06/12 | Contracts signed and exchanged for St David's Road on 15/08/12 Derby Rd expected by 30/09/12 |
| <i>Delays experienced with conveyancing of sites</i> | | |
| <u>Complete sale of 3 sites</u> <i>Contract signed for Public Offices</i> | 31/07/12 | 30/11/12 |
| <i>Purchaser in discussions with possible end users which has impacted on agreement over terms</i> | | |
| <u>Finalise depot requirements</u> <i>Report to Cabinet</i> | 30/06/12 | no longer required |
| <i>Following agreement of the Accommodation Project Group to rent alternative depot accommodation on relatively short term leases formal Cabinet approval is not required.</i> | | |
| <u>Town Hall refurbishment</u> <i>Accommodation Project Group agree to appointment of project manager/QS</i> | 30/06/12 | Review date 30/11/12 |
| <i>The Accommodation Project Group considered progress on disposals at their meeting on 16/08/12 and in the light of this agreed to delay consideration of appointment of Project Manager/QS until asset sales had progressed further. Review date 30/11/12</i> | | |
| <u>Town Hall refurbishment</u> <i>Report presented to Cabinet re appointment for approval</i> | 31/07/12 | 21/11/12 |
| <i>The Accommodation Project Group considered progress on disposals at their meeting on 16/08/12 and in the light of this agreed to delay consideration of a report to Cabinet until 21/11/12</i> | | |

There have been some delays experienced in the originally anticipated deadlines for exchange of contracts which will impact ultimately on the dates for the completion of contracts. In this regards progress depends on the willingness of the purchasers to agree to matters of detail as the conveyancing process is undertaken. Cabinet has made its position clear that it will not approve further expenditure being incurred without the confidence of receiving income from the sale of the sites for disposal. The agreed action plan highlights that further actions are dependent on this. As a result of these delays the subsequent actions that follow on from the sales will need to be reviewed to ensure that the target dates are still realistic. The Strategic Risk Management Group will review the action plan taking into account the latest decisions of the Accommodation Project Group and suggest appropriate amendments to the Action Plan to Management Team.

| Implications | |
|---|---|
| Finance | None arising directly from the recommendations of this report |
| Legal, human rights and equalities | None arising from this report |
| Community Safety | None arising from this report |
| Human Rights and Equalities | None arising from this report |
| Sustainability and Environmental Impact | None arising from this report |

| Report Author | Tel | Date | Doc ID |
|---|-------------------|---|---------------------|
| Andrew Wilsdon | (01253) 658412 | Date of report | Audit Cttee Sept 12 |
| List of Background Papers | | | |
| Name of document Strategic Risk Register | Date June 2012 | Where available for inspection Andrew Wilsdon's Office | |

2012/1213 Risk Register

Risk Management Action Plan No: 1

Champion – Director of Development Services

| | |
|---------------------------------------|--|
| Issue: Accommodation | Description: Successful completion of the Accommodation Project |
| Council Objective | Performance Places |

| |
|---|
| Existing Controls in place |
| <ul style="list-style-type: none"> • Two sites about to be sold • Agreed strategy for refurbishment inc. planning permission • Bids on 3rd site • Lease costs & proposals for Depots • Negotiations for acquiring additional depot at Snowden Rd • Regular accommodation project meetings • Select list for consultants |

| Required management action/control | Responsible for action | Critical success factors & KPI's | Review frequency | Key Dates |
|--|------------------------|--|------------------|--|
| Complete sale of 3 sites | PLW/GS | <ul style="list-style-type: none"> • Contracts signed for St David's road & Derby road • Cabinet resolution for sale of Public Offices • Contract signed for sale of Public Offices • Completion of contract of St David's road and Derby road • Completion of contract of Public Offices | Jun 12 Jun 12 | May12 May12 ✓ Jul 12 Oct 12 Jan 13 |
| Finalise depot requirements/solution inc costs | Man Team/GS | <ul style="list-style-type: none"> • Agreement of strategy to accommodate operational depot requirements • Report to Cabinet • Procure alternative facilities Details of this dependant upon decision taken above | May 12 | May 12 ✓ Jun 12 N/A Sep 12 |

