Agenda

Audit Committee

Date	Thursday, 26 September 2013 at 6:15 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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The code of conduct for members can be found in the council's constitution at
www.fylde.gov.uk/council-and-democracy/constitution

REPORT

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	26 SEPTEMBER 2013	4

ANNUAL STATEMENT OF ACCOUNTS 2012/13

PUBLIC ITEM

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

SUMMARY

1. 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 2013.

2. The statutory Annual Accounts and supporting financial statements are prepared 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 2012/13 (The Code).

3. The Audit Committee has the authority to approve the Council's after-audit Annual Statement of Accounts, and is recommended to do so.

RECOMMENDATIONS

1. Audit Committee is recommended to approve the Statement of Accounts for 2012/13.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Portfolio Title: Finance and Resources Councillor Name: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions relating to the Statement of Accounts for 2012/13.

REPORT

INFORMATION

1.1 The Accounts and Audit Regulations 2011 require the Council's responsible financial officer (Section 151 Officer) to prepare and certify that the Statement of Accounts "present a true and fair view of the financial position" of the Council for the 2012/13 financial year by 30th June 2013. The Council is then formally required to approve and publish the Statement of Accounts no later than 30th September 2013.

1.2 The Council has delegated to Audit Committee the requirement to approve the Statement of Accounts for 2012/13 by 30th September 2013, in line with the Accounts and Audit Regulation 2011.

1.3 The 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 2012/13 (The Code).

1.4 The Council's external auditors audit the draft accounts prepared by the Council and give an opinion on them. 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 above.

1.5 For the 2012/13 the Code introduced the following changes:

- Extended guidance on the disclosure requirements for Exit Packages
- Additional disclosures to Financial Instruments in respect of the transfer of financial assets. This change has no impact for the Council's financial statements.

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

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 2013.

EXTERNAL AUDIT

1.7 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.

1.8 If the Auditors identify any material changes to the Accounts, these will be reported to Members in their independent audit findings report.

CONCLUSION

1.9 The deadline for the internal production and external audit of the Statement of Accounts for 2012/13 has been achieved.

IMPLICATIONS	
Finance	The financial implications are contained within the body of this report
Legal	The Council (delegated to Audit Committee) is required to approve the Statement of Accounts for 2012/13 by 30th September 2013 in line with the Accounts and Audit Regulation 2011.
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
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Section 151 Officer	01253 658566	September 2013	

LIST OF BACKGROUND PAPAERS		
Name of document	Date	Where available for inspection

Attached documents

1. Annual Statement of Accounts 2012/13

STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED

31ST MARCH 2013

Fylde Council

CONTENTS

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 2013 on pages 20 to 23. 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 2012/13.

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 16, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 2013 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 2012/13.

INDEPENDENT AUDITORS REPORT

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 81 to 85 which accompanies the financial statements does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; 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.

We have nothing to report in respect of these matters.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
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 November 2012, 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 2013.

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 November 2012, 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 2013.

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
26th September 2013

EXPLANATORY FOREWORD BY CHIEF FINANCIAL OFFICER

1. INTRODUCTION

The Council is statutorily required to produce annual accounts, and this document sets out the Council's Statement of Accounts for the financial year ending 31st March 2013. The Accounts and Audit Regulations 2011 require me, as the Council's responsible financial officer, to certify that they 'present a true and fair view of the financial position' for the 2012/13 financial year by 30th June 2013. The Council is then formally required to approve and publish the Statement of Accounts no later than 30th September 2013. This function is delegated at Fylde to the Audit Committee. Following approval, the Statement of Accounts must be signed and dated by the member presiding at the meeting at which approval is given.

The accounts are audited by the Council's External Auditors, KPMG, who also review whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and issue a conclusion on this, as part of their report to those charged with governance, to the Council's Audit Committee at the conclusion of the audit.

In my role as Chief Financial Officer and the Council's statutory Section 151 Officer, I am required to prepare an explanatory foreword to accompany the Statement of Accounts. The foreword is prepared in a style to enable readers to understand and interpret the accounting statements. By producing this report, I aim to give electors, local residents, Council Members, partners, stakeholders and other interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

Capitalising on the good practice now established in closing the accounts, the style and format of the accounts that has been used for 2012/13 is similar to that used last year. 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 2012/13, to explain the Council's financial position as at 31st March 2013, and to give a summary insight in to what the financial future holds for the Council.

The format of the Statement of Accounts is heavily prescribed and follows the requirements as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code), and the Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

2. MEDIUM TERM FINANCIAL STRATEGY

The Council has established and embedded sound and improving financial management practices, the cornerstone of which is a Medium Term Financial Strategy (MTFS). The strategy is updated and reported to Members on a regular basis, with the latest update being approved at the Council's meeting of 4th March 2013. In that report I concluded, having taken account of the major items of expenditure and income and their sensitivity to change, together with the risks detailed in the report, that the finances of the Council are robust.

The purpose of the MTFS is set out in detail in that document, together with details of: the Vision for the Borough; the Council's Strategic Planning and Performance Management Framework; the Council's Capital Strategy and Asset Management Plan; Savings and Growth proposals; Reserves and Balances provision; details of the Council's Capital Programme; key areas of financial risk facing the Council; and a five year financial forecast for the Council. One aim of the MTFS is to ensure that the resources available to the Council are aligned with the priorities set out within the Council's approved Corporate Plan. Both the MTFS and the updated Corporate Plan, which was approved by Cabinet at its meeting of 26th June 2013, are available at www.fylde.gov.uk.

3. CHANGES INTRODUCED BY THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2012/13 (THE CODE)

For 2012/13 'The Code' has introduced the following changes:

- Extended guidance on the disclosure requirements for Exit Packages
- Additional disclosures to Financial Instruments in respect of the transfer of financial assets. This change has no impact for the Council's financial statements.

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

4. THE STATEMENTS

To assist in the interpretation and understanding of the Statement of Accounts, I set out below the purpose of each of the core financial statements contained within this document.

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).
- *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.
- *Balance Sheet* – this sets out the Council's assets and liabilities as at 31st March 2013 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 2012/13 the Annual Governance Statement will be included within the Statement of Accounts.

5. 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.

5.1 REVENUE EXPENDITURE

This part of the foreword deals with the revenue outturn position for the Council.

On the 4th March 2013, Council approved a Revised Revenue Budget net requirement of £9.419m for 2012/13. The outturn position for 2012/13 is a net requirement of £9.003m, resulting in a favourable variance (before financing) of £416k. A £14k favourable variance against the budgeted total of financing received during the year has resulted in a Revenue Budget underspend, before slippage requests, of £430k. There are a number of budget variances arising from slippage and other adjustments which were recommended for operational effectiveness. These items total £73k. The underlying underspend after accounting for this slippage is therefore reduced from £430k to £357k.

This favourable position has been generated because throughout 2012/13, in response to the uncertainty surrounding the Government's Comprehensive Spending Review, there has been close control of expenditure by the Council's Management Team, and officers with budget holder responsibility were instructed to remain prudent and minimise expenditure commitments and maximise efficiencies and savings wherever possible. That instruction remains in place, and has resulted in the generation of in-year savings throughout the majority of 2012/13.

The underspend position is summarised in Table 1 below:

Table 1 – General Fund Revenue Outturn Position 2012/13

	Budget	Actual	Variance	
	£'m	£'m	£'m	
Net expenditure for the year	9.419	9.003	(0.416)	(Fav)
Financing for the year	(10.375)	(10.389)	(0.014)	(Fav)
Surplus of resources for the year	**(0.956)**	**(1.386)**	**(0.430)**	(Fav)
Add budgeted transfer from events reserve	(0.040)	(0.040)	0	
Recommended transfers to reserves	**(0.996)**	**(1.426)**	**(0.430)**	(Fav)
Analysis of transfers to reserves:				
- transfer to General Fund reserve	(0.996)	(1.069)	(0.073)	(Fav)
- transfer to earmarked reserves per table 2	0	(0.357)	(0.357)	(Fav)
Transfers to reserves	**(0.996)**	**(1.426)**	**(0.430)**	(Fav)

The transfers to earmarked reserves of £357k can be summarised as follows:

Table 2 – Transfers to earmarked reserves

	Transfer to Reserves
	£'000
Transfer to Land Charges Reserve	38
Transfer to Capital Investment Reserve	319
	357

The £38k relating to the Land Charges Reserve was a top-up of an existing reserve established in order to provide full cover for potential future costs arising from claims against the Council.

Budget Council on 4th March 2013 approved the creation of a Capital Investment Reserve in the sum of £521k, fully funded by an equivalent transfer of £521k from the Comprehensive Spending Review Reserve. Cabinet subsequently approved that the remaining favourable revenue outturn variance of £319k be transferred into the Capital Investment Reserve. The purpose of this Reserve is to fund capital investment in the future and to minimise the need for additional borrowing. The balance on the reserve will stand at £840k following the transfer in. The Council, at the same meeting, approved commitments of £170k from this reserve spread between 2013/14 and 2014/15, leaving an uncommitted balance available of £670k for capital investment.

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 26th June 2013. A copy of the report can be found at the Council's website at www.fylde.gov.uk.

The 2012/13 Gross Cost of General Fund Services is analysed by service area in Table 3 below:

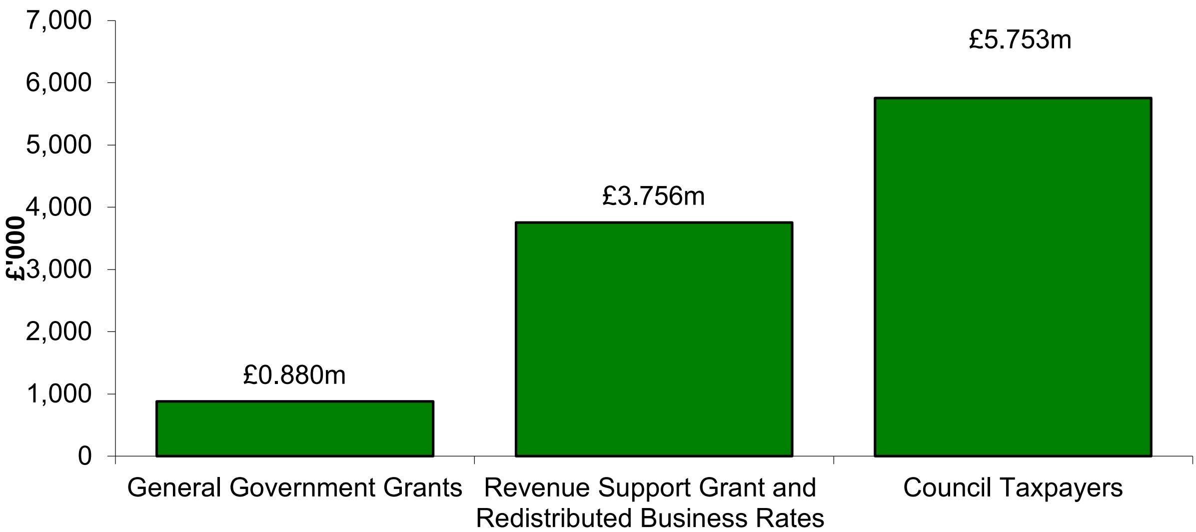
Table 3 – Gross Cost of General Fund Services 2012/13

	Outturn	
	£'m	
Service:		
Refuse Collection	2.594	
Street Cleaning	0.959	
Other Environmental Health	0.914	
Development Control, Building Control and Local Plans	1.457	
Tourism and Leisure	2.403	
Housing	0.556	
Housing Benefits	21.170	
Council Tax Benefits	5.230	
Local Tax Collection	0.797	
Economic Development and Regeneration	0.418	
Other	5.906	
Gross Expenditure Totals	***42.404***	
Income and Grants:		
Other Government Grants (incl Housing Benefit Subsidy Grant)	(26.082)	
Other Grants and Contributions	(1.727)	
Other Income, Fees and Charges etc	(5.592)	
Income and Grants Totals	***(33.401)***	
Net Expenditure for the Year	**9.003**	(as per Table 1)

5.2 INCOME

The Council finances its net operating expenditure from Council Tax, General Government Grants and Revenue Support Grant and Redistributed Business Rates. The contribution made by each is shown in the following graph:–

Table 4 - General Fund Net Revenue Funding Sources



Council Tax

For 2012/13 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 2012/13 was 98.0%. The collection rates for 2011/12 and 2010/11 were 98.2% and 97.9% respectively. 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 has decreased in cash terms from £5.859m in 2010/11 to £4.359m in 2011/12, falling further in 2012/13 to £3.756m.

Other Government Grants received in 2012/13 include New Homes Bonus of £585k, Council Tax Freeze Grant of £281k, with a further £14k in grants relating to the Community Right to Bid and the Community Right to Challenge initiatives.

5.3 CAPITAL

In 2012/13 total capital expenditure was £2.849m with slippage of £1.487m as compared to a revised total programme of £4.625m. Additional capital receipts generated in the year total £94k and the application of the programme surplus of £28k has generated a total underlying favourable variance at outturn of £411k.

An analysis of how the money was spent is shown in Table 5 below.

Table 5 – Capital Expenditure and Sources of Financing 2012/13

Expenditure by Scheme		£'000	£'000
Community Services:			
Hope Street Park - St Annes		13	
Fleetwood Road Playing Field - Wesham		10	
Waddington Road Playing Field		12	
Park View Amphitheatre		14	
Boxes to Bins Project		1,034	
Replacement Vehicles		669	
Grant to Kirkham Town Council re: Assets Transferred		110	
Fylde Community Growing Project		23	
Rock & Water Garden Project		25	
St Annes Pool - Changing Facilities Improvement		2	
	sub-total		1,912
Development Services:			
Disabled Facilities Programme		502	
Accommodation Project		218	
St Annes Regeneration 2012		12	
Ansdell Regeneration 2012		7	
Car Park Improvements		62	
Fairhaven Lake Drainage Works		25	
Promenade Footways		31	
Granny's Bay Beach and Protection Works		80	
	sub-total		937
Total Expenditure			**2,849**

Financing:	£'000	£'000
Grants & Contributions	522	
Capital Receipts	479	
Internal Borrowing	1,682	
Revenue Contribution	166	
Total Financing		**2,849**

6. TREASURY MANAGEMENT

The security of investments is the Council's main investment objective. This is achieved by adhering to the Treasury Management Strategy as approved by Council on 1st March 2012. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. No additional external borrowing was undertaken during 2012/13, leaving the level of external debt unchanged at £3.8m throughout the period.

During 2012/13 the global economic outlook stabilized due to European central banks maintaining low interest rates and pursuing policies aimed at increasing the supply of money. In the UK the economy shrank in the second and fourth quarters of 2012. Inflation remained above the Bank of England's 2% CPI (Consumer Price Index) target. The Funding for Lending Scheme was launched by the Bank of England in July 2012. This allows banks to borrow from the Bank of England at a cheaper rate on the basis that it would result in them passing this advantage onto the wider economy.

The Eurozone suffered further difficulties when the borrowing costs of the Italian and Spanish governments rose sharply resulting in the Spanish government being forced to seek a bailout for its domestic banks. Financial markets became calmer in September after the European Central Bank announced that it would buy the bonds of debt burdened Eurozone members.

The challenging investment environment of previous years continued throughout 2012/13, typified by low investment returns and continuing heightened levels of counterparty risk. Bank base rate, which underpins investment returns, remained at 0.5% throughout the year. As a consequence of the continuing uncertainties in financial markets I acted to minimise the counterparty risk by introducing additional investment restrictions (i.e. over and above those contained within the approved Treasury Management Strategy). These additional treasury restrictions are also put in place during periods of financial or 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 2012/13 to 2015/16 have been agreed by the Council. Performance is monitored and reported during the year. For 2012/13 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 2013 was £7.5m. 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 2013 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. No additional external borrowing was undertaken during 2012/13. The interest paid in respect of the Council's external debt in 2012/13 was £109k.

During the year, cash sums managed by the Council have been invested for periods of up to two weeks with approved counterparties. The Council held an average cash balance of £10.7m of internally managed funds. The overall performance was a gross return of 0.58%, compared with a benchmark target of 0.46%. Interest earned was £63k compared to a revised budget of £56k.

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 2012/13 was £9.9m. The Council's actual total debt at 31st March 2013 was £3.8m which was significantly below the Authorised Limit as a result of the use of internal borrowing (cash balances used to meet the CFR in place of external borrowing).

Pension Fund

The pension fund deficit as at 31st March 2013 was £24.446m. 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. The Local Government Pension scheme nationally is also being remodelled following the Hutton Review, with a revised scheme designed to reduce local fund deficits due to be implemented with effect from 1st April 2014.