APPENDIX 1

| Required management action/control | Responsible for action | Critical success factors & KPI's | Review frequency | Key Dates |
|------------------------------------|------------------------|---|------------------|---------------|
| Town Hall refurbishment | PLW/AD | <ul style="list-style-type: none"> Finalise floor plans Accommodation Working Group agree to appointment of project manager/QS and report presented to Cabinet for approval | | Apr 12 ✓ |
| | | THE FOLLOWING ACTIONS AND DATES ARE DEPENDANT UPON A DECISION BEING TAKEN BY THE AWG AND CABINET IN MAY | | Jun 12 |
| | | <ul style="list-style-type: none"> Appoint project manager/QS to work up draft scheme and tender the work | Jun 12 | Jun to Nov 12 |
| | | <ul style="list-style-type: none"> Procure temporary office accommodation | Jun 12 | Nov 12 |
| | | <ul style="list-style-type: none"> Let contract for refurbishment works Decanting Commence refurbishment contract | Jun 12 | Dec12 |
| | | | Jun 12 | Jan 13 |
| | | | Jun 12 | Feb 13 |

REPORT



| REPORT OF | MEETING | DATE | ITEM NO |
|--------------------------|-----------------|----------------------|---------|
| RESOURCES DIRECTORATE | AUDIT COMMITTEE | 20 SEPTEMBER 2012 | 13 |

HIGH/MEDIUM PRIORITY ACTIONS 2011-12 (UPDATE)

Public Item

This item is for consideration in the public part of the meeting.

Summary

At its meeting in June 2012 the Committee considered the Internal Audit Annual Report for 2011-12. The Committee supported the Chairman's suggestion for him to meet with responsible managers for audit reviews where the implementation of agreed 'high/medium' priority actions was below the committee's target. This report sets out the current position.

Recommendations

The Committee notes the revised position with regard to the 'high/medium' priority actions implemented by management arising from internal audit work in 2011-12.

Reasons for recommendation

The report indicates the current situation.

Alternative options considered and rejected

This report is for information and comment only.

Cabinet Portfolio

The item falls within the Finance & Resources portfolio (Councillor Karen Buckley)

Continued....

Background

1. At its meeting on 21 June, the Committee considered the Internal Audit Annual Report for 2011/12. One of the matters contained in the report related to the outcome of follow up reviews undertaken during the year and the implementation of agreed actions arising from audit reviews.
2. The Audit Committee has set a target of 95% for the combined implementation of 'high/medium' priority actions. The classification of recommendations as 'high' or 'medium' priority indicates where resources might best be applied. The percentage of 'high/medium' priority actions implemented in 2011/12 was reported to be 84.3% compared to the previous year's 93.1%.
3. Table One shows the 'high/medium' priority combined implementation rate as reported to the Committee in June for a group of seven reviews where the implementation rate was below the Committee's target of 95%:

Table One: High & Medium Recommendations Implemented as at June 2012

| Audit Area | High Priority | | Medium Priority | | % Implemented |
|------------------------------------|---------------|----|-----------------|----|---------------|
| | Yes | No | Yes | No | |
| Contracts & Tendering (Governance) | - | - | 8 | 3 | 73% |
| Trade Waste | - | - | 10 | 4 | 71% |
| Sandwinning | 2 | - | 2 | 2 | 67% |
| Asset Management | - | - | 7 | 1 | 88% |
| Development Control | 1 | - | 3 | 5 | 44% |
| Annual Leave/Flexitime | - | - | 8 | 2 | 80% |
| Mayoral Charity | - | - | 1 | 3 | 25% |
| Group Totals | 3 | - | 39 | 20 | 68% |

4. As a result of the disappointing outcome, the Audit Committee resolved that the Chairman should meet informally with responsible managers to discuss the non-implementation of agreed 'high/medium' priority actions arising from audit work. Consequently the Chairman supported by the Head of Internal Audit attended a series of such meetings on 26 July.