7. 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 whilst delivering quality services. In 2012 KPMG audited the Council and gave an "unqualified opinion", which indicated that they were satisfied with the Council's financial and governance arrangements.

The Emergency Budget and the Comprehensive Spending Review of 2010 resulted in a great deal of uncertainty for the Council and the beginning of a period of substantial financial constraint. The Local Government finance settlement for 2013/14 onwards marks the start of a new era in the way Local Government is funded. The introduction of Business Rates Retention from April 2013 will have a significant effect on councils, as future changes to the Business Rates yield will directly impact on council funding levels, with both the risks and rewards of Business Rate growth being shared between Central Government, Precepting Authorities and Billing Authorities.

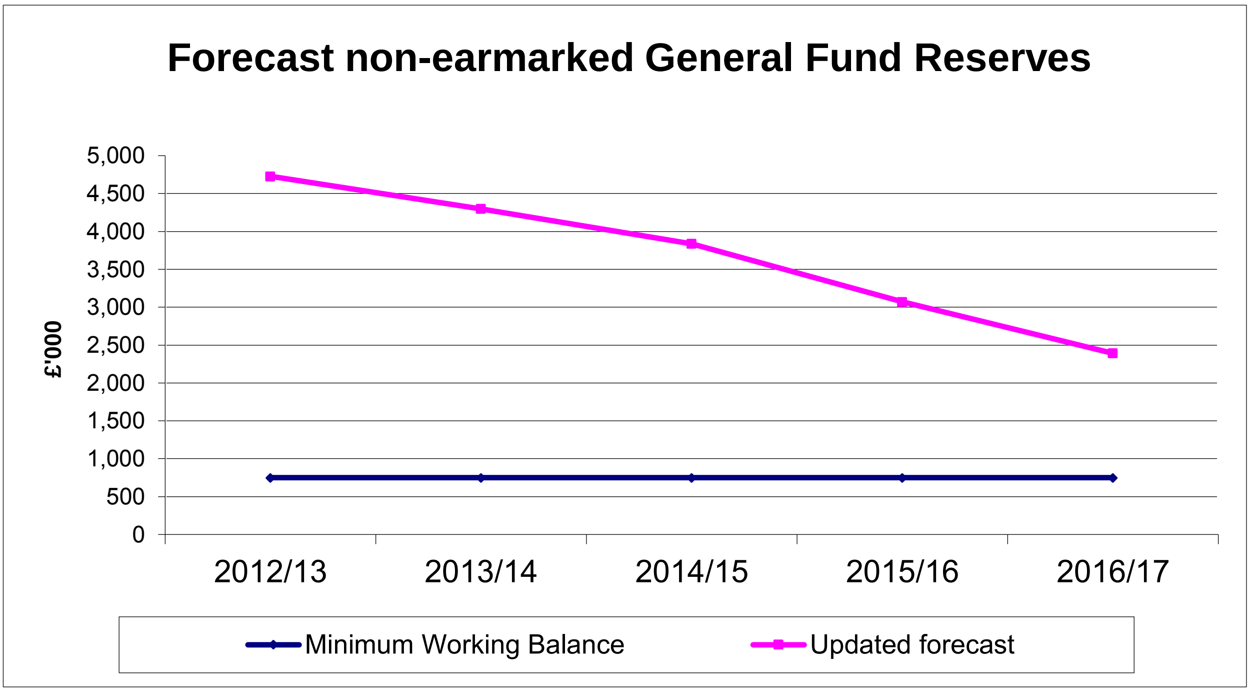
The Council received details of its 2013/14 grant settlement in December 2012 as expected along with an indicative settlement in respect of 2014/15. The detail of the grant settlement beyond 2014/15 is unknown and the Council is taking a prudent approach to manage this future uncertainty.

The level of general fund revenue reserves, which have been further supplemented at the end of the 2012/13 financial year, ensures that the Council has a robust financial forecast over the medium term. The Council has delivered a significant savings programme since 2007 and has continued to significantly reduce senior management costs and other overheads. Ongoing modernisation work and business improvement has taken place to make Council services more efficient, save money and maintain frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position.

However the underlying budget position continues to show an annual budgeted call on reserves of an average £584k per annum for the 4 years commencing 2013/14, indicating that this work will need to continue. Recruitment was frozen throughout 2011/12 and an authority wide senior management restructure was completed and implemented during 2013/14. Furthermore instructions to all spending officers to minimise expenditure commitments, to remain prudent and continue to maximise efficiencies in service delivery have remained in place. These actions have delivered an under spend in 2012/13 with minimum short term impact on service delivery.

The Council began a budget rightsizing programme during the summer of 2012 in preparation for the ongoing Government funding reductions anticipated in future years. This initiative will continue year-on-year in order to reduce the required net expenditure and contribute to addressing the ongoing financial challenges faced by the Council. Members and Management Team have carried out work to address the challenge posed by the reduction in Government grant funding, and work continues to investigate shared service options and the implementation of modernisation and business process improvement that will make Council services more cost effective.

After reflecting the impact of the favourable outturn position for 2012/13, revenue balances at the 31st March 2013 were £4.8m, which is higher than the recommended minimum 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 2013 Medium Term Financial Strategy, updated to reflect the impact of outturn for 2012/13:



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.

In order to provide a resource for additions to the Capital Programme whilst reducing the requirement for external borrowing, the budget Council on 4th March 2013 approved the creation of a Capital Investment Reserve in the sum of £521k, fully funded by an equivalent transfer of £521k from the Comprehensive Spending Review Reserve.

As described at 5.1 above, the favourable revenue outturn position for 2012/13 afforded an opportunity to add to that reserve in the sum of £319k. The balance on the reserve following that transfer stands at £840k. The Council has already approved commitments of £170k from this reserve spread between 2013/14 and 2014/15, leaving an uncommitted balance available of £670k for capital investment.

8. 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 regarding the impact of the changes to Central Government Grant Funding and the localising of support for Council Tax from 1st April 2013.

That said, over the last few years the Council has delivered significant efficiencies and savings which have seen general fund reserves grow to a level which allows the Council to deal with future challenges and pressures in a planned and effective way. However, the Council continues to face a number of uncertainties in the future in respect of its finances.

The current forecast has a number of high risk financial assumptions which are outside the Council's control. A number of these risks are significant with a high probability, in particular the future of Central Government Grant Funding as a result of the ongoing Local Government Finance Resource Review and Localising Support for Council Tax bring with them the greatest concern.
Government grant is one of the Councils largest funding sources, and whilst estimated reductions 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.

The 2012/13 financial outturn represents an improvement in the Council's General Fund Revenue forecast balances position compared with previous budget forecasts. The revenue underspend should be regarded as a helpful windfall given the future financial challenges faced by the Council and the underlying budget position as detailed in the MTFS which shows an annual budgeted call on reserves of £584k per annum over the next 4 years. This indicates that ongoing modernisation and business improvement programmes need to continue.

The improved outturn position leaves the Council well placed to face these uncertainties and ensure that any future savings requirements can be planned and phased over a longer period than would otherwise be the case.

Looking forward, key financial risks to the Council in addition to the impact of the economic downturn are listed below.

In assessing each of the risks the following has been taken into account:-

<u>High Level Risk</u>

- Potentially a significant sum, with a high probability of occurrence
- Relatively little mitigation available to spread or defer the impact
- Probable need for major change to the forecast if/when it occurs.

Medium Level Risk

- Potentially a large sum, with a medium probability of occurrence
- Some mitigation possible to spread or defer the impact
- Possible need for change to the forecast if it occurs.

Low Level Risk

- Potentially a substantial sum, with a low probability of occurrence
- Some mitigation possible to spread or defer the impact
- Impact should be capable of being absorbed with without major forecast changes.

KEY REVENUE RISKS INCLUDE:

Business Rate Retention and Central Government Grant Funding

As described in detail in the MTFS, in March 2011, the Government announced the Local Government Resource Review (LGRR). The Review was to "consider the way in which Local Authorities are funded, with a view to giving Local Authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies." Subsequently the Government introduced Business Rates Retention from 1st April 2013. The new arrangements will have a significant effect on councils, as future changes to the Business Rates yield will directly impact on council funding levels, with both the risks and rewards of Business Rate growth being shared between Central Government, Precepting Authorities and Billing Authorities.

Such losses and gains will be subject to separate 'Safety Net and Levy' arrangements to reduce the potential volatility of local authority funding under the new system, effectively limiting the gain or loss in any one year.

This is a high risk area to the Council

Localising Support for Council Tax

In line with Government proposals, Council Tax Benefit was abolished with effect from 1st April 2013 and responsibility for determining a local 'Council Tax Reduction Scheme' was transferred to Local Authorities. The new scheme will be funded based on DWP (Department of Work & Pensions) estimates of benefit expenditure for 2013/14 less a deduction or cut of 10%.

The proposals also 'cash limit' the grant in 2013/14 with the Council being required to fund any shortfall should claimant numbers increase above the estimate. It is expected that the grant will be incorporated within the general grant settlement figures from 2014/15 onwards. The recent settlement included additional income by way of a compensatory grant allocation to Councils to partly offset the reduced Council tax collectable as a result of the new scheme discounts.

The Council approved a new local scheme for 2013/14 at its meeting of 28th January 2013. The scheme, which is effective from 1st April 2013, limits the additional maximum percentage contribution from working age claimants to 8.5%.

As a result of the uncertainty in the scheme design and funding in future years **this is a medium level risk**.

Local Government Pension Scheme Review

The Triennial Review of the Pension Fund took place during 2010/11 with the results being implemented from 1st April 2011. The review increased employer contributions by 3.8% over the next three years (rising to a total contribution rate of 22% by 2013/14).

National negotiations are underway following the recommendations of the Hutton Review regarding the future of public sector pensions. It is proposed that the new Local Government Pension Scheme (known as LGPS 2014) will start from 1st April 2014. One of the proposals recommends that the employers' contributions are capped at 19.5%. For forecasting purposes and until final scheme details are known the forecast assumes a continuing employer contribution rate of 22% from 2013/14 onwards in line with the triennial review.

Pension contributions are currently calculated on contractual hours only. However, the new scheme is proposing that pension contributions are to be based on all pay, which includes non-contractual overtime and additional hours worked. Another recent change is from September 2013 all eligible employees under a contract of employment, or any other contract by which an individual undertakes work or performs services personally, are to be auto-enrolled into the Local Government Pension Scheme.

Once the final proposals for the new scheme are agreed the financial impact will be reflected in the forecast accordingly. Consequently, the short term risk has diminished, but in the long term pension fund costs continue to be a significant risk.
This is a low risk in the short term but a high level risk in the medium to long term.

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 3 sites (St David's Road Depot, Derby Road, Wesham and The Public Offices). 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. The asset sales are progressing but disposals of this nature where external agencies, planning decisions, external legal specialists and property developers are involved often take many months to conclude. This results in an inherent risk in the forecast level of programmed resources particularly in the current year of the programme. The cross party Accommodation Working Group continues to monitor and manage this project and regular update reports on the project will continue to be provided to Members.
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, CGMA
Chief Financial Officer, Section 151 Officer

Date:

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 reporting date and its income and expenditure for the year ended 31st March 2013.

P. O'Donoghue, ACMA, CGMA
Chief Financial Officer, Section 151 Officer

Date:

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

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 20)**

  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 21)**

  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 22)**

  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 23 and 24 for further details and Glossary for further explanation).

- **The Cash Flow Statement (Page 23)**

  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

2011/12 Gross Expenditure	2011/12 Gross Income	2011/12 Net Expenditure		Notes	2012/13 Gross Expenditure	2012/13 Gross Income	2012/13 Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
1,460	(558)	902	Central Services to the Public		1,550	(565)	985
3,721	(990)	2,731	Cultural and Related Services		3,301	(1,266)	2,035
10,584	(7,546)	3,038	Environmental and Regulatory Services		5,906	(2,833)	3,073
2,304	(842)	1,462	Planning Services		1,877	(783)	1,094
594	(701)	(107)	Highways and Transport Services		464	(583)	(119)
26,060	(25,648)	412	Housing Services		27,115	(26,491)	624
2,075	(70)	2,005	Corporate and Democratic Core		1,666	(97)	1,569
405	-	405	Non distributed costs - other		218	-	218
47,203	**(36,355)**	**10,848**	**Cost of Services**		**42,097**	**(32,618)**	**9,479**
1,280	(1,439)	(159)	Other Operating Expenditure	**8**	1,198	(718)	480
323	(54)	269	Financing and Investment Income and Expenditure *	**9**	706	(64)	642
-	(11,475)	(11,475)	Taxation and Non-Specific Grant Income	**10**	-	(11,384)	(11,384)
		(517)	**(Surplus)/Deficit on Provision of Services**				**(783)**
		4	(Surplus)/Deficit on Revaluation of Property, Plant and Equipment *	**11**			(61)
		-	Impairment losses on non-current assets charged to the Revaluation Reserve	**12**			758
		40	(Surplus)/Deficit on Revaluation of available for sale financial assets	**17**			7
		4,146	Actuarial (Gains)/Losses on Pension Assets/Liabilities	**39**			3,476
		4,190	**Other Comprehensive Income and Expenditure**				**4,180**
		3,673	**Total Comprehensive Income and Expenditure**				**3,397**

* - Note: The 2011/12 Accounts have been restated as a change in the 'Fair Value of Investment Assets' (£201k) was included within 'Revaluations of Property, Plant and Equipment', rather than 'Financing and Investment Income and Expenditure'. The 'Total Comprehensive Income and Expenditure' for the year remains unchanged. Note 9 to the Balance Sheet (page 45) has also been amended.

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves (Note 23)	Unusable Reserves (Note 24)	Total Authority Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/11		**2,990**	**1,670**	**-**	**31**	**4,691**	**3,990**	**8,681**
Movement in Reserves during 2011/12								
Surplus/(Deficit) on the Provision of Services		517	-	-	-	517	-	517
Other Comprehensive Income and Expenditure		-	-	-	-	-	(4,190)	(4,190)
Total Comprehensive Income and Expenditure		**517**	**-**	**-**	**-**	**517**	**(4,190)**	**(3,673)**
Adjustments between accounting basis and Funding under Regulations	**6**	161	-	32	(31)	162	(162)	-
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**
Movement in Reserves during 2012/13								
Surplus/(Deficit) on the Provision of Services		783	-	-	-	783	-	783
Other Comprehensive Income and Expenditure		-	-	-	-	-	(4,180)	(4,180)
Total Comprehensive Income and Expenditure		**783**	**-**	**-**	**-**	**783**	**(4,180)**	**(3,397)**
Adjustments between accounting basis and Funding under Regulations	**6**	490	-	239	185	914	(914)	-
Net Increase/(Decrease) before transfers to Earmarked Reserves		**1,273**	**-**	**239**	**185**	**1,697**	**(5,094)**	**(3,397)**
Transfers to/from Earmarked Reserves	**7**	(203)	203	-	-	-	-	-
Increase/(Decrease) Movement in 2012/13		**1,070**	**203**	**239**	**185**	**1,697**	**(5,094)**	**(3,397)**
Balance at 31st March 2013 carried forward		**4,800**	**1,811**	**271**	**185**	**7,067**	**(5,456)**	**1,611**

THE BALANCE SHEET

Balance As at 31st March 2012		Notes	Balance As at 31st March 2013
£'000			£'000
16,434	Property, Plant and Equipment	**11**	17,867
4,628	Heritage Assets	**12**	3,870
2,761	Investment Properties	**13**	2,807
146	Intangible assets	**14**	82
14	Long Term Debtors	**16**	21
23,983	**Long Term Assets**		**24,647**
2,350	Assets held for sale	**17**	1,900
105	Inventories	**18**	107
3,412	Short Term Debtors	**19**	3,190
5,501	Cash and Cash equivalents	**20**	6,036
11,368	**Current Assets**		**11,233**
(35)	Short Term Borrowing	**15**	(35)
(2,801)	Short Term Creditors	**21**	(3,509)
-	Provisions	**42**	(15)
(31)	Provision for Accumulated Absences	**24**	(41)
(3)	Leases (repayable within one year)	**37**	(1)
(2,870)	**Current Liabilities**		**(3,601)**
(1)	Leases (repayable after more than one year)	**37**	-
(3,208)	Long Term Creditors	**22**	(2,422)
(3,800)	Long Term Borrowing	**15**	(3,800)
(20,464)	Other Long Term Liabilities	**24**	(24,446)
(27,473)	**Long Term Liabilities**		**(30,668)**
5,008	**NET ASSETS**		**1,611**
5,370	Usable Reserves	**23**	7,067
(362)	Unusable Reserves	**24**	(5,456)
5,008	**TOTAL RESERVES**		**1,611**

CASH FLOW STATEMENT

2011/12 £'000		Notes	2012/13 £'000
517	Net Surplus / (Deficit) on the Provision of Services		783
4,562	Adjustments for non-cash movements	**25**	1,751
(505)	Adjust for movements relating to investing and financing activities	**25**	(348)
4,574	**Net Cash Flows from Operating Activities**		**2,186**
(431)	Investing Activities	**26**	(1,450)
361	Financing Activities	**27**	(201)
4,504	**Net Increase or (Decrease) in Cash and Cash Equivalents**		**535**
997	Cash and Cash Equivalents at the beginning of the reporting period		5,501
5,501	**Cash and Cash Equivalents at the end of the reporting period**	**20**	**6,036**

EXPLANATORY NOTES TO THE CORE FINANCIAL STATEMENTS

INDEX TO NOTES TO THE ACCOUNTS

EXPLANATORY NOTES TO THE CORE FINANCIAL STATEMENTS

INTRODUCTION

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012 (the Code) and the accounting policies set out at Note 1. The notes that follow set out supplementary information to assist readers of the accounts.