Current Position

5. Following this intervention some further progress has been noted and Table Two shows the present position for the above seven audit reviews:

Table Two: High & Medium Recommendations Implemented as at August 2012

| Audit Area | High Priority | | Medium Priority | | % Implemented |
|------------------------------------|---------------|----|-----------------|----|---------------|
| | Yes | No | Yes | No | |
| Contracts & Tendering (Governance) | - | - | 9 | 2 | 82% |
| Trade Waste | - | - | 12 | 1 | 92% |
| Sandwinning | 2 | - | 4 | 0 | 100% |
| Asset Management | - | - | 7 | 1 | 88% |
| Development Control | 1 | - | 4 | 3 | 63% |

| | | | | | |
|------------------------|---|---|----|---|------|
| Annual Leave/Flexitime | - | - | 10 | 0 | 100% |
| Mayoral Charity | - | - | 2 | 2 | 50% |
| Group Totals | 3 | - | 48 | 9 | 85% |

6. For the seven reviews where the 'high/medium' implementation rate in June was below the Committee's target of 95%, nine further recommendations have been actioned and the percentage implemented for this group has risen by 17%. Two of the reviews are now implemented in full.
7. The improvement for this small group has had a positive impact on the overall 'high/medium' implementation rate for all reports followed up in 2011/12. As indicated above the figure reported in June was 84.3%. The revised figure taking account of the developments in Table Two shows the annual 'high/medium' priority implementation rate has increased to 92.3%, just marginally below the figure for 2010/11.
8. The annual implementation rate for all recommendations including low priorities has also been positively affected. From a figure of 84.4% in June, it has now improved to 90.8%. This is above the Committee's target of 90% for this particular indicator.
9. In addition to the current progress, implementation of a further small number of agreed actions has been promised over the next six months. This could result in the 'high/medium' implementation rate exceeding the Committee's target of 95%.

Risk Assessment

This item is for information only and makes no recommendations. Therefore there are no risks to address.

| Report Author | Tel | Date | Doc ID |
|---------------|----------------|----------|--------|
| Savile Sykes | (01253) 658413 | 20/09/12 | |

| List of Background Papers | | |
|--|----------|---|
| Name of document | Date | Where available for inspection |
| Head of Internal Audit's Annual Report | 21/06/12 | All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk |

| IMPLICATIONS | |
|--------------|--|
| Finance | The Accounts and Audit Regulations 2003 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. |

| | |
|---|--|
| Legal | No specific implications |
| Community Safety | No specific implications |
| Human Rights and Equalities | No specific implications |
| Sustainability and Environmental Impact | No specific implications |
| Health & Safety and Risk Management | Internal audit work covers key areas of risk and should therefore strengthen the internal control framework. |

Audit Committee



| | |
|--------------------|---|
| Date: | Thursday, 21 June 2012 |
| Venue: | Town Hall, St. Annes |
| Committee members: | Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Linda Nulty |
| Other Councillors: | None |
| Officers: | Tracy Morrison, Ian Curtis, Paul Swindles, Saville Sykes, Andrew Wilsdon, Paul Rogers |
| Other Attendees: | None |

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000. No declarations were declared.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 29 March 2012 as a correct record for signature by the Chairman.

3. Substitute members

There were no substitutions.

4 Annual Governance Statement

Tracy Morrison, Director of Resources, presented the Annual Governance Statement which had been prepared under the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. The statement explained how Fylde Borough Council had complied with the code and showed the effectiveness of governance arrangements. She informed the Committee that the document was an assurance statement of the Council's effectiveness in achieving its aims and objectives. The document sets out how Council manages its affairs; and outlined the political and management structure. She

emphasised that Corporate Governance Group comprising the Chief Executive, the Monitoring Officer, the Section 151 officer, the Head of Internal Audit and the Head of Governance, had been established to review governance arrangements and their robustness. Areas requiring attention in the forthcoming year had also been identified within the statement. In response to a question from the Chairman, Councillor John Singleton, she advised that an action plan for approval would be submitted to the committee at its September meeting.