1 ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31st March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require the accounts 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 2012/13 (the Code) and the Service Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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) Acquisitions and Discontinued Operations

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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 on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible 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 Minimum Revenue Provision (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 (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. 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 Lancashire County Council scheme attributable to the Authority 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 4.2% (based on the indicative rate of return on an AA 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

(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 two types:

- ***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.

- ***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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

  Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

  - instruments with quoted market prices – the market price
  - other instruments with fixed and determinable payments – discounted cash flow analysis
  - equity shares with no quoted market prices – independent appraisal of company valuations.

  Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

  Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

  Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

  Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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 introduction of FRS 30 Heritage Assets has resulted in the requirement for this standard to be included within the council's accounting policies from 2011/12. Prior to 2011/12 the 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.

Accounting for Heritage Assets in 2012/13

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 2012/13 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.

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 has been professionally valued during 2012/13 in the sum of £3.2M.
  - The valuation will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 5 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 in included in the balance sheet is a memorial sculpture which is valued for insurance purposes in the sum of £80,000, the estimated replacement cost. 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 during 2012/13 in the sum of £136,000.

    - These valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 5 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 professionally valued during 2012/13 in the sum of £52,000.

    - These valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 5 years.

    - 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 professionally valued during 2012/13 in the sum of £376,000.

    - These valuations will be regularly reviewed with a professional revaluation of the collection being updated at intervals of not more than 5 years.

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

<u>Heritage Assets – General</u>

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 35.

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

Inventories are included in the Balance Sheet at the lower of cost and net realisable 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.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements 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.

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.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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) Overheads and Support Services

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 2012/13 (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; that the cost of the item can be measured reliably; and that the cost exceeds the 'de minimis' threshold of £10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. 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.

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".*

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 l) on Heritage Assets above.

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.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

(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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale, are where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within 12 months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

t) Provisions, Contingent Liabilities and Contingent Assets

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 charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities

A contingent liability arises 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. Contingent liabilities also arise in circumstances 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.

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.

u) 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 pages 43 and 44.

v) 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.

w) Value Added Tax (VAT)

VAT payable is included as an expense only to that 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

The Code of Practice on Local Council Accounting in the United Kingdom 2012/13 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- **IAS 1 Presentation of Financial Statements**
  The changes require authorities to disclose separately the gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure required.

- **IAS 12 Income taxes**
  This change in the accounting policy particularly affects investment properties. It is not considered that this change will affect the Statement of Accounts.

- **IFRS 7 Financial Instruments: Disclosures**
  The change in accounting policy is in relation to the offsetting of financial assets and liabilities. The impact of this change is not anticipated to be material on the financial statements of this Authority.

- **IAS 19 Employee Benefits**
  Revisions have been made to IAS 19 for reporting periods beginning on or after 1st January 2013. The introduction of the updated standard will necessitate a restatement of prior year's figures in line with general accounting principles.

  Actuarial gains and losses, the effect of the asset ceiling and the actual return on plan assets ('remeasurements') are recognised in the balance sheet immediately, with a charge or credit to the Other Comprehensive Income in the periods in which they occur.

  Interest expense or income will now be calculated by applying the discount rate to the net defined benefit liability (asset). This replaces the interest cost on the defined benefit obligation and the expected return on assets. For 2012/13 this would increase the charge to the Comprehensive Income and Expenditure Statement by £351,000.

  A liability for a termination benefit will be recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 (pages 26 to 38), 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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There are two items 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 and the valuation of the Councils Heritage Assets.

Estimation of the net liability to pay pensions depends on a number of complex judgments 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 £1.178m. Also, a one year addition to the members life expectancy would result in an increase in the pension liability of £1.475m.

The Councils heritage assets have been revalued during 2012/13. This has led to a considerable reduction in the overall value of this class of asset, particularly in regard to the art collection for which the valuation has reduced from £4.4m at 31st March 2012 to £3.2m at 31st March 2013. The Council seeks expert advice on the valuation of specialised classes of assets such as these. However valuations vary according to many external factors and there is a likelihood that future valuations may again vary to a significant degree.

5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 28th June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

New arrangements for the retention of business rates come into effect on 1 April 2013. From this date local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the Authority, but would have been transferred to the Department for Communities and Local Government (DCLG).

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.

2012/13	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Movement in Unusable Reserves
	£'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	840	-	-	(840)
Amortisation of intangible assets	64			(64)
Movements in the fair value of Investment Properties	(65)	-	-	65
De-Minimis Capital Expenditure	19	-	-	(19)
Capital Grants and Contributions Applied	(351)	-	-	351
Revenue Expenditure funded from Capital under Statute	622	-	-	(622)
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	459	-	-	(459)
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	(166)	-	-	166
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(348)	-	348	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(163)	163
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(719)	719	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(480)	-	480
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	506	-	-	(506)
Adjustments primarily involving the Collection Fund Adjustment Account				
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	91	-	-	(91)
Adjustments primarily involving the Accumulated Absences Account				
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	10	-	-	(10)
Total Adjustments	**490**	**239**	**185**	**(914)**

Comparatives for 2011/12:

2011/12	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Movement in Unusable Reserves
	£'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	961	-	-	(961)
Amortisation of intangible assets	94			(94)
Movements in the fair value of Investment Properties	(201)	-	-	201
De-Minimis Capital Expenditure	99	-	-	(99)
Capital Grants and Contributions Applied	(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
Adjustments primarily involving the Capital Receipts Reserve				
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
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	252	-	-	(252)
Adjustments primarily involving the Collection Fund Adjustment Account				
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
Adjustments primarily involving the Accumulated Absences Account				
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	**161**	**32**	**(31)**	**(162)**

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 2012/13.

Name of Reserve	Balance at 1st April 2011	Transfer In 2011/12	Transfer Out 2011/12	Balance at 31st March 2012	Transfer In 2012/13	Transfer Out 2012/13	Balance at 31st March 2013
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Ansdell Bus Monies Reserve	**22**	-	-	**22**	-	-	**22**
IT Reserve	**57**	100	-	**157**	-	-	**157**
Vehicle Maintenance Reserve	**27**	100	-	**127**	-	-	**127**
Parks/Open Spaces Reserve	**39**	-	-	**39**	-	(39)	**-**
Business Improvement Grant (NNDR) Reserve	**34**	-	-	**34**	-	(34)	**-**
Economic Promotion and Recovery Reserve	**60**	30	(24)	**66**	30	(96)	**-**
Comprehensive Spending Review Reserve	**521**	-	-	**521**	-	(521)	**-**
Performance Reward Grant Reserve	**563**	-	(327)	**236**	-	(115)	**121**
Vehicle Replacement Financing Reserve	**212**	-	-	**212**	-	-	**212**
Land Charges New Burdens Reserve	**34**	55	-	**89**	39	-	**128**
Direct Revenue Financing Reserve	**25**	-	(25)	**-**	-	-	**-**
Core Strategy Financing Reserve	**76**	-	(76)	**-**	-	-	**-**
MMI Insurance Reserve	**-**	105	-	**105**		(15)	**90**
High Street Innovation Fund Reserve	**-**	-	-	**-**	100	-	**100**
Capital Investment Reserve	**-**	-	-	**-**	841	-	**841**
Community Right to Bid/Challenge Reserve	**-**	-	-	**-**	13	-	**13**
Total Earmarked Reserves	**1,670**	**390**	**(452)**	**1,608**	**1,023**	**(820)**	**1,811**

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.

- **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.

- **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.

- **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.

- **High Street Innovation Fund Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to finance expenditure linked to the award of High Street Innovation Fund grant received by the Council during 2012/13. The Council has established a Town Centre Forum to oversee the allocation of these funds to support high streets in the Borough.

- **Capital Investment Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to help finance future capital expenditure.

- **Community Right to Bid/Challenge Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to finance expenditure linked to the award of Community Right to Bid and Community Right to Challenge grant received by the Council during 2012/13.

8 OTHER OPERATING EXPENDITURE

	2011/12	2012/13
	£'000	£'000
Parish Council Precepts	563	739
(Gains)/Losses on the disposal of non-current assets	(722)	(259)
Total	**(159)**	**480**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2011/12	2012/13
	£'000	£'000
Interest payable and similar charges	92	109
Pensions Interest cost and expected return on pensions assets	432	662
Interest Receivable and similar Income	(54)	(64)
Changes in the fair value of investment properties	(201)	(65)
Total	**269**	**642**

10 TAXATION AND NON-SPECIFIC GRANT INCOME

	2011/12	2012/13
	£'000	£'000
Council Tax Income	(6,218)	(6,399)
Non-Domestic Rates	(3,330)	(3,682)
Non-Ringfenced Government Grants	(1,422)	(955)
Capital Grants and Contributions	(505)	(348)
Total	**(11,475)**	**(11,384)**

11 PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

2012/13	Other Land and Buildings	Vehicles, Plant & Equipment	Community	Infra-Structure	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation						
at 1st April 2012	11,462	5,119	4,615	-	-	**21,196**
Additions	270	1,703	236	-	-	**2,209**
Revaluations	71	-	(10)	-	-	**61**
Derecognition - disposals	-	(117)	-	-	-	**(117)**
Other movements in cost or valuation	2	-	-	-	-	**2**
At 31st March 2013	**11,805**	**6,705**	**4,841**	**-**	**-**	**23,351**
Accumulated Depreciation and Impairment						
at 1st April 2012	(1,169)	(3,172)	(421)			**(4,762)**
Depreciation Charge	(186)	(631)	-	-	-	**(817)**
Depreciation written out to the Revaluation Reserve	-	117	-	-	-	**117**
Impairment (losses) / reversals	(25)	-	3	-	-	**(22)**
At 31st March 2013	**(1,380)**	**(3,686)**	**(418)**	**-**	**-**	**(5,484)**
Net Book Value of Assets						
At 31st March 2013	10,425	3,019	4,423	-	-	**17,867**
At 31st March 2012	10,293	1,947	4,194	-	-	**16,434**

Comparatives for 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 1st April 2011	12,999	4,920	4,195	-	-	**22,114**
Additions	-	823	310	-	-	**1,133**
Revaluation	36	-	(40)	-	-	**(4)**
Derecognition - disposals	(723)	(624)	-	-	-	**(1,347)**
Other movements in cost or valuation	(850)	-	150	-	-	**(700)**
At 31st March 2012	**11,462**	**5,119**	**4,615**	**-**	**-**	**21,196**
Accumulated Depreciation and Impairment						
at 1st 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	(29)	(47)	(421)	-	-	**(497)**
At 31st March 2012	**(1,169)**	**(3,172)**	**(421)**	**-**	**-**	**(4,762)**
Net Book Value of Assets						
At 31st March 2012	10,293	1,947	4,194	-	-	**16,434**
At 31st March 2011	11,992	1,819	4,195	-	-	**18,006**

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.

Capital Commitments

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 2013 to be paid from 2013/14 onwards is £nil (2012/13 £nil).

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:						
31st March 2013	(361)	(2,090)	(192)	-	-	**(2,643)**
31st March 2012	(2,213)	189	420	-	-	**(1,604)**
31st March 2011	6,138	1,624	648	-	-	**8,410**
31st March 2010	127	21	1,902	-	-	**2,050**
31st March 2009	(9,390)	114	182	-	-	**(9,094)**
31st March 2008	225	362	390	-	-	**977**
31st March 2007	(1,153)	(20)	996	-	-	**(177)**
31st March 2006	1,500	557	6	-	-	**2,063**
Total Cost or Valuation	**10,425**	**3,019**	**4,423**	**-**	**-**	**17,867**

12 HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets held by the Authority:

	Art Collection	Memorials & Monuments	Sculptures / Ivories	Trophies & Other Items	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation						
at 1st April 2011	4,406	71	88	25	69	**4,659**
Additions	-	-	-	-	-	**-**
Revaluations	-	-	-	-	-	**-**
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(31)	-	-	-	**(31)**
Net Book Value of Assets at 31st March 2012	**4,406**	**40**	**88**	**25**	**69**	**4,628**
Cost or Valuation						
at 1st April 2012	4,406	40	88	25	69	**4,628**
Additions	-	-	-	-	-	**-**
Revaluations	(1,180)	40	48	27	307	**(758)**
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	**-**
Net Book Value of Assets at 31st March 2013	**3,226**	**80**	**136**	**52**	**376**	**3,870**

Information on the Councils collection of heritage assets and the accounting policies adopted in respect of heritage assets is shown in note I of the Accounting Policies section of this Statement of Accounts on page 31.

13 INVESTMENT PROPERTIES

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.

	2011/12	2012/13
	£'000	£'000
Balance at start of year	**3,161**	2,761
Additions	-	-
Disposals	(15)	(17)
Net gains /(losses) from fair value adjustments	190	65
Transfers:		
• (To) / from Property, Plant and Equipment	135	(2)
• (To) / from Assets Held for Sale	(710)	-
Balance at end of year	**2,761**	**2,807**

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.

	2011/12	2012/13
	£'000	£'000
Balance at start of year		
• Gross carrying amounts	520	547
• Accumulated amortisation	(307)	(401)
Net carrying amount at 1st April	213	146
Additions:		
• Purchases	27	-
• Amortisation for the period	(94)	(64)
Net carrying amount at 31st March	**146**	**82**
Comprising:		
• Gross carrying amounts	547	547
• Accumulated amortisation	(401)	(465)
	146	**82**

15 FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31/03/12	31/03/13	31/03/12	31/03/13
	£'000	£'000	£'000	£'000
Borrowings				
Financial liabilities (principal amount)	(3,800)	(3,800)	-	-
Add Accrued Interest	-	-	(35)	(35)
Total included in Borrowings	**(3,800)**	**(3,800)**	**(35)**	**(35)**

Income, Expense, Gains and Losses

	2012/13				
	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
Income					
Interest income	-	64	-	-	64
Total income in Surplus or Deficit on the Provision of Services	**-**	**64**	**-**	**-**	**64**
Expense					
Interest expense	(109)	-	-	-	(109)
Total expense in Surplus or Deficit on the Provision of Services	**(109)**	**-**	**-**	**-**	**(109)**

	Comparatives for 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
Income					
Interest income	-	54	-	-	54
Total income in Surplus or Deficit on the Provision of Services	**-**	**54**	**-**	**-**	**54**
Expense					
Interest expense	(92)	-	-	-	(92)
Total expense in Surplus or Deficit on the Provision of Services	**(92)**	**-**	**-**	**-**	**(92)**

There are no gains and losses attributable to Financial Instruments to be recognised in the Comprehensive Income & Expenditure Statement.

Fair Value of Assets and Liabilities

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:

	31st March 2012		31st March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB Debt	3,800	4,144	3,800	4,141
Total Borrowings	3,800	4,144	3,800	4,141
Creditors	5,745	5,745	5,292	5,292
Finance Leases repayable within 12 months	3	3	1	1
Finance Leases repayable greater than 12 months	2	2	-	-
Bank Overdraft	-	-	-	-
Borrowing repayable within 12 months	35	35	35	35
Total financial liabilities	**9,585**	**9,929**	**9,128**	**9,469**

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.

The fair value of PWLB debt for 2011/12 has been reduced by £35k for PWLB interest which is already included within borrowing repayable within 12 months.

	31st March 2012		31st March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	**£'000**	**£'000**	**£'000**
Cash and Cash Equivalents	5,501	5,501	6,036	6,036
Investments < 1 year	-	-	-	-
Investments > 1 year	-	-	-	-
Long Term Debtors	14	14	21	21
Debtors	2,024	2,024	1,175	1,175
Total Loans and receivables	**7,539**	**7,539**	**7,232**	**7,232**

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

The nature and extent of any risks arising from Financial Instruments are shown at Note 41 to the Balance Sheet, on page 73.