Ms Morrison informed the committee that the words 'Head of Finance' in the first paragraph on page 11 of the Statement should be replaced with the words 'Chief Finance Officer'.

Following discussion it was RESOLVED:

That subject to the words 'Head of Finance' in the first paragraph on page 11 of the Annual Governance Statement should be replaced with the words 'Chief Finance Officer', to approve the Annual Governance Statement for signature by the Chairman.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

5. Constitution Review

Tracy Morrison, Director of Resources, presented a report regarding the council's Constitution which currently needed to be re-adopted by the council each year. The report highlighted some proposed changes and invited the committee to recommend to the Council that it formally re-adopts the constitution subject to those changes. She informed the Committee that some of the proposed changes had been put forward by Mark Towers, Blackpool's Monitoring Officer, in the light of issues some of which relate to Melton Grove.

She made reference to the traditional way of reporting the review of the constitution every year and suggested that in future, this review could be carried out every three years. She also suggested that where cosmetic changes were involved that these Would be made as a matter of course.

Councillor Singleton observed that he was content with the recommendations in the report but requested the removal of approval of the detailed breakdown of Capital schemes to Portfolio Holders and that this remain within the remit of Cabinet as a collective.

Ms Morrison responded to a question regarding the current position in relation to Standards Committee by informing Members that a letter would imminently be sent to all Councillors informing them that from the new code of conduct being adopted in July it will be the responsibility of all members before the end of 28 days to disclose pecuniary interests and subsequent changes must be notified to the Monitoring Officer. A report would be submitted to Council in July on the matter.

Following detailed discussion it was RESOLVED:

that subject to the following amendments, the Council re-adopt the constitution incorporating the proposals as set out in the report:

1. The proposal at paragraph 2.3 be amended to read 'to reiterate a more detailed definition of a key decision as described within the Council's Forward Plan and include it in the Constitution.'
2. The final sentence in paragraph 5 on page 19 be deleted.
3. The proposal in paragraph 3.6 on page 20 to read 'to implement the proposed change in respect of to the Notice of Motions procedure in that a notice of motion will automatically be debated at Council meetings subject to them being moved and seconded.'
4. The proposal in paragraph 6 to read 'to introduce a Monitoring Officer Protocol and guide /criteria for members on Outside Bodies for presentation back to members during the autumn period.'

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

6. Regulation of Investigatory Powers Act 2000: Guidance

Ian Curtis, Head of Governance, presented a report on the above. He explained that councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. He drew members attention a revised report circulated at the meeting (a copy of which is attached to these Minutes).

Mr Curtis referred to paragraph 8 of the report and advised that although not carried out very often, there had been two authorisations for directed surveillance since June 2011. Those authorisations were being carried out by Preston City Council and evidence was still being gathered on those matters.

Mr Curtis further advised that new regulations, when in force, would require that authorisations be endorsed by the Magistrates' Court as well as a director.

It was RESOLVED:

1. To note the information in the report.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

7. Risk Management Annual Report

Andrew Wilsdon, Risk and Emergency Planning Officer, presented a report which summarised the year end report on the 2011- 2012 Risk Register Action Plans and the work undertaken by the Council's Risk and Emergency Planning Officer in producing the Strategic Risk Register for 2012 - 2013.

Mr Wilsdon informed members that the overall completion rate for the 2011-12 Risk Action Plans was 90%. The actions still to be completed related to the Town Hall refurbishment works that had been delayed by the sale of the properties and the Planning/LDF actions referred to in paragraph 2.2 of the report.

Mr Wilsdon drew the committee's attention to the fact that a revised Risk Management Strategy had been presented to the September 2011 Audit committee meeting for approval. As the current version had only been in place since that date, a further review would not be undertaken until 2013.