16 LONG TERM DEBTORS

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

	2011/12	2012/13
	£'000	£'000
Parish Council Interest Free Loan	14	12
Employee Car Loans	-	9
Total	**14**	**21**

17 ASSETS HELD FOR SALE

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

	2011/12	2012/13
	£'000	£'000
Balance outstanding at start of year	700	2,350
Revaluations of Assets Held for Sale	(250)	-
	450	2,350
Assets newly classified as held for sale		
Property, Plant & Equipment	565	-
Investment Properties	710	-
Revaluations	665	-
Revaluation Losses	(40)	(7)
Assets Sold	-	(443)
Balance outstanding at year end	**2,350**	**1,900**

18 INVENTORIES

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

	2011/12	2012/13
	£'000	£'000
Balance at start of the year	137	105
Purchases	733	325
Recognised as an expense in the year	(765)	(320)
Written off balances	-	(3)
Reversal of write-offs in previous years	-	-
Balance outstanding at year-end	**105**	**107**

19 SHORT-TERM DEBTORS

	2011/12	2012/13
	£'000	£'000
Central Government Bodies	1,516	1,032
Other Local Authorities	781	1,095
NHS Bodies	45	4
Public Corporations and Trading Funds	-	-
Other entities and individuals	1,070	1,059
Total	**3,412**	**3,190**

20 CASH AND CASH EQUIVALENTS

	2011/12	2012/13
	£'000	£'000
Cash held by the Authority	1	1
Bank Current Accounts	5,500	6,035
Total	**5,501**	**6,036**

21 SHORT-TERM CREDITORS

	2011/12	2012/13
	£'000	£'000
Central Government Bodies	378	724
Other Local Authorities	713	549
NHS Bodies	45	-
Public Corporations and Trading Funds	-	-
Other entities and individuals	1,665	2,236
Total	**2,801**	**3,509**

22 LONG-TERM CREDITORS

	2011/12	2012/13
	£'000	£'000
Section 106 Agreements	3,208	2,422
Total	**3,208**	**2,422**

Section 106 Agreements are for the fulfilment of obligations under certain Planning Application Approvals. The amounts held under Long-Term Creditors represents the expenditure commitments that are expected to be incurred against these Agreements after more than 12 months from the Balance Sheet date.

23 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement on page 21.

	2011/12	2012/13
	£'000	£'000
General Fund Balance	3,730	4,800
Earmarked General Fund Reserves	1,608	1,811
Capital Receipts Reserve	32	271
Capital Grants Unapplied	-	185
Total Usable Reserves	**5,370**	**7,067**

24 UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Movement in Reserves Statement on page 21.

	2011/12	2012/13
	£'000	£'000
Revaluation Reserve	11,773	11,134
Capital Adjustment Account	8,264	7,892
Pensions Reserve	(20,464)	(24,446)
Collection Fund Adjustment Account	96	5
Accumulated Absences Account	(31)	(41)
Total Unusable Reserves	**(362)**	**(5,456)**

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.

	2011/12	2012/13
	£'000	£'000
Balance at 1st April	**11,617**	**11,773**
Upward Revaluation of assets	473	645
Downward Revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(317)	(1,284)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services	156	(639)
Difference between fair value depreciation and historic cost depreciation	-	-
Accumulated gains on assets sold or scrapped	-	-
Amounts written off to the Capital Adjustment Account	-	-
Balance as at 31st March	**11,773**	**11,134**

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.

	2011/12	2012/13
	£'000	£'000
Balance at 1st April	**8,368**	**8,264**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
• Charges for depreciation and impairment of non-current assets	(960)	(840)
• Revaluation losses on Property, Plant and Equipment	-	-
• Amortisation of Intangible Assets	(94)	(64)
• Revenue expenditure funded from capital under statute	(1,636)	(622)
• 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)	(459)
• De-minimis Capital Expenditure	(99)	(19)
	(3,471)	(2,004)
Adjusting amounts written out of the Revaluation Reserve	-	-
Net written out amount of the cost of non-current assets consumed in the year	(3,471)	(2,004)
Capital Financing applied in the year		
• Use of the Capital Receipts Reserve to finance new capital expenditure	1,372	480
• Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	795	351
• Application of grants to capital financing from the Capital Grants Unapplied Account	506	163
• Statutory provision for the financing of capital investment charged against the General Fund	472	472
• Capital expenditure charged against the General Fund	222	166
	3,367	1,632
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-	-
Balance as at 31st March	**8,264**	**7,892**

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.

	2011/12	2012/13
	£'000	£'000
Balance at 1st April	**(16,066)**	(20,464)
Actuarial gains or losses on pension assets and liabilities	(4,146)	(3,476)
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)	(506)
Balance as at 31st March	**(20,464)**	**(24,446)**

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.

	2011/12	2012/13
	£'000	£'000
Balance at 1st April	**89**	96
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	(91)
Balance as at 31st March	**96**	**5**

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.

	2011/12	2012/13
	£'000	£'000
Balance at 1st April	**(18)**	**(31)**
Settlement or cancellation of accrual made at the end of the preceding year	18	31
Amounts accrued at the end of the current year	(31)	(41)
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)	(10)
Balance as at 31st March	**(31)**	**(41)**

25 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

	2011/12	2012/13
	£'000	£'000
Interest Received	(54)	(64)
Interest Paid	90	109
Interest Element of finance lease rental payments	2	-

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2011/12	2012/13
	£'000	£'000
Depreciation	930	881
Impairment	124	22
Increase/(Decrease) in impairment for Bad Debts	108	58
Increase/(Decrease) in Creditors	1,244	(443)
(Increase)/Decrease in Debtors	1,825	763
(Increase)/Decrease in Inventories	32	(2)
Movement in Pension Liability	252	506
Other non-cash items charged to the net surplus or deficit on the provision of services	47	(34)
Total	**4,562**	**1,751**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2011/12	2012/13
	£'000	£'000
Capital Grants included in the net surplus/deficit on the provision of services	(505)	(348)
Total	**(505)**	**(348)**

26 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2011/12	2012/13
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(3,106)	(2,868)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,405	718
Other receipts from investing activities	1,270	700
Net cash flows from investing activities	**(431)**	**(1,450)**

27 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2011/12	2012/13
	£'000	£'000
Cash receipts of short- and long-term borrowing	1,300	-
Other receipts from financing activities	64	(198)
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(3)	(3)
Repayments of short- and long-term borrowing	(1,000)	-
Net cash flows from financing activities	**361**	**(201)**

28 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

Directorate Income and Expenditure 2012/13	Chief Executive	Community Services	Resources	Development Services	Total
	£'000	£'000	£'000	£'000	£'000
Directorate Income and Expenditure					
Fees, charges & other service income	(466)	(5,263)	(4,575)	(4,715)	(15,019)
Government Grants	-	-	(25,473)	(24)	(25,497)
Total Income	(466)	(5,263)	(30,048)	(4,739)	(40,516)
Employee Expenses	155	3,363	2,087	2,097	7,702
Other service Expenses	255	4,097	28,837	1,902	35,091
Support Service Recharges	84	1,732	2,261	3,125	7,202
Total Expenditure	494	9,192	33,185	7,124	49,995
Net Expenditure	**28**	**3,929**	**3,137**	**2,385**	**9,479**

Directorate Income and Expenditure 2011/12 Comparative figures	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**

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.

	2011/12	2012/13
	£'000	£'000
Net Expenditure in the directorate analysis	10,848	9,479
Net expenditure not included in the analysis:	-	-
Cost of Services in the Comprehensive Income and Expenditure Statement	**10,848**	**9,479**

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.

2012/13	Directorate Analysis	Exceptional Items	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Fees, Charges and other service income	(15,019)	-	(15,019)	(348)	**(15,367)**
Interest and Investment Income	-	-	-	(64)	**(64)**
Income from Council Tax	-	-	-	(6,399)	**(6,399)**
Government Grants and Contributions	(25,497)	-	(25,497)	(4,637)	**(30,134)**
Total Income	(40,516)	-	(40,516)	(11,448)	**(51,964)**
Employee expenses	7,702	-	7,702	662	**8,364**
Other service expenses	35,091	-	35,091	(65)	**35,026**
Support service recharges	7,202	-	7,202	-	**7,202**
Interest payments	-	-	-	109	**109**
Precepts and Levies	-	-	-	739	**739**
Gain or Loss on disposal of Non-Current Asset	-	-	-	(259)	**(259)**
Total Expenditure	49,995	-	49,995	1,186	**51,181**
(Surplus) or Deficit on the provision of services	**9,479**	**-**	**9,479**	**(10,262)**	**(783)**

Comparative figures for 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)**
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**	(201)	**38,575**
Support service recharges	6,866	-	**6,866**	-	**6,866**
Interest payments	-	-	**-**	92	**92**
Precepts and Levies	-	-	**-**	563	**563**
Gain or Loss on disposal of Non-Current Asset	-	-	**-**	(722)	**(722)**
Total Expenditure	56,123	-	**56,123**	164	**56,287**
(Surplus) or Deficit on the provision of services	**10,848**	**-**	**10,848**	**(11,365)**	**(517)**

29 TRADING OPERATIONS

The Council operates one trading activity which is for Grounds Maintenance, providing services to external clients within and outside of the borough. The financial results are as follows:

	2011/12	2012/13
	£'000	£'000
Turnover	(611)	(789)
Expenditure	569	785
Net (Surplus) / Deficit on trading operations for the year	**(42)**	**(4)**

The Grounds Maintenance trading operations are incorporated into the Comprehensive Income and Expenditure Statement. In 2012/13, the Grounds Maintenance operations generated a surplus of £4,085 compared with a surplus of £42,021 in 2011/12. In addition to these surpluses shown above, these activities also benefit the Council by providing a positive contribution to corporate support service and service management costs.

30 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 Civil Parking Enforcement Parking Accounts, as required by Section 55 of the Road Traffic Regulation Act 1984, is shown below:

	2011/12	2012/13
	£'000	£'000
Income (Penalty Charge Notice only)	(64)	(51)
Expenditure	73	74
(Surplus) Deficit	**9**	**23**

31 MEMBERS ALLOWANCES

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

	2011/12	2012/13
	£'000	£'000
Allowances	241	237
Expenses	4	6
Total	**245**	**243**

32 OFFICERS REMUNERATION AND TERMINATION BENEFITS

The following table sets out the remuneration of Senior Officers whose salary was £50,000 or more (excluding employer's pension contributions) in 2012/13

Post-holder	Remuneration	Expense Allowances	Compensation for loss of office (Redundancy Payment)	Total Remuneration excl. pension contributions	Pension contributions (Incl. strain/ Augmented costs)	Total Remuneration incl. pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	84	-	-	84	18	102
Director – Strategic Development	63	-	-	63	13	76
Director – Community Services	63	-	-	63	13	76
Director – Resources	65	-	-	65	13	78
Chief Financial Officer	60	-	-	60	13	73

The remuneration shown in the table above in respect of the Director of Resources includes payments in relation to responsibilities as the Acting Returning Officer (i.e. For elections and referenda) for the borough during the year.

For comparative purposes the equivalent figures for 2011/2012 are shown in the table below:

Post-holder	Remuneration	Expense Allowances	Compensation for loss of office (Redundancy Payment)	Total Remuneration excl. pension contributions	Pension contributions (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

In addition to the above Senior Officers, other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were as follows:

Remuneration Bands		2011/12	2012/13
		£'000	£'000
Main Bands:			
	£50,000 - £54,999	-	2
	£55,000 - £59,999	-	-
	£60,000 - £64,999	-	-

Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out 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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	No.	No.	No.	No.	**No.**	**No.**	£'000	£'000
£0 – £20,000	11	2	3	2	**14**	**4**	**45**	**22**
£20,001 - £40,000	2	-	-	-	**2**	**-**	**53**	**-**
£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**	**-**
	14	2	5	2	**19**	**4**		
Total cost included in the Comprehensive Income and Expenditure Statement							**373**	**22**

The Authority terminated the contracts of a number of employees in 2012/13, incurring liabilities of £21,652 (£373,021 in 2011/12). The total sum of £21,652 was payable in the form of compensation for loss of office. There were no payments in respect of enhanced pension benefits.

The table above 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 interests of full disclosure of employee costs of this nature. The number of posts which are of this type are:

- 2011/12 - 1 post in the 'agreed departures' category in the £80,001 to £100,000 range; total cost £87,192.
- 2012/13 - Nil

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 above.

The figures for 2011/12 have been re-stated to reflect a reversal of a decision taken in that year to define a post as redundant. The costs of that original determination have been adjusted to reflect the revised position.

Of the 14 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 Council on 31st March 2012.

33 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:

	2011/12	2012/13
	£'000	£'000
Fees payable with regard to external audit services	96	63
Fees payable in respect of statutory inspection	-	-
Fees payable for the certification of grant claims and returns	27	9
Fees payable in respect of other services	-	(6)
Total	123	**66**

Fees repayable in respect of other services relates to a rebate received from the Audit Commission.

34 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2011/12	2012/13
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(1,029)	(74)
New Homes Bonus	(279)	(585)
Council Tax Freeze Grant	(140)	(282)
Lancashire Performance Reward Grant	-	-
Area Based Grant	-	-
Local Authority Business Growth Incentive Grant	26	-
New Burdens Grant	-	(13)
Total	(1,422)	(954)
Credited to Services		
Housing & Council Tax Benefits	(24,382)	(25,361)
Department for Communities & Local Government	(113)	(112)
National Concessionary Travel Pass	-	-
Revenue Expenditure funded from Capital under Statute	(506)	(348)
Department for Culture, Media & Sport	-	-
Other	(247)	(24)
	(25,248)	(25,845)
Total	**(26,670)**	**(26,799)**

35 RELATED PARTY TRANSACTIONS

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. Related parties include:

(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.

There are two transactions to disclose in relation to 2012/13 relating to payments of £1,200 and £650 to Classique Marquees Ltd for marquee-hire and associated services provided at two events within the borough. Councillor Pounder is a director of Classique Marquees Ltd. This directorship and the contractual relationship with the Council for the provision of marquee equipment and sundries are listed by Councillor Pounder as 'Disclosable Pecuniary Interests' in the declaration of Members Interests. This declaration, along with those of all Members, is accessible on the Council website.

The Council makes a number of Member appointments to outside bodies each year. In relation to the 2012/13 financial year these are detailed in the Council reports of 25th July 2011, 28th March 2012 and 30th July 2012 which are available on the Councils website.

The Council made a financial contribution to a number of partner organisations during 12/13, most notably:

- Fylde Borough Council Lancashire Strategic Partnership
- Fylde Citizens Advice Bureau
- Age UK Lancashire
- 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:

- Chief Executive: Director of Blackpool Fylde and Wyre Economic Development Company Limited (Economic Regeneration company)
- Director of Community Services: Governor of Myerscough College (a further / higher education establishment)
- Director of Resources: Chairman of Lansdowne Park residents group (a group aimed at the renovation of the park; member of 'Tangent' (women's arm of the round table association)
- Director of Development Services: Director of Blackpool Fylde and Wyre Economic Development Company Limited (Economic Regeneration company)

(d) Partnership working

During 2012/13 the Council continued to work both formally and informally in partnership with neighbouring authorities. The main partnership operations were as follows :

Blackpool Council	• Payroll services • Human Resources • Health & Safety • Revenues & Benefits Services • Coastal defence strategy (Shoreline Management Plan) • Deputy Monitoring Officer
Wyre Council	• Coastal defence maintenance • Procurement (**Note 1)**
Preston City Council	• Financial Services • Benefit Fraud & Revenue Advice

Note 1: This arrangement came to an end in July 2012.

(e) Other Public Bodies
Precepts were raised for Lancashire County Council, Lancashire Police and Crime Commissioner, 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
Fylde Council no longer has any associated companies or joint venture partners. The trading company FBC Solutions Ltd was wound up during 2011/12 and the Council's interest in Clifton (Lytham) Housing Association Ltd was disposed of in the same year.

(g) Lowther Trust
A Trust board was formed in 2009/10 consisting of 7 Trustees, one being an elected member of Fylde 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 and provided all management and administration resources. From April 2012 a new arrangement between the Council and the Trust saw the transfer of responsibility for all day-to-day management to the Trust with the Council meeting an agreed level of deficit funding over the subsequent five-year period.

36 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.

Capital Financing Requirement	2011/12	2012/13
	£'000	£'000
Opening Capital Financing Requirement	6,768	6,296
Capital Investment		
Property, Plant and Equipment	1,225	2,228
Investment Properties	-	-
Intangible Assets	34	-
Revenue Expenditure Funded from Capital Under Statute	1,636	622
Sources of Finance		
Capital Receipts	(1,373)	(480)
Government Grants and Other Contributions	(1,301)	(522)
Sums set aside from Revenue	-	-
Direct Revenue Contributions	(221)	(166)
MRP/Loans Fund Principal	(472)	(472)
Closing Capital Financing Requirement	**6,296**	**7,506**
Explanation of Movements in Year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	(472)	1,210
Increase/Decrease in Capital Financing Requirement	**(472)**	**1,210**

37 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:

	2011/12	2012/13
	£'000	£'000
Property, Plant and Equipment	4	4

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:

	31st March 2012	31st March 2013
	£'000	£'000
Finance Lease Liabilities (net present value of minimum lease payments)	3	1
Finance costs payable in future years	1	-
Minimum Lease Payments	4	1

The Council was committed at 31st March 2013 to making future payments of £1,631 for Finance Leases. This relates to one vehicle for which these commitments are due within the following financial years:

	31st March 2012	31st March 2013
	£'000	£'000
Minimum Lease Payments:		
Not Later than one year	3	1
Later than one year but not later than 5 years	1	-
Later than 5 years	-	-
	4	**1**
Finance Lease Liabilities:		
Not Later than one year	3	1
Later than one year but not later than 5 years	1	-
Later than 5 years	-	-
	4	**1**

Operating Leases

The Authority was committed at 31st March 2013 to making future payments of £67,951 under operating leases (£132,868 at 31st March 2012). These commitments are due within the following financial years:

	31st March 2012	31st March 2013
	£'000	£'000
Vehicles, Plant and Equipment Leases		
Not Later than one year	65	65
Later than one year but not later than 5 years	68	3
Later than 5 years	-	-
	133	68
Land and Property Leases		
Not Later than one year	-	-
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	-	**-**

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:

	2011/12	2012/13
	£'000	£'000
Land and Property Leases	**290**	274

The capital value held within the balance sheet at 31st March 2013 in respect of land and property generating leasehold income is £2.807m. The accumulated depreciation charge applicable to these assets reflected in the 2012/13 financial statements is nil.

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

	31st March 2012	31st March 2013
	£'000	£'000
Not Later than one year	87	87
Later than one year but not later than 5 years	349	349
Later than 5 years	5,088	5,001
	5,524	**5,437**

38 IMPAIRMENT LOSSES

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

	31st March 2012	31st March 2013
	£'000	£'000
Public Conveniences	-	25
Bowling Club, Station Road	-	(3)
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	-
	124	**22**

39 DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment 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 two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Lancashire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions relating to Post-employment Benefits

The cost of retirement benefits are recognised in the reported 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:

Local Government Pension Scheme	2011/12	2012/13
	£'000	£'000
Consolidated Income and Expenditure Statement		
Cost of Services:		
- Current Service Cost	1,110	932
- Past Service Cost	-	104
- Curtailments	111	60
Financing and Investment Income and Expenditure		
- Interest Cost	3,232	3,069
- Expected Return on Assets in the Scheme	(2,800)	(2,407)
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	1,653	1,758
Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- Actuarial (gains) and losses	4,146	3,476
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	4,146	3,476
Movement in Reserves Statement		
- Reversal of net charges made for post-employment benefit in accordance with the Code	(252)	(506)
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to scheme	1,401	1,252

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2013 is a loss of £13.3m (loss £9.8m at 31st March 2012).

Employer's contributions into the Superannuation Fund, represent 20.8% of pensionable pay (2011/12 19.5%). 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).

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of the present value of the scheme liabilities:

	2011/12	2012/13
	£'000	£'000
Opening Balance as at 1st April	59,450	63,465
Current service cost	1,110	932
Interest cost	3,232	3,069
Member contributions	391	306
Actuarial (gains)/losses on liabilities	2,051	7,492
Benefits/transfers paid	(2,880)	(2,874)
Curtailments	111	60
Past service costs	-	104
Closing Balance as at 31st March	63,465	72,554

Reconciliation of the fair value of the scheme assets:

	2011/12	2012/13
	£'000	£'000
Opening Balance as at 1st April	43,384	43,001
Expected return on plan assets	2,800	2,407
Actuarial gains/(losses) on assets	(2,095)	4,016
Employer contributions	1,401	1,252
Member contributions	391	306
Benefits/transfers paid	(2,880)	(2,874)
Closing Balance as at 31st March	43,001	48,108

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

The actual return on scheme assets in the year was £6.423m (2011/12 £0.704m).

Scheme History

	2008/09	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities	(49,770)	(67,085)	(59,450)	(63,465)	(72,554)
Fair value of assets	32,412	42,153	43,384	43,001	48,108
Surplus/(Deficit) in the Scheme	**(17,358)**	**(24,932)**	**(16,066)**	**(20,464)**	**(24,446)**

The liabilities show the underlying commitments that the Authority has in the long-run to pay post-employment (retirement) benefits. The total net liability of £24.446m 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:

- 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
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2014 is £1.173m (to 31st March 2013 £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:

	31st March 2012	31st March 2013
	£'000	£'000
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.00	7.00
Government Bonds	3.10	2.80
Other Bonds	4.10	3.90
Property	6.00	5.70
Cash/Liquidity	0.50	0.50
Other	7.00	7.00
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.7 years	22.1 years
Women	24.3 years	24.8 years
Longevity at 65 for future pensioners (aged 65 in 20 years' time) :		
Men	23.1 years	23.9 years
Women	25.9 years	26.7 years
Rate of CPI inflation	2.50	2.40
Rate of increase in salaries	4.50	4.40
Rate of increase in pensions	2.50	2.40
Rate for discounting scheme liabilities	4.90	4.20
Take-up of option to convert annual pension into retirement lump sum	50%	50%

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31st March 2012	31st March 2013
	%	%
Equity investments	58.0	62.0
Government bonds	5.0	7.9
Other bonds	15.0	17.2
Property	10.0	9.3
Cash/Liquidity	5.0	3.5
Other assets	7.0	0.1

History of Experience of Gains and Losses

The actuarial gains/(losses) identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of the schemes assets or liabilities at 31st March 2013:

	2008/09 (restated)	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Difference between the expected and actual return on assets	34.5	20.2	3.1	4.9	8.3
Experience gains and losses on liabilities	0.0	0.0	12.3	0.0	0.0

40 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities:

- **Insurance Claims** – As at 31st March 2013, the Council has outstanding insurance claims against it with a reserve amount of £192,813. 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 £12,948 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 (now Progress Housing Group) 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, which may also include the award of costs against the Council on occasion, 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.

- **Recruitment Agency Claim** – The Council has received a claim for a contractual sum from a recruitment agency under the terms of an expired contract. The value of the claim is approximately £19k. The claim is being referred to mediation by agreement between the parties and the likely outcome is some form of compromise. The dispute is expected to be resolved within the 2013/14 financial year.

- **Sand dunes** – the owner of a property within the borough is in dispute with the Council concerning the sand-dunes on the foreshore in front of his residence. At this stage no formal proceedings have commenced. If proceedings are commenced they will take some time to be determined, as much would depend on expert evidence.

- **Planning Enforcement** – there is also a planning enforcement case relating to a site at Hardhorn that may give rise to future costs depending on whether future decisions are made by the Council which are subsequently challenged.

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.

  - **Leisure Services Income**: The Council has been accounting for VAT on income relating to certain leisure activities. Following advice from the Council's external VAT advisors PriceWaterhouseCoopers the Council has submitted a 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.

- **Housing Stock Transfer - Right to Buy (RTB) Sharing Arrangements** - Following the transfer of housing stock from the Council, New Fylde Housing (now Progress Housing Group) 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. During 2012/13 the Council received capital receipts in respect of RTB sales in the sum of £171k.

- **Housing Stock Transfer - Development Clawback Agreement** - New Fylde Housing (now Progress Housing Group) 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.

41 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 2012/13 which incorporates the prudential indicators was approved by Council on 1st March 2012. The strategy was revised and approved again by Council on 3rd December 2012. 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+, Viability BB+ and Support 3
- UK institutions provided with support from the UK Government

The full Investment Strategy for 2012/13 was approved by Council on 1st March 2012 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 2013 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 2013 £'000	Historical experience of default %	Adjustment for market conditions at 31/03/13 %	Estimated maximum exposure to default £'000	Estimated maximum exposure At 31/03/12 £'000
	a	b	c	a * c	
Debtors	1,175	8.06%	8.06%	95	324

The Council does not generally allow credit for its trade debtors. Of the £1.175m (£2.024m 2011/12) outstanding for trade debtors, £0.671m (£1.116m 2011/12) is overdue. The past due amount can be analysed by age as follows:

	2011/12	2012/13
	£'000	£'000
Less than three months	967	440
Three months to one year	13	109
More than one year	136	122
	1,116	671

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:

	2011/12	2012/13
	£'000	£'000
Less than one year	2,575	2,905
Between one and two years	290	1,840
Between two and five years	2,953	1,600
Between five and ten years	3,294	2,231
More than ten years	473	551
	9,585	9,127

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:

	2011/12	2012/13
	£'000	£'000
Less than one year	7,525	7,211
Between one and two years	2	5
Between two and three years	2	5
More than three years	10	11
	7,539	7,232

(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:

	2011/12	2012/13
	£'000	£'000
Increase in interest payable on variable rate borrowings*	-	-
Increase in interest receivable on investments	85	108
Impact on Comprehensive Income and Expenditure Account	85	108
Decrease in fair value of fixed rate investment assets	-	-
Impact on Statement of Recognised Gains & Losses	-	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income & Expenditure Account or Statement of Recognised Gains & Losses)	42	41

*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.

42 PROVISIONS

	2011/12	2012/13
	£'000	£'000
MMI Scheme of Arrangement – clawback of previously paid claims	-	15
Total	**-**	**15**

In 1992 Municipal Mutual Insurance (MMI), the principal insurer of Local Government, avoided insolvency by entering a "Scheme of Arrangement". The "arrangement" with creditors enabled MMI to pay outstanding claims on the basis that should there be insufficient assets that participating creditors would be subject to "clawback" of previously paid claims. On the basis of a potential £30m share of surplus funds at the time the Council along with 728 other authorities participated in the "Scheme". Given an unfavourable legal ruling handed down by the Supreme Court during 2011/12, the Scheme of Arrangement was identified as being more likely to be triggered and the Council accordingly set aside an earmarked reserve in the sum of £105k to cover this potential future cost, this being the sum identified in the scheme papers as the Council's potential liability.

On 13th November 2012 the directors of MMI "triggered" the Scheme of Arrangement and Ernst and Young became responsible for MMI's business. Subsequently Ernst and Young wrote to the Council indicating an initial Levy payable in the sum of £15k. A sum of £15k has therefore been transferred from the earmarked reserve during 2012/13 to meet this liability. A balance of £90k remains in the reserve which is sufficient to meet any further levy payable by the Council.

COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2011/12		Notes	2012/13	
£'000			£'000	£'000
	INCOME:-			
(41,365)	Council Tax			(41,678)
	Transfers from the General Fund			
(5,168)	- Council Tax Benefit			(5,230)
(21,967)	Income collectable from Business Ratepayers	3		(23,088)
(68,500)	TOTAL INCOME			**(69,996)**
	EXPENDITURE:-			
	Precepts and Demands			
5,619	- Fylde Council		5,649	
33,431	- Lancashire County Council		33,609	
4,412	- Lancashire Police Authority		4,547	
1,920	- Lancashire Combined Fire Authority		1,930	
563	- Parish Councils	2	739	
				46,474
	Business Rate			
21,854	- Payment to National Pool		22,976	
113	- Costs of Collection		112	
				23,088
	Impairment of Debts and Appeals			
463	- Write offs of uncollectable amounts		300	
(139)	- Allowance for Impairment		45	
				345
	Contribution towards previous year's estimated Collection Fund surplus			
152	- Lancashire County Council		560	
20	- Lancashire Police Authority		74	
8	- Lancashire Combined Fire Authority		32	
28	- Fylde Council		104	
				770
68,444	TOTAL EXPENDITURE			**70,677**
(56)	**Movement on Fund Balance in Year – (Surplus) / Deficit**			**681**
(662)	**Balance on Collection Fund brought forward**			(718)
(718)	(Surplus) / Deficit on Collection Fund carried forward			**(37)**

NOTES TO THE COLLECTION FUND

1) COUNCIL TAX BASE

The Council Tax base for 2012/13 was calculated as follows:-

Property Band	Chargeable Dwellings	Band Multiplier	Relevant Amount
Additional Band (Disabled)	19	5/9	11
Band A	5,118	6/9	3,412
Band B	4,915	7/9	3,823
Band C	7,422	8/9	6,597
Band D	5,972	9/9	5,972
Band E	4,023	11/9	4,917
Band F	2,176	13/9	3,144
Band G	1,372	15/9	2,287
Band H	80	18/9	160
Other Adjustments	31	-	31
Total Relevant Amount			30,354
Multiplied by: Estimated Collection Rate			98.5%
			29,899
Add: Other Adjustments			426
Council Tax Base			**30,325**

A Band D Council Tax was set at £1,466.76, split £1,108.30 for Lancashire County Council, £144.88 for Fylde Council, £149.93 for Lancashire Police Authority and £63.65 for Lancashire Fire Authority. Parish Councils agreed additional Council Taxes of between £14.73 and £82.05 at Band D level.

2) PARISH PRECEPTS

	2011/12	2012/13
	£	£
Bryning-with-Warton	48,750	49,725
Elswick	19,353	18,797
Freckleton	96,767	96,797
Greenhalgh-with-Thistleton	7,000	5,000
Kirkham	27,500	165,581
Little Eccleston-with-Larbreck	6,805	6,805
Medlar-with-Wesham	48,622	49,998
Newton-with-Clifton	49,969	49,969
Ribby-with-Wrea	48,200	48,200
Singleton	16,296	16,621
Staining	46,400	52,628
St.Annes	118,950	150,000
Treales, Roseacre and Wharles	6,636	6,636
Weeton-with-Preese	13,800	13,800
Westby-with-Plumptons	8,000	8,000
	563,048	738,557

3) NATIONAL NON-DOMESTIC RATE (NNDR)

	2011/12	2012/13
NNDR Rateable Value as at 31st March	£62,553,895	£61,187,545
NNDR Multiplier	0.433	0.458
NNDR Multiplier (Small Business)	0.426	0.450

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:

	2011/12	2012/13
	£'000	£'000
Gross Rates Due (rateable value x appropriate multiplier)	25,680	27,238
Less: Reliefs and Exemptions	(3,333)	(3,529)
Net Yield	**22,347**	**23,709**
Less: Write Offs/Bad Debt Provision	(345)	(621)
Less: Interest paid on Refunds	(35)	(-)
Income Due from NNDR Payers	**21,967**	**23,088**
Less: Cost of collection Allowance	(113)	(112)
Contribution to NNDR Pool	**21,854**	**22,976**

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 (3) of the Accounts and Audit Regulations 2011 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 2013 and up to the date of approval of the annual report and statement of accounts.

The governance environment

<u>Principles</u>

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

CIPFA and SOLACE reviewed the Framework during 2012 to ensure it maintained 'fit for purpose' and issued the Guidance in late December 2012 with the key message for local authorities to review and report on the effectiveness of their governance arrangements and meet the government standard.

Other developments that impact on the Framework since its launch include:

- The Government's commitment to increasing transparency

- Localism Act 2011
- Revised guidance on the role of the Chief Finance Officer
- Revised guidance on the role of Head of Internal Audit
- Changes to Local Authority governance structures

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, 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, which 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 Council's Standards Committee deals with all aspects of advice and guidance for Members on matters of conduct, ethics, propriety and declarations of interest. It also assesses, oversees and determines complaints made against Members under the Code of Conduct. The Council has access to a number of 'independent persons' who assist in upholding high standards.

The Standards 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 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 2011.

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 Financial Officer accords with the principles set out in the CIPFA Statement on the Role of the Chief Financial Officer.

Three directors report to the Chief Executive and collectively form the authority's management team together with the Chief Financial 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 in 2012/13 operated to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the United Kingdom'. From 1 April 2013 the relevant code will be the Public Sector Internal Audit Standards 2012.

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 where appropriate, 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 on a regular basis to the Management Team, to Cabinet, and to full Council. Closer monitoring and appropriate action is taken where there is an 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 is invited to attend 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, service managers are required to incorporate a register of risks relevant to their service area within each Directorate'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 periodic assessment 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 opinion on the effectiveness of the authority's Audit Committee and the internal control function.

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 also receives Directorate Assurance Statements on an annual basis from each of the authority's Directorates. These assurance statements show the extent of compliance within the Directorate 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 and ISA 260 Report to those charged with Governance.

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 an area to be strengthened is outlined below to ensure continuous improvement.