In respect of the 2012-2013 Strategic Risk Register he referred to paragraph 1.3 in the report which outlines the officers/members involved in the identification of risks for the risk register. He referred to paragraph 4.2 in the report, in which it was noted that some 57 risk actions are included in the 6 risk action plans. He advised that most of these actions would be completed in 2012-13 but some would be carried forward and completed in 2013-14.

He informed the Committee that the Strategic Risk Management Group would be monitoring progress on the Risk Management Action Plan and a half year report on the progress would be submitted to the Committee in December.

Councillor John Singleton, Chairman, referred to the delays in the office accommodation refurbishment and informed the committee that he had arranged a meeting with the Leader of the Council to discuss the situation.

Councillor Singleton referred to the Governance Action Plan on page 56 and asked why the report referred to in the third action had not been presented to this meeting, as requested at the March Audit Committee meeting. Tracy Morrison, Resources Director, advised that some of the recommendations had been incorporated in the constitution review and some in the governance plan.

With regard to a question from Councillor Kath Harper on the last action in the Governance Plan, Ms Morrison informed members that the first of the Three Tier Forums had been held and that the six Borough Councillors had received training for their role as Forum members.

It was RESOLVED:

1. that subject to i below, the year end report of the progress made on the 2011-2012 Risk Action Plans be noted:

(i) that a report on the progress Risk Management Action Plan 1 be presented to the September Audit committee meeting.

2. that the 2012-2013 Strategic Risk Register be approved

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

8. Internal Audit Annual Report 2011-12

Savile Sykes, Chief Internal Auditor, presented a report which provided an opinion on the effectiveness of the Council's system of internal control in support of the Annual Governance Statement. It also summarised the work undertaken by internal audit from April 2011 to March 2012 and performance information for the same period.

Mr Sykes referred to paragraph 2.2 of the report and the positive opinion relating to the Council's control environment and informed the committee that much of the remainder of the report was the reasoning for that opinion.

He explained that in arriving at the internal audit opinion the following areas had been taken into account:

- External Audit Work during 2011/12
- Other External Inspections
- Risk Management effectiveness
- Corporate Governance effectiveness

- Internal Audit effectiveness
- Internal Control

He commented about each of the above in turn and corrected the date referred to in the final line of paragraph 2.4.13 in relation to the effectiveness of internal audit, which should read January 2012.

Mr Sykes referred to table 3 on page 62 in relation to internal control and informed the committee that the average assurance score of 4.2 in 2011-12 for the Main Financial Systems reviewed by internal audit was the highest achieved over a five year period.

With regard to the nine 'High Priority' risks identified as a result of internal audit work Mr Sykes reported that five had been addressed, while the remaining four had not yet reached the agreed date for resolution.

He advised that twenty nine follow up reviews had been undertaken during the year. The overall rate of implementation was 84%, which was below the target set by the Audit Committee.

Mr Sykes discussed the special investigations and counter fraud work undertaken during the year. He referred to paragraph 3.1.7 on page 66 relating to the National Fraud Initiative and advised that savings generated had now risen to £26,000. He also informed members that 209 Single Person Discounts had been investigated revealing 18 fraudulent claims with 162 still in progress.

Finally Mr Sykes referred to the 95% of the Internal Audit Plan completed and the high levels of client satisfaction with the internal audit and the results of the service performance indicators.

Councillor Linda Nulty questioned the low implementation of recommendations for Development Control in Tables 5 and 6. Mr Sykes informed the committee that a high number of issues had arisen from the review of Development Control but that responsible officers had not fully addressed the agreed actions..

Councillor John Singleton, Chairman, expressed his disappointment that the implementation rate had fallen to 84 per cent. He asked the Committee to approve a meeting to be arranged by Tracy Morrison for himself and the Vice Chairman to meet with all managers with outstanding actions to discuss the issue.

Councillor Kath Harper requested an explanation of the term forensic readiness referred to on page 67 in paragraph 3.2.2. Mr Sykes advised that this was a policy to ensure that the Council is able to use digital evidence effectively in any legal, employment or disciplinary matter by ensuring that data is not corrupted by inappropriate handling.