Governance Issues

The Council, via its Corporate Governance Group's recommendations, has identified a number of areas in recent years where it believed that corporate governance could be strengthened. In 2013/14, the Corporate Governance Group's single recommendation centres on the Council's Code of Corporate Governance.

Since 2007, the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' has been used by the Council for the annual assessment of governance arrangements and the preparation of the Annual Governance Statement.

New guidance on Delivering Good Governance in Local Government was published in 2012 to assist local authorities in reviewing the effectiveness of their own governance arrangements through self-assessment and reference to best practice.

The 2007 Framework is reflected in the Council's current Code of Corporate Governance, which was prepared in 2008. Following the new guidance the Council's Code of Corporate Governance will be updated to meet the new guidance in addition to reflect changes to the way the Council operates and undertakes service provision.

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	**Allan Oldfield**
Leader of the Council	**Chief Executive**

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
RESOURCES	AUDIT COMMITTEE	26 SEPTEMBER 2013	5

REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2012/13

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 2013, 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, that 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.

RECOMMENDATIONS

1. That the External Auditors Report to those charged with Governance for 2012/13, referred to as the ISA 260, be noted, and that KPMG be thanked for their work

2. That the Management Representation letter as contained in Appendix 4 of the report be agreed, and that the Letter be subsequently signed by the Chairman of the Audit Committee and the Chief Financial Officer and be sent to KPMG and included within the Statement of Accounts published on the Council's website.

3. That the Audit Committee notes the work undertaken by the Council over the course of the last year resulting in a positive audit opinion of the Council's effectiveness.

CABINET PORTFOLIO		
This item falls within the following cabinet portfolio(s):		
Portfolio Title: Finance and Resources	Councillor Name: Councillor Karen Buckley	

SUMMARY OF PREVIOUS DECISIONS
There are no previous decisions relating to the Report to those Charged with Governance 2012/13.

REPORT

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

IMPLICATIONS	
Finance	The financial implications are contained within the body of this report and the report of the Council's external auditors, KPMG.
Legal	The legal implications are contained within the body of this report and the report of the Council's external auditors, KPMG.
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
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Section 151 Officer	01253 658566	September 2013	

LIST OF BACKGROUND PAPAERS		
Name of document	Date	Where available for inspection

Attached documents

1. KPMG Report to those charged with Governance (ISA 260) 2012/13

KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2012/13

Fylde Borough Council

September 2013

KPMG

Contents

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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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

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 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in January 2013. set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during January 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems
- Review accounts production process
- Review progress on critical accounting matters

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

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

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 2012/13 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.

Headlines

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 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified a number of minor amendments that have been corrected by officers, and a small number of presentational and disclosure adjustments. No numerically significant audit adjustments were made. One significant presentational adjustment has been made to the face of the Comprehensive Income and Expenditure Statement, relating to the treatment of the Municipal Mutual Insurance liability of £15,000. We have not raised any recommendations in relation to the matters highlighted above.
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 2012/13 were: • Achievement of the budgeted savings plan and the impact that non-achievement would have on the in year financial position; • The treatment and disclosure of any loans issued through participation in the Local Authority Mortgage Scheme (LAMS); and • The treatment of asset disposals and capital expenditure related to the Town Hall refurbishment scheme. The Authority generated a larger surplus than anticipated in year and was able to contribute further resource to reserves. No transaction in relation to LAMS took place in 2012/13. There was one asset disposal in year which has been accounted for correctly in the financial statements.
Accounts production and audit process	The Authority has continued to produce good quality accounts and supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Headlines (continued)

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

Control environment	The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. We did identify one minor issue in relation to the preparation and review date of bank reconciliations. Our work also identified that the IT security policy has not been updated since 2009. The Authority should consider reviewing this policy to ensure it is still relevant to operational needs.
Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: ■ *agreement of bank balances to independent confirmations .* Before we can issue our opinion we require a signed management representation letter. 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.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

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

One significant presentational adjustment has been made to the face of the Comprehensive Income and Expenditure Account.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

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.

We identified a number of other issues that have been adjusted by management. These had no impact on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2013.

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 2012/13 ('the Code')* that have all been addressed.

The most significant of these was the treatment of the Municipal Mutual Insurance liability. This had been treated as an exceptional item in the draft accounts, but does not meet the requirements for such a disclosure. The Authority has amended the treatment of this item so that it is included within the cost of services. A provision has been included in the balance sheet for £15,000 due to the uncertainty of the timing of the liability.

Movements on the General Fund 2012/13

£m	Pre-audit	Post-audit
Surplus on the provision of services	783	783
Adjustments between accounting basis & funding basis under Regulations	490	490
Transfers to earmarked reserves	(203)	(203)
Increase in General Fund	**1,070**	**1,070**

Balance Sheet as at 31 March 2013

£m	Pre-audit	Post-audit
Property, plant and equipment	17,867	17,867
Other long term assets	6,780	6,780
Current assets	11,233	11,233
Current liabilities	(3,560)	(3,601)
Long term liabilities	(30,709)	(30,668)
Net worth	**1,611**	**1,611**
General Fund	(4,800)	(4,800)
Other usable reserves	(2,267)	(2,267)
Unusable reserves	5,456	5,456
Total reserves	**(1,611)**	**(1,611)**

Proposed opinion and audit differences (continued)

The wording of your Annual Governance Statement accords with our understanding.

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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

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

In our External Audit Plan 2012/13, presented to you in January, we identified the key risks affecting the Authority's 2012/13 financial statements.

We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	The 2012/13 budget was set in accordance with the Medium Term Financial Strategy, which aims to achieve significant revenue savings. As at January 2013, the Authority was forecasting a budget surplus of £893k for 2012/13 compared with an original budgeted deficit of £530k. This was due to additional savings of £1,423k being identified during the financial year. £716k of the additional savings were due to payroll efficiencies and savings from right-sizing exercises beyond those originally budgeted for. The Authority is currently forecasting a deficit of £430k in 2013/14 and deficits for the three subsequent financial years. These deficits are to be funded from General Fund reserves. By March 2017, the Authority is budgeting to use £2,335k of the General Fund reserves to cover these deficits. This is 49% of the forecasted General fund balance at March 2013. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these saving plans in a way that secures longer term financial and operational sustainability. Any related liabilities at year end, would need to be accounted for in the 2012/13 financial statements as appropriate.	The Authority has exceeded its revised savings target for 2012/13. This allowed it to make a £1,426k contribution to reserves, with £1,069k going into General Fund reserves, £38k to the Land Charges Reserve, and £319k to the Capital Investment Reserve. We have reviewed the budget setting and monitoring arrangements in place and we have not identified any significant issues with the processes undertaken. This is the second successive year that the original budget has predicted a significant deficit and call on reserves, but the final budget has shown a large surplus and an increase in General Fund balance. The Authority has recognised this, and undertook a budget right-sizing exercise to determine the reasons for these large variances. This exercise has fed into the revised Medium Term Financial Strategy which was presented to cabinet in March 2013. This revised MTFS indicates a call on reserves each year from 2013/14 to 2016/17 however general fund balances are still forecast to be significantly above minimum levels. We have reviewed the significant areas of variance between the original and revised budget, and determined that the explanations for them were reasonable.

Critical accounting matters (continued)

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

Key audit risk	Issue	Findings
LOCAL Authority Mortgage Scheme	The Authority is participating in the Local Authority Mortgage Scheme (LAMS). The scheme is designed to encourage Home Buying within the local area. The Authority will provide mortgage indemnities, which would remain in place for the first 5 years of the mortgage. These will be limited to 20% of the total property value. The Authority will make available a total of £1m for this scheme. The funding will be allocated from Section 106 funds. A maximum value of £147k for individual loans has been set.	The Authority's LAMS scheme was approved by Council in January 2013, with £1m of s106 funding to be set aside. KPMG has reviewed the s106 balance as part of our work on Long-Term Creditors and confirmed that £1m has been identified as available for capital schemes. No loans have been made to individuals by the Authority in 2012/13 under the scheme. We will therefore continue to review this scheme as part of our 2013/14 work.
Premises Schemes	The Authority is currently rationalising the premises it uses for operational purposes. This involves a refurbishment scheme for the Town Hall. The Authority budgeted for decant costs of £184k with work on the refurbishment to commence in 2013. The refurbishments are to be funded through the disposal of surplus or under used assets. The St. Davids Road North, Derby Road Wesham and Public Offices sites were identified for disposal.	We have reviewed controls over the Property, Plant and Equipment (PPE) accounts caption as part of our interim work, and substantively tested material capital receipts and additions to PPE as part of our year end audit work. The Authority has accounted for one asset sale in the 2012/13 financial statements, however the decant costs were not utilised in year. No issues have been identified with the controls tested or the way in which the Authority has accounted for capital receipts and capital expenditure in relation to these schemes.

Accounts production and audit process

The Authority has continued to produce good quality accounts and supporting working papers.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* 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	The Authority has put in place a robust financial reporting process, including a full review of the accounts by the s151 officer and comparison to similar authorities. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28th June.
Quality of supporting working papers	We discussed our working paper requirements for the audit with the finance team. The quality of working papers provided met the standards agreed.
Response to audit queries	Officers made themselves available during the audit, and resolved audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Appendix 2 provides further details.

Organisational and IT control environment

Your organisational and IT control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted that the IT security policy has not been updated since 2009.

A recommendation for this issue has been included in Appendix 1.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Controls over key financial systems

The key controls over the financial systems we tested in 2012/13 are sound.

Work completed

Where we determine that this is the most efficient audit approach to take, we test selected controls that address key risks within the Authority's key financial systems. The strength of the control framework then informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditors' opinion on that system, and we may not test every control within that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

For our 2012/13 audit, we documented and tested the controls that we identified as mitigating our identified audit risks in the following systems;

- Cash and bank reconciliation;
- Pensions;
- Property, Plant and Equipment;
- Journal Entries; and
- Financial Reporting Processes.

Based on the work undertaken, we did not identify any significant weaknesses in the controls we tested in these systems.

Nevertheless, our work did identify that the September 2012 bank reconciliation was not prepared and authorised until late November. We would normally expect such reconciliations to be completed before the end of the following month.

Completion

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 2013, 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, non disclosure, related party, public interest reporting, questions/objections, opening balances etc)

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

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 2012/13. We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had been completed by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Appendix 1: Key issues and recommendations

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		
❶ ***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.	❷ ***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.	❸ ***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	❸	The Authority's current IT security policy was introduced in 2009. The Authority should consider reviewing and updating this policy to ensure it is still relevant to operational needs.	The IT Security Policy is due for a scheduled review during 2013, along with a number of other IT related policy reviews. The IT Security Policy will be reviewed and updated as a priority within this series of reviews. Customer, ICT, and Service Improvement Manager October 2013
2	❸	The September 2012 bank reconciliation was completed in a timely manner. However, upon review by the Accountancy Services Manager, amendments were required which led to the reconciliation being re-performed and re-dated. Only the revised reconciliation was retained on file. Whilst we are satisfied that the reconciliation was undertaken in line with the procedures, the audit trail suggests that it wasn't performed in a timely manner. The Authority should consider retaining all reconciliations on file so that if such an event occurs in the future, the audit trail demonstrates that the original reconciliation was completed in line with procedures.	The Authority will retain all reconciliations on file in order to maintain a complete audit trail. Accountancy Services Manager September 2013

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2011/12* 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 July 2013
1	2	**Heritage Assets Valuations** 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. 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 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. 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.	Chief Financial Officer March 2013	A full revaluation of Heritage Assets has been completed during 2012/13. The Authority's accounting policy has been updated.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12.*

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2013
2	3	**Submission of Pension Data to Mercers Actuary** 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. 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. 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. 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. 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.	Chief Financial Officer March 2013	Improved arrangements implemented. A full review of LCC 2012/13 data was completed by the Authority prior to it being sent to the Actuary. No issues arising from our work in 2012/13

Appendix 3: Declaration of independence and objectivity

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.

Appendix 3: Declaration of independence and objectivity (continued)

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 2013, 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.

Appendix 4: Draft management representation letter

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 financial statements of Fylde Borough Council ("the Authority"), for the year ended 31 March 2013, 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 2013 and of its expenditure and income 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 2012/13.

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 the Authority as at 31 March 2013 and of the Authority's expenditure and income 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 2012/13.

   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 2012/13 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. 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.

Appendix 4: Draft management representation letter

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.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. 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.

   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.

7. 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 financial statements communicated by employees, former employees, analysts, regulators or others.

8. 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.

9. 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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.

    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

    a) 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 *26 September 2013*.

Yours faithfully,

[Chair of the Audit Committee], [Chief Financial Officer]

KPMG

cutting through complexity™

REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES	AUDIT COMMITTEE	26 SEPTEMBER 2013	6

CONSTITUTION REVIEW

PUBLIC ITEM

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

SUMMARY

Each Local Authority is required to publish the arrangements it has made to discharge its functions in a constitution prepared in accordance with legislation. The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure business is conducted in an efficient, transparent, and accountable manner. Some of the content of the Constitution is required by law; the remainder is for the Council itself to determine.

The Monitoring Officer has a duty to keep the Constitution under review and has delegated authority to amend the Constitution where there has been a change in law, job title, and structure, rearrangement of job responsibilities or for general administrative convenience. Extensive changes to the Constitution, however, must be approved by the Council following prior consideration by the Audit Committee.

There are a number of changes that the Monitoring Officer is proposing to make under her delegated powers and for transparency; these matters are drawn to the attention of the Audit Committee for its information.

In addition, there are three matters for referral to Council by the Audit Committee, one of which (procedure rules for Budget Council meetings) has already been before the Audit Committee and has been previously approved.

In line with members previous requests (Council meeting of July 2013 refers) it is hoped that the attached document aids transparency of amendments being proposed by the Monitoring Officer with the reasoning behind the same being clearly articulated.

RECOMMENDATION
1. To note those amendments to be made by the Monitoring Officer utilising her delegated authority 2. To consider two matters brought to the Committees attention prior to them being proposed to the Council for consideration/endorsement

CABINET PORTFOLIO
This item falls within the following cabinet portfolio(s):
Portfolio Title: Finance and Resources Councillor Name: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS
Constitution review – Council 30 July 2012

REPORT

To receive the report of the Monitoring Officer (attached) and to consider those matters requiring consideration prior to referral to the Council.

IMPLICATIONS	
Finance	None arising from this report
Legal	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
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Tracy Morrison Monitoring Officer	01253 658521	September 2013	

LIST OF BACKGROUND PAPAERS		
Name of document	Date	Where available for inspection

Attached documents

Appendix 1 – Schedule of changes to the Constitution

Appendix 2 – Responsibility for Functions, Head of Shared Service (Revenues and Benefits)

Appendix 3 – Part 4b, Contracts Procedure Rules

Appendix 4 – Budget Council Procedure Rules

<u>Amendments to the Constitution</u> SEPTEMBER 2013

Page	Ref	Change	Reason	Under Delegated Authority	For Council Approval
2 / 8	5.01	**Chairing the Council** - Added point (c) back in from the old Constitution: *Ensuring that the Council meeting is a forum for debating matters of concern to the local community and where Councillors who are not members of the Executive can hold the Executive to account.*	For clarity	✓	
2 / 8	5.02	**Ceremonial Role** - A note added to indicate where the Policy on the Operation of the Mayoralty can be found: *The Policy on the Operation of the Mayoralty can be found on the Council's website at http://www.fylde.gov.uk/council/mayor/*	To make more detail accessible	✓	
2 /10	7.03	Extra wording included relating to the **term of office of the Executive Leader:** *An Executive Leader will in all cases cease to hold office on the 4th day following the District Council elections. An Executive Leader will be appointed for the ensuing 4 year term, subject to these rules, at the first Council meeting following that date.*	For clarification only, no substantive change	✓	
2 / 13	9.01	Inserted a reference re **Standards responsibilities**: *Section 5 of Part 3 of this Constitution gives more detail relating to the areas of responsibility of the Standards Committee.*	To lead the reader to more detail	✓	
2 / 14	10.03	Inserted a reference re **Audit responsibilities:** *Section 4 of Part 3 of this Constitution gives more detail relating to the areas of responsibility of the Audit Committee.*	To lead the reader to more detail	✓	
2 / 16	12.04(b)	**Functions of the Monitoring Officer**; **ensuring lawfulness and proper administration -** Added punctuation to give clarity as to when a report goes to full Council, or to the executive i.e. inserted comma after "Council", and comma after "function" in the following wording: *the Monitoring Officer will report to the full Council, or to the Executive in relation to an Executive function, if he or she considers that any proposal, decision or omission would give rise to unlawfulness*	For clarification only, no substantive change	✓	
2 / 17	12.04(h)	Inserted a reference re **Monitoring Officer responsibilities**: *Part 5e of this Constitution gives more detail relating to the areas of responsibility of the Monitoring Officer.*	To lead the reader to more detail	✓	
2 / 19	13.04	**Decision-making by the Executive** - 2nd paragraph - changed "which results" to "which is likely to result" i.e. *A key decision means any executive decision which is*	For accuracy	✓	

		likely to result in the Council incurring expenditure or making savings of at least £100,000, or which affects two or more wards.			
2 / 21	15.04	**Constitution Review** - A note added to say that changes to the Constitution made under delegated authority will be notified to councillors.	For info	✓	
2 / 21	15.05	**Constitution – amendments**: removed the wording "after consulting with the Chief Executive" from the following *"… or by way of members proposing a notice of motion in accordance with the Council's Procedure Rules after consulting with the Chief Executive."*	Councillor request		✓
2 / 22	16.01(b)	**Procedure to Suspend the Constitution -** Wording amended, as underlined: *A motion to suspend any Part 4 Procedure Rules will not be moved without notice unless at least half of the whole number of members of the Council, committee or sub-committee are present. (For example, for a committee to which 9 members had been appointed, 5 would need to be present.)*	For clarification only, no substantive change	✓	
3 / 6	PP Cttee - 3	**Public Protection Committee** has power to amend site licences	Correction of an omission, as advised by Legal services	✓	
3 / 9	1(b)	**Community Focus** – removed bullet point requiring the need to receive reports from Member Champions	No longer have Member Champs	✓	
3 / 25	5.11	**Responsibility for Functions, Director of Development Services** – extra wording included (underlined); *Agreeing the modification or discharge of planning obligations under section 106A of the Town and Country Planning Act 1990; and, following consultation with the Portfolio Holder, Chairman and Vice-Chairman of the DM committee and relevant ward councillors, under sections 106BA-BC of the same Act.*	Requirement under the legislation	✓	
3 / 32	8.4, 8.5, 8.8	**Responsibility for Functions – Revs and Bens:** These delegations (attached) were previously agreed on 1 Oct 2009 by the then Blackpool and Fylde Joint Committee on Revenues and Benefits, but were at that time omitted from the Constitution.	Correction of omission	✓	
4 / 10	12.7(f)	**Amending a Motion -** New wording added (underlined) for consideration: *If an amendment is carried, the Mayor will read out the amended motion, which thus replaces the original motion. Members can then continue to debate the motion and may propose further amendments, which will be dealt with under this rule. If there are ~~none~~ no further amendments, the Mayor will put the motion as amended to the vote.*	For clarification only, no substantive change	✓	
4 / 10	12.9(a)	**Alteration or Withdrawal of Motion -** New wording added (underlined):*A member who has proposed a motion or amendment may only alter or withdraw it if*	For clarification only, no substantive change	✓	

		his seconder and the meeting agrees (the meeting's consent to be signified by a vote, but without discussion) and any alteration is one that could have been made as an amendment.			
4/10	12.10	**Motions which may be moved during debate -** Change of wording, and references included: (i) to amend ~~a motion~~ *the motion presently being debated;* (ii) to proceed to the next business *(see rule 12.11(b));* (iii) that the question be now put *(see rule 12.11(c));* (iv) to adjourn a debate *(see rule 12.11(d));* (v) to adjourn a meeting *(see rule 12.11(d));*	To lead the reader to more detail.	✓	
4 / 14	21	**Election of Chairman of Committee** - Whole of rule changed to italics, as it applies to all committees.	Correction of error	✓	
4 / 15	24(b)	**Subs at DM -** Extra wording inserted (underlined). *A Reserve DM Member is a member who has been named as such by the Development Management Committee (or had previously been named as a Reserve DC Member by the committee which was formerly called the Development Control Committee).*	For clarification only, no substantive change	✓	
Part 4b		**Contracts Procedure Rules –** the introduction of additional flexibility in the choice of procurement tools, to allow the council to use other portals such as the Government Procurement Service's e-Marketplace, as well as the Chest. Part 4b attached.	Advice from Head of Governance		✓
Part 3		Following the departure of the Director of Community Services, the delegated functions and authorities previously assigned to that person will be re-assigned as follows: Chief Executive – functions associated with refuse disposal; cleansing of highways; and dog control Director of Resources – functions associated with environmental health; licensing; and housing Director of Development Services – functions associated with parks; open spaces; and leisure	Re-allocation of Directors' delegated authorities; effective from 1st October 2013	✓	
Part 4		Budget Council Procedure Rules (attached)	Previously agreed by Audit Committee at its meeting of 21 March 2013		✓

8 HEAD OF SHARED SERVICE (REVENUES AND BENEFITS)

8.1 Determining and administering applications in relation to Council Tax, covering discounts and exemptions (including discretionary decisions), together with disabled persons allowance and Housing and Council Tax Benefit.

8.2 Agreeing rating assessments of property not owned or occupied by the Council.

8.3 Recovering Council Tax and Business Rates.

8.4 Refunds of overpayments.

8.5 Writing-off of debts up to £5,000 (Council Tax) and £10,000 (Business Rates) including cumulative debts for individual debtors.

Debts over these limits and up to £25,000 will be authorized for write off by the Section 151 Officer (or deputy) but will be reported to Cabinet for information purposes. Debts in excess of £25,000 will be authorized for write off by Cabinet.

8.6 Determining applications for Discretionary Housing payments in line with agreed budget limits.

8.7 Writing-off of debts up to £5,000 (Housing Benefits), including cumulative debts for individual debtors.

Part 4b

Contracts Procedure Rules

Contracts Procedure Rules

1 GENERAL

1.1 Subject to Rule 1.2, every contract made by or on behalf of the Council shall comply with:

(i) these Rules;

(ii) the Council's Financial Regulations;

(iii) all relevant statutory provisions, including in particular the Local Government Act 1988, Part II, the Public Contracts Regulations 2006 and the Local Government (Contracts) Act 1997;

(iv) any relevant European Council Directive; and

(v) any direction by the Council or the Cabinet.

1.2 These Rules shall not apply or may be varied where or to the extent that:

(i) the Council or the Cabinet so resolves;

(ii) statute or subordinate legislation prescribes otherwise;

(iii) subject to Rule 19, the contract is for consultancy services;

(iv) the contract is for the services of counsel, professional witnesses or external solicitors in relation to a specific matter;

(v) the contract is for the supply of goods or services whose price is fixed under or determinable by reference to a framework agreement which has been entered into following the procedure in Rule 6 or by another public authority.

(vi) The contract has been dealt with by another public authority under a procedure that complies with that authority's contracts procedure rules for contracts of that kind;

(vii) the contract relates to goods bought at an auction; or

(viii) the contract is for goods, works or services of a sensitive nature (such as security) where publication of the tender documents would constitute a security breach and undermine the effectiveness of the final product; or

(ix) The contract is covered by the Land Transaction Procedure Rules

2 PROCEDURES

2.1 All contracts will be dealt with under one of the procedures available for that type of contract as set out in the table below.

Type of contract	**Definition**	**Available procedures**
Exempt contract	A contract where the estimated value of goods and services to be supplied is £10,000 or more and other procedures cannot practicably be followed because:	Qualified informal procedure

	(i) the contract is an extension of an existing contract; (ii) the contract is for spot purchasing fuel or utilities; (iii) the goods, materials or works desired are of a proprietary or special character or for other reasons there would be no genuine competition; or (iv) in the opinion of the Chief Executive the need for the goods materials or works is urgent.	
Small contract	A contract where the estimated value of goods and services to be supplied is less than £10,000.	Informal procedure; Request for quotation Electronic auction Constructionline
Mid-range contract	A contract (other than an exempt contract) where the estimated value of goods and services to be supplied is £10,000 or more, but less than £100,000.	Request for quotation Open tendering Restricted tendering Electronic auction Constructionline
Large contract	A contract (other than an exempt contract) where the estimated value of goods and services to be supplied is £100,000 or more	Open tendering Restricted tendering Electronic auction Constructionline

2.2 The relevant director must decide which one of the available procedures to use unless the Council, a meeting of the Cabinet, or the Chief Executive has directed otherwise.

2.3 Descriptions of procedures referred to in the table above are set out in rule 3.

2.4 Before entering into a contract for the purchase of any goods or services or the execution of any work, the relevant director must obtain written confirmation from the Chief Financial Officer that budgetary provision exists to cover the costs associated with the contract, including any maintenance costs.

3 DESCRIPTION OF PROCEDURES

3.1 The table below contains descriptions of the procedures referred to in rule 2.1

Procedure	**Description**
Qualified informal procedure	The procedure is that the relevant director must be satisfied that the arrangements made secure the best available terms to the Council and must report the circumstances to the next available meeting of the Cabinet.
Informal procedure	The procedure is that the relevant director must be satisfied that the arrangements made secure the best available terms to the Council.
Request for quotation	The procedure is the relevant director must invite at least three quotations using an approved procurement portal or, if he is satisfied that the interests of the council and the public interest are best served by doing so, by inviting hard copy quotations. Hard copy quotations must be opened at the same time and in the presence of at least two officers who should include one officer from the directorate concerned who had no previous involvement in the bidding process and the Head of Governance or his nominee.
Open tendering	The procedure is that the relevant director must invite tenders using an approved procurement portal or, if he is satisfied that the interests of the council and the public are best served by doing so, by inviting hard copy tenders as set out in rule 4. The time allowed for return of tenders must be at least 14 days.
Restricted tendering	The procedure is the same as or open tendering, save that tenders are only to be invited from at least three, but no more than six, prospective tenderers included on a list complied in accordance with rule 5, except that: (i) If the list contains less than three prospective tenderers, all must be invited to tender; (ii) If the director, after

	consulting the Chief Financial Officer, considers a prospective tenderer unsuitable they need not be invited to tender and the director must record in writing the reasons why they were not so invited.
Electronic auction	The procedure is set out in rule 6.
Constructionline	The procedure is the same as for open tendering, save that tenders are only to be invited from at least three, but no more than six, appropriately qualified persons included in the Constructionline register. The persons invited to tender must be selected at random from those appropriately qualified, save that for contracts where the estimated value of goods and services to be supplied is less than £75,000, selection of up to half of those persons invited to tender may be on the basis of their previous contracting history with the council.

3.2 "Approved procurement portal" means a procurement portal approved for the time being by the Director of Resources and notified on the procurement pages of the council's intranet.

4 HARD COPY TENDERING

4.1 Hard copy tendering should only be used in exceptional circumstances. This rule sets out how it should be carried out.

4.2 The relevant director must give public notice in one or more local newspapers, on the council's website and, if the estimated value of goods and services to be supplied exceeds £50,000, (except where 4.4 applies) in one or more appropriate trade journals (if they exist).

4.3 The notice must set out the nature and purpose of the contract, invite tenders, give instructions on how to submit a tender and state the closing date for tenders (including reference to the fact that tenders will not be accepted after 12.00 noon on that date).

4.4 Where a contract notice in the appropriate form is placed in the Official Journal of the European Union, there is no need to advertise in a trade journal.

4.5 No tender or may be considered unless:

(i) it has been recorded as having been received no later than 12.00 noon on the closing date for the receipt of tenders; and

(ii) it has been received in a sealed envelope marked "Tender for [name of contract]" and the envelope had no marking identifying the tenderer.

4.6 All tenders must be opened together in the Town Hall or other Council offices.

4.7 The following persons must be present when tenders are opened:

(i) a member of the Cabinet;

(ii) the Head of Governance or an officer nominated by him or her; and

(iii) the director or, if it is impracticable for him or her to attend, another senior officer of the same directorate.

4.8 At the time of opening of the tenders, the Head of Governance or his nominee must ensure that a record is made of all the tenders received and their values.

5 COMPILATION OF LISTS

5.1 This rule sets out how lists are to be compiled for restricted tendering

5.2 The relevant director must give at least ten days notice of the compilation of a list from which persons are to be invited to tender.

5.3 The notice must set out the nature and purpose of the contract and state the closing date for applications to be included in the list of persons to be invited to tender.

6 ELECTRONIC AUCTIONS

6.2 Under this procedure the relevant director must give at least ten days public notice of the compilation of a list from which persons are to be invited to bid.

6.3 The notice must set out the nature and purpose of the contract, state the closing date for applications to be included in the list of persons to be invited to bid.

6.4 All of the applicants to be included in the list must be invited to bid, except that if the director, after consulting the Chief Financial Officer, considers that an applicant is unsuitable or does not have the technical capacity to participate in the tender process, that applicant need not be invited to bid. The director must record in writing why that applicant was not invited to bid.

6.5 The invitation to bid must state that the contract is to be let by way of electronic auction and that instructions on how to participate in the auction will be sent by email to those invited to participate.

6.6 The instructions must, when considered with any additional guidance and training provided to bidders, be sufficient to allow them to participate in the electronic auction and must set out the start and end times of the auction and the circumstances in which any automatic extensions of time will be triggered.

6.7 The tender process must be by way of an auction conducted over the Internet, in which bidding for the contract is conducted openly and in competition between bidders and in which bidders may make unlimited repeat bids.

6.8 The “leading bid” is the lowest bid if payment is to be made by the Council or the highest bid if payment is to be received by the Council.

6.9 The director must satisfy himself that the tender process:

(i) allows all bidders to see the amounts of the bids of all other bidders (but not necessarily their identities);

(ii) allows all bidders equal access to post their bids;

(iii) complies with the start and end times and the extension triggers set out in the instructions to bidders;

(iv) Is sufficiently secure to protect the commercial confidentiality of the council and bidders, consistent with the purposes of an electronic auction; and

(v) generates an audit trail of the process.

6.10 The director must accept the leading bid at the end time of the auction. Any other bid may be accepted only if the Chief Financial Officer is satisfied that to do so is in the best interests of the Council. The reasons for and circumstances of that acceptance must then be reported to the next meeting of the Cabinet.

7 SPECIFICATIONS AND EVALUATION CRITERIA

An invitation to tender or bid for a contract whose value is estimated to exceed £10,000 must include:

(i) a detailed specification comprising a description of the services, supplies or works that the successful tenderer will be expected to provide. It must incorporate performance targets or criteria for acceptance of the services, supplies or works. It must form the basis of the written contract agreed between the Council and the supplier; and

(ii) if criteria in addition to price are to be used, a description of the criteria that the council intends to take into account in deciding which tender to accept and the weighting that it intends to apply to those criteria.

8 RECEIVING TENDERS AND QUOTATIONS

11.1 This Rule applies where tenders or quotations have been invited. It also applies to applications to be included in the list of persons to be invited to bid under rule 5 or 6.

11.2 No bid or application to be invited to bid may be considered unless it complies with all directions and requirements set out in relation to it (including the requirements of any relevant approved portal) and has in accordance with these rules or the procedures of the relevant approved portal.

9 ACCEPTING TENDERS AND QUOTATIONS

9.1 When exercising any delegated power to accept a tender or quotation, the director must:

(i) if evaluation criteria were specified in the invitation to tender or quotation, accept the tender or quotation that scores most highly using the criteria and weightings set out; or

(ii) if no such criteria were specified and if he is satisfied as to financial and technical suitability, normally accept the lowest tender or quotation if payment is to be made by the Council or the highest tender if payment is to be received by the Council.

9.2 Any other tender or quotation may be accepted only if the Chief Financial Officer is satisfied that to do so is in the best interests of the Council. The reasons for and circumstances of that acceptance must then be reported to the next meeting of the Cabinet.

9.3 No tender or quotation that exceeds the pre-estimate by more than 20% may be accepted without the approval of a meeting of the Cabinet or a Cabinet member with relevant delegated powers.

9.4 All tenders or quotations must be examined for errors and discrepancies. Where that examination reveals errors or discrepancies which would affect the figures in an otherwise successful tender or quotation, the chief officer must give details of the errors or discrepancies to the bidder and invite the bidder to confirm the tender or quotation as submitted, or withdraw it. If the tender or quotation is withdrawn, consideration of the tenders or quotations will then proceed as if that tender or quotation had not been submitted.

9.5 After exercising any delegated power to accept a tender or quotation, the director must ensure that a record of the contract is placed on any contract register maintained within the relevant approved portal and provide sufficient details of the contract to the Head of Governance for him to arrange for the contract to be registered on the council's own contract register.

10 STANDSTILL PERIOD

10.1 The successful bidder should be notified promptly following acceptance of the tender or quotation with an "Alcatel" letter. A template of this letter can be downloaded from the 'Going out to tender' page on the Council's intranet.