With regard to a question from Councillor Kath Harper concerning the additional time needed to complete the car parking audit, Mr Sykes advised that car parking arrangements were complicated with numerous companies being involved with separate contracts and because of these factors more audit time was needed.

It was RESOLVED

1. To approve the annual report of the Head of Internal Audit.
2. To note the Internal Audit opinion that reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
3. To approve a meeting to be arranged by Tracy Morrison that he and the Vice Chairman should meet with responsible managers to discuss the issue regarding non implementation of agreed actions arising from audit work.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

9. Internal Audit Shared Service

Tracy Morrison, Director of Resources, presented a report which advised the Committee of the proposal to enter into a shared internal audit service between Fylde Borough Council and Blackpool Council. The background to the proposal was explained in the report together with the principles underlying the shared service concept. An initial assessment of the proposal was provided, which incorporated the key risks identified and suggested mitigation. The purpose of the report was principally informative but it also sought feedback, input and comment from the Audit Committee.

She referred to the Council restructure in January 2012 which identified that internal audit was an area where potential cost savings could be made with the opportunity to enter into a shared audit service with Blackpool Council. The main factors were to reduce costs and increase resilience. She emphasised that although Blackpool had a larger qualified audit team, the Borough Council's team were very experienced able officers headed by a qualified professional officer. Initial discussions had taken place with Blackpool Council and which had raised issues that were set out on pages 73 and 74 of the report.

Ms Morrison informed the Committee that this Council would still retain its own Audit Committee and separate internal audit plan. The Chief Internal Auditor of the shared service or deputy would attend all meetings of the Committee and report on matters in the same manner as presently. Blackpool Council would be the employing authority.

An initial scheme was being considered by officers and Management Team had identified the need for clarification on various issues, one of which was cost savings. A risk assessment had been undertaken and the key risks identified were set out on pages 74 and 75 of the report which also highlighted mitigating actions.

Councillor Ben Aitken asked what provisions would be made in any agreement should the shared service prove unsuccessful. Savile Sykes, Chief of Internal Auditor, informed the Committee that he envisaged a Service Level Agreement would be developed, which would contain a clause allowing the Borough Council to give six months notice to terminate the shared service should it prove to be unsuccessful.

In response to a member's question, Ms Morrison advised that the Borough Council's audit team would be given the opportunity to achieve formal qualifications in the audit field.

Councillor Kath Harper made reference to Risk 2 in the risk assessment on page 75 of the report regarding the achievement of a fair share of service resources for Fylde. Ms Morrison advised that she would make certain that a robust client function would be established to ensure the Council was not disadvantaged.

Mr Sykes also stressed that there would be a separate audit plan for the Borough Council guaranteeing the level of then internal resource to be provided. He informed the committee that this Council's expected performance requirements would be included in service level agreement with outcomes reported to the Audit Committee.

Ms Morrison informed the Committee that the proposed date for the implementation of a shared service, subject to Cabinet approval was October/November 2012.

The Chairman requested update meetings with Ms Morrison on progress.

It was RESOLVED

1. To note the proposal for the Council to enter into a shared service agreement with Blackpool Council in relation to Internal Audit, subject to further detailed discussions and update reports as necessary.
2. To approve regular update meetings between the Chairman, Vice Chairman and Ms Morrison on progress in relation to the proposed shared audit service.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

10. Effectiveness of the Audit Committee

Savile Sykes, Chief Internal Auditor, presented a report on the findings of the annual self assessment exercise undertaken by the Chair and Vice Chair of the Committee in relation to the effectiveness of the Audit Committee. The self assessment compared existing arrangements with those advocated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their published advice.

He referred to the self assessment checklist against best practice starting on page 80 of the report.

It was RESOLVED

The Committee agrees the findings of the self assessment of the effectiveness of the Audit Committee against the checklist provided by the CIPFA better governance forum in their publication 'A Toolkit for Local Authority Audit Committees' undertaken by the Chair and Vice Chair of the Committee.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

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