10.2 All unsuccessful bidders should be notified promptly with an "Alcatel" letter and must include the scores of the successful bidder against the individual unsuccessful bidders scores and a summary of reasons for the scores. The letter must also include a list of bid prices and bidders, although the names of the firms submitting bids should not be matched to the prices. A template of this letter can be downloaded from the 'Going out to tender' page on the Council's intranet

10.3 The Council cannot award a contract until the minimum standstill period of 11 days has been completed.

10.4 If you receive a request for a debrief from any of the unsuccessful bidders during the standstill period, they must be seen within the standstill period. If this is not possible then the standstill period MUST be extended for a debrief to take place.

10.5 After the debrief if the unsuccessful bidder is asked to provide further evidence by the Council or the unsuccessful bidder requests the council to provide additional information, Then the standstill period MUST be extended to allow this to happen

10.6 Once this period has been completed and there has been no legal challenges by any of the unsuccessful bidders an award letter can be issued to the successful bidder.

10.7 A further letter should be issued to the unsuccessful bidders notifying them that the standstill has been completed and an award letter has been issued.

10.8 By following rule 10.7 if the Council receives a legal challenge by an unsuccessful bidder, it reduces the time limit from 6 months to 30 days from the day after the date when the Council has awarded the successful bidder the contract.

10.9 If one or more of the unsuccessful bidders challenge the award after the standstill period has been completed then seek advice from the Council's Procurement Officer or legal team.

11 POST-TENDER NEGOTIATIONS

11.1 After the receipt of tenders, officers may need to contact tenderers to clarify technical and contractual information as part of the evaluation process. Any such communication must be confidential and a written record made of the reason for contact and the decision made.

11.2 Negotiations after the submission of a tender may only be commenced after the chief officer has agreed with the Head of Governance the procedures to be adopted. Similarly, any resulting contract must be approved by the Head of Governance.

12 NOMINATED SUB-CONTRACTORS

12.1 This Rule applies where a sub-contractor or supplier is to be nominated to a main contractor.

12.2 If the estimated amount of a sub-contract exceeds £10,000, tenders for the nomination must be invited and dealt with in accordance with these Rules as if the tenders invited were for a contract with the Council, unless the relevant director considers that it is not reasonably practicable to obtain competitive tenders,

12.3 Any invitation for nomination under Rule 12.2 must require the tenderer to agree that if selected they will enter into a contract with the main contractor which indemnifies the main contractor in relation to the works or goods included in the sub-contract.

13 WRITTEN CONTRACTS AND CONTRACT RECORDS

13.1 Every contract which exceeds £10,000 in value must be in writing and must specify:

- (i) the work to be done, or services or goods or materials to be provided, including any appropriate technical specifications;
  - (a) the price to be paid, with a statement of discounts or other deductions; and
  - (b) the time or times within which the contract is to be performed.

13.2 The relevant chief officer must keep such records of the letting and management of every contract as he considers appropriate or as the Director of Resources may direct.

14 BRITISH AND EUROPEAN STANDARDS

The contract must require goods and materials to comply with any relevant specification issued by the British Standards Institution or any European Standard, unless the director considers it inappropriate.

15 PREVENTION OF BRIBERY

Every contract that exceeds £50,000 in value must include a clause allowing the Council to cancel the contract and to recover from the contractor the amount of any loss resulting from such cancellation if:

15.1 the contractor has offered or given or agreed to give to any person any gift or consideration of any kind as an inducement or reward for doing or not doing anything relating to the contract or any other contract with the Council or for favouring or not favouring any person in relation to such contract;

15.2 similar acts have been done by any person employed by the contractor or acting on their behalf; or

15.3 the contractor or any person employed by them or acting on their behalf has committed any offence under the Bribery Act 2010 or given any fee or reward the receipt of which is an offence under Section 117 of the Local Government Act 1972.

16 CONSULTANTS

These Rules apply to the engagement of consultants, with the proviso that in circumstances requiring flexibility or where there are specialised needs, the relevant director may agree alternative arrangements with the chief executive.

17 BREACH OF CONTRACTS PROCEDURE RULES

In the event of a significant breach of these Rules, the Chief Financial Officer shall report details to the next meeting of the Cabinet, with any proposals for remedial action.

Full Council Budget Meeting – xxxday xx March 201x

The Leader of the Council will make his budget presentation to the Council. There is no time limit on this presentation.

The **Portfolio Holder for Finance and Resources** will then **Move** a Motion **(the Substantive Motion)** to recommend all the Council Tax resolutions and speak to the same. There is no time limit on the moving and speaking to this motion by the Portfolio Holder.

Once this is **seconded** the **following process will be followed**:

The **Mayor** will at this point ask the Leader of the Opposition and non-aligned members to indicate whether they will be presenting an alternative budget or whether they will be moving any amendments (an indication will be given but the amendments (if any) will not be tabled until the moving, seconding and full debate on the budget proposals has run its course). Amendments from any other member will be heard after the debate on the substantive motion or amendments from the Leader of the Opposition and non aligned members have been concluded.

- The **Substantive Motion** will then be debated when any member can indicate to speak on the Motion being put. No speech by a member may exceed 10 minutes and each speaker may speak only once (12.5).

- **If there is no Amendment** moved then the Portfolio Holder for Finance and Resources, as mover of the original motion, will have a right to reply at the end of the debate immediately before the **Motion** is put to the vote (12.6).

- **However, if the Leader of the Opposition indicated that she would be presenting an alternative budget/moving an amendment she is invited to do so and there is no time limit, in line with the convention agreed for the Leader and Portfolio Holder.** No speech by any other member may exceed 5 minutes, and each speaker may speak only once (12.7.d). The Portfolio Holder for Finance and Resources, as the mover of the original Motion, has the right of reply at the close of the debate on the Amendment, but may not otherwise speak on it (12.7.e). This applies to all further amendments

- **The Mover of an Amendment** has no right of reply on his or her Amendment (12.8).

- **The Seconder of a Motion or Amendment** can reserve the right to speak for a later period in the debate (12.3 and 12.7.b).

- **If the first Amendment is lost** then subsequent Amendments may be moved to the original Motion firstly by any non-aligned members and then any other members (12.7.g).

- **If an Amendment is carried** the Motion as amended takes the place of the original Motion. This becomes the substantive Motion to which any further amendments are moved (12.7.f).

- The **Motion** must be **Seconded** and any **Amendments** must be **Moved, Seconded and voted upon.**

- In the event of all the amendments being lost **the original Motion will be put.**

The rules of debate for moving and amending motions will be in line with those set out in paragraph 12 of the constitution (rules of debate procedure rules).

STANDING NOTE ON DISORDERLY CONDUCT

A. BY A MEMBER OF THE COUNCIL

In the event of disorderly conduct at the meeting by a member of the Council, the provisions of the Council Procedure Rules apply as follows:

MEMBER'S CONDUCT

Member not to be heard further

If a member persistently disregards the ruling of the [Mayor] by behaving improperly or offensively or deliberately obstructs business, the [Mayor] may move that the member be not heard further. If seconded, the motion will be voted on without discussion.

Member to leave the meeting

If the member continues to behave improperly after such a motion is carried, the chairman may move that either the member leaves the meeting or that the meeting is adjourned for a specified period. If seconded, the motion will be voted on without discussion.

B. BY MEMBERS OF THE PUBLIC

In the event of disorderly conduct at the meeting by a member of the public, the provisions of the Council Procedure Rules apply as follows:

1. If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room.

2. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared and may adjourn the meeting as felt necessary.

REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES	AUDIT COMMITTEE	26 SEPTEMBER 2013	7

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

PUBLIC 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 quarters to July and September 2013, there were no authorised operations.

RECOMMENDATIONS

1. Note the information in the report.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance and resources: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

A report about the use of covert surveillance and covert human intelligence sources ids brought regularly to the Audit Committee for noting.

On 29July this year, the council resolved to note a report about the council’s use of surveillance powers and changes in the legal framework governing them and to adopt an updated policy on the council’s use of such powers.

REPORT

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.

2. Fylde 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 and confirmed by a Justice of the Peace. 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
Apr- Jun 2013	0	0	0	
Jul – Sep 2013[1]	0	0	0	

IMPLICATIONS	
Finance	No direct financial implications. This work will be delivered within existing revenue budget resources
Legal	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. The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder. Such authorisation must be endorsed by a Justice of the Peace.
Community Safety	An authorising officer should consider any community safety issues among the other relevant factors in deciding whether to authorise surveillance
Human Rights and Equalities	None arising directly from this report.

[1] 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.

Sustainability and Environmental Impact	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	3 September 2013	

LIST OF BACKGROUND PAPAERS		
Name of document	Date	Where available for inspection
None		

Audit Committee

Date:	Thursday, 27 June 2013
Venue:	Town Hall, St. Annes
Committee members:	Councillor John Singleton (Chairman) Councillor Brenda Ackers (Vice Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Karen Henshaw, Charlie Duffy.
Other Councillors:	Councillor Karen Buckley
Officers:	Tracy Morrison, Paul Walker, Paul O'Donoghue, Andrew Wilsdon, Savile Sykes and Paul Rogers
Other Attendees:	None

1. <u>Declarations of interest</u>

Members were reminded that any disclosable pecuniary interests should be declared as required by the Localism Act 2011 and that any other interests should be declared as required by the Council's Code of Conduct.

There were no declarations of interest.

2. <u>Confirmation of minutes</u>

RESOLVED: To approve the minutes of the Audit Committee meeting held on 21 March 2013 as a correct record for signature by the Chairman.

3. <u>Substitute members</u>

The following substitutions were reported under Council procedure rule 25:

Councillor Karen Henshaw for Councillor Howard Henshaw.

Councillor Charlie Duffy for Linda Nulty.

4. Risk Management Annual Report

Andrew Wilsdon, Risk and Emergency Planning Officer, presented a report which summarised the yearend report on the 2012-13 Strategic Ris k Register Action Plans and the work undertaken by the Council's Risk and Emergency Planning Officer in producing the Strategic Risk Register for 2013-14. The report links principally to the Corporate Objective – "to meet the expectations of our customers".

The Committee noted that the date in recommendation 1 in the report should read '2012-13'.

In taking members through the various sections of the report, Mr Wilsdon drew members' attention to table 1 on page 18 which detailed the outstanding risk actions that had not completed by 31 March 2013. He emphasised that the first group of actions related to the accommodation action plan and that the non completion of those actions was due to delays in the sale of the Public Offices and Wesham Offices. As a consequence of those delays, further work relating to the procurement of temporary office accommodation had been delayed because those works were reliant on the resources generated by the sale of the offices. Delays regarding the Coast Protection Strategy were due to the Council becoming part of the Fylde Peninsula group who then altered the timescales for the work. Nevertheless, the work was being actioned and the appraisal report was agreed at the end of May 2013.

Councillor Kathleen Harper expressed concern about the delays in the refurbishment of the Town Hall and the possibility of increased costs of the refurbishment as a consequence. Paul Walker, Director of Development Services, informed the Committee that although building works costs had remained relatively stable, it would not be possible to determine actual refurbishment costs until bids for the work had been received.

Following discussion, it was RESOLVED that

(1) The yearend report of the progress on the 2012-13 Risk Action Plan be noted.

(2) The Strategic Risk Register for 2013-14 be approved.

(3) The Strategic Risk Management Strategy approved by the Audit Committee in September 2011, is re-approved for the year 2013-14.

(4) An update of progress on the completion of the risk actions included in the Strategic Risk Register be presented to the November Audit Committee meeting.

5. Internal Audit Annual Report 2012-13

Savile Sykes, Head of Internal Audit, 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 2012 to March 2013 and performance information for the same period. The report meets the Head of Internal Audit's responsibility under the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, the prevailing code for the period.

Mr Sykes took members through the report and emphasised its purposes. He drew attention to the High Priority Risks Identified in table 4 on page 55 and informed the Committee that the arrangements for penalty notice administration shown at point 2 in the table had been completed (Minute no. 7 refers) in line with the other risks in the table. He advised the Committee that the

‘Follow Up’ review figures detailed in table 5 on page 56 indicated the position at 31 March 2013. Currently, the Car Parking implementation was 93 per cent which was a marked improvement. As a result, the percentage of high and medium priority recommendations implemented in 2012/13 was amended to 94 per cent. In table 7, ‘Annual Implementation Rates’, the figures were revised as follows:

Overall Implementation %	93.3
High/Medium Implementation %	93.8

The implementation rate for high/medium priority risks was, to date, the best the Council had ever achieved.

The Chairman concluded that it was nice to see that the high risks had been completed and that it was a good report.

After discussion it was RESOLVED that

(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 congratulate officers on achieving an improved satisfactory audit percentage despite the budgetary reductions.

6. High Priority Areas (Update)

Savile Sykes, Head of Internal Audit, reminded members that at its meeting in January 2013, the Committee had considered the Internal Audit Interim Report for 2012/13 and the Head of Internal Audit was requested to provide a further report concerning the outstanding high priority actions identified. The Head of Internal Audit reported further to the March 2013 meeting of the Committee and the report before the Committee detailed the current position.

Paul Walker, Director of Development Services, referred to the action in respect of the penalty notice administration as referred to in the table on page 95. He reminded members that the issue related to a contract with a company called Chipside, who process penalty charge notices for car parking offences on behalf of the Council. By way of background, he informed the Committee that in 2009, Chorley Borough Council on behalf of eight authorities, including Fylde, had carried out a procurement exercise which resulted in the award of the contract to Chipside. Individually, those authorities endeavoured to enter into a contract with the company and currently, only two Councils had entered into formal contracts. This Council did not enter into the written contract which Chipside had drawn up because there were elements in the contract which the Council could not endorse. There was, however, an agreement in place with the company based on the specifications set out in the tendering exercise and work had progressed on that basis. The officers continued to discuss the contents of the contract with the company and had now been able to agree a revised mutually agreeable written contract with the company which has now been signed off. The action referred to in the report had, therefore, been completed.

Mr Sykes advised that the remaining two high priority actions as set out in the report had also been completed.

It was RESOLVED that the Committee notes that the high priority actions as detailed in the report and referred to above have been completed and signed off accordingly.

7. Effectiveness of the Audit Committee

Savile Sykes, Head of Internal Audit, introduced a report which presented the findings of a self assessment exercise undertaken by the Head of Internal Audit in conjunction with the Chairman and Vice Chairman 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.

Councillor Charlie Duffy referred to the two areas of partial divergence, paragraph 6 of the report refers, and asked for more detail in the explanation of non compliance with best practice in those areas so the public could be reassured of the independence of Audit Committee members. Mr Sykes advised the Committee that the external auditors were aware of the situation and they had not raised any issues in that respect. He emphasised that he, as well as the Chairman and Vice Chairman, had assessed the Chairman's position and took the view that the Chairman's independence was not compromised by his membership of a scrutiny committee. He informed the committee that the membership of the Audit committee had remained fairly constant over the last three years and in that time, he had observed that it had operated in a very independent way. He advised members that, in his view, all members of the committee are sufficiently independent of other committees.

After discussion, it was RESOLVED that 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 Chairman and Vice Chairman of the Committee.

8. Effectiveness of Internal Audit

Savile Sykes, Head of Internal Audit, presented a report regarding a review of internal audit effectiveness which was required every year as part of satisfying the overall governance arrangements in local authorities and in support of the Council's Annual Governance Statement. The report presented the findings of a self assessment exercise in relation to the effectiveness of internal audit.

After taking members through the various sections of the report, it was RESOLVED that

(1) The Committee notes the findings of the review on the effectiveness of internal audit and confirms the conclusion that the Council has an effective internal audit service.

(2) The thanks of the Audit Committee be conveyed to the officers for an improved audit performance.

9. Annual Governance Statement

Tracy Morrison, Director of Resources, presented the Annual Governance Statement prepared under the CIPFA/SOLACE framework the local code of corporate governance for approval.

In making reference to the various sections of the report Ms Morrison referred to the action plan for the previous financial year which had been on-going. At the last Audit committee meeting, it was requested that an update be presented to this meeting on the equalities training and guidance for staff. She informed members that Ian Curtis, Head of Governance, was using a national framework to roll out the training across the Council which was in progress. There were nine modules in the training with five of those modules being designed for senior managers. There was one module left to be delivered to senior managers and once that had been delivered, those managers could cascade the information out to staff through team briefings which will ensure that the remaining four modules are delivered.

Councillor Charlie Duffy referred to the 63 point check list and asked why it had not been attached to the report as had been provided with some of the other reports on the agenda so that members could see how the points in the checklist were complied with. Ms Morrison advised that those comments would be taken on board and that the checklist with evidence and comments would be attached to statements in future years. She added that in view of the amount of information which is reviewed, she suggested that this be reported in a high level summary form.

Following discussion, it was RESOLVED

(1) The Annual Governance Statement be approved for signature by the Leader of the Council and Chief Executive.

(2) That future Annual Governance Statements be supported with information gathered via the 63 point check list which will be presented to the Committee in a high level summary format.