



# Governance Committee

Agenda and Reports

For consideration on

**Thursday, 27th September  
2012**

In Committee Room 1, Town Hall, Chorley

At 2.30 pm

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19 September 2012

Dear Colleague

## **GOVERNANCE COMMITTEE - THURSDAY, 27TH SEPTEMBER 2012**

You are invited to attend a meeting of the Governance Committee to be held in Committee Room 1, Town Hall, Chorley on Thursday, 27th September 2012 commencing at 2.30 pm.

### **AGENDA**

1 **Apologies for absence**

2 **Declarations of Any Interests**

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

3 **Minutes (Pages 1 - 6)**

To confirm the enclosed minutes of the Governance Committee meeting held on 28 June 2012.

4 **Update of the implementation of the new standards regime (Pages 7 - 10)**

Report of the Monitoring Officer (enclosed)

5 **Internal Audit Interim Report as at 31 July 2012 (Pages 11 - 18)**

Report of the Head of Shared Assurance Services (enclosed)

6 **National fraud Initiative Members Briefing 2012 (Pages 19 - 38)**

Report of the Head of Shared Assurance Services (enclosed)

- 7 **Statement of Accounts 2011/12 (Pages 39 - 128)**  
Report of the Chief Executive (enclosed)
- 8 **Treasury Strategies and Prudential Indicators 2012/13 - 2014/15**  
Report of the Chief Executive (to follow)
- 9 **Any other item(s) that the Chair decides is/are urgent**

Yours sincerely



Gary Hall  
Chief Executive

Dianne Scambler  
Democratic and Member Services Officer  
E-mail: [dianne.scambler@chorley.gov.uk](mailto:dianne.scambler@chorley.gov.uk)  
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**Distribution**

1. Agenda and reports to all Members of the Governance Committee (Paul Leadbetter (Chair) and Alison Hansford (Vice-Chair), Julia Berry, Graham Dunn, Anthony Gee, Marie Gray, June Molyneaux and Alan Platt for attendance.
2. Agenda and reports to Gary Hall (Chief Executive), Chris Moister (Head of Governance), Susan Guinness (Head of Shared Financial Services), Garry Barclay (Head of Shared Assurance Services), Clare Ware (Shared Assurance Services Internal Audit Manager) and Dianne Scambler (Democratic and Member Services Officer) for attendance.
3. Agenda and reports to Fiona Blatcher (Audit Commission) and Tony Hough (Audit Commission) for attendance.

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આ માહિતીનો અનુવાદ આપની પોતાની ભાષામાં કરી શકાય છે. આ સેવા સરળતાથી મેળવવા માટે કૃપા કરી, આ નંબર પર ફોન કરો: 01257 515822

ان معلومات کا ترجمہ آپکی اپنی زبان میں بھی کیا جاسکتا ہے۔ یہ خدمت استعمال کرنے کیلئے براہ مہربانی اس نمبر پر ٹیلیفون  
کیجئے: 01257 515823

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**Governance Committee****Thursday, 28 June 2012**

**Present:** Councillor Paul Leadbetter (Chair) and Julia Berry, Graham Dunn, Anthony Gee, Marie Gray, June Molyneaux and Alan Platt

**Also in attendance:** Councillors Gary Hall (Chief Executive), Chris Moister (Head of Governance), Susan Guinness (Head of Shared Financial Services), Lee Hurst (Systems Development & Exchequer Services Accountant), Garry Barclay (Head of Shared Assurance Services), Clare Ware (Shared Assurance Services Internal Audit Manager), Jan Minchinton (Principal Auditor (Chorley)), David Wilkinson (Performance Officer), Tony Hough (Audit Manager, Audit Commission) and Dianne Scambler (Democratic and Member Services Officer)

**07.CCS.01 APOLOGIES**

An apology for absence was received from Councillor Alison Hansford.

**07.CCS.02 DECLARATIONS OF ANY INTERESTS**

No declarations of interests were received.

**07.CCS.03 MINUTES - AUDIT COMMITTEE**

**RESOLVED – That subject to the following amendment:**

**12.AU.53 STRATEGIC RISK UPDATE REPORT**

**RESOLVED - That a list of ICT projects and risks associated be provided to a future meeting of the Committee.**

**the minutes of the Audit Committee meeting held on 15 March 2012 be held as a correct record for signing by the Chair.**

**07.CCS.04 STATEMENT OF ACCOUNTS 2011/12**

Members received a report of the Chief Executive giving them sight of the Statement of Accounts (SOA) for 2011/12 that would be signed and authorised for issue by the Chief Financial Officer at the end of June. The report also gave advice on the processes leading up to their formal submission for the approval of Members following completion of the external inspection by the Audit Commission in September 2012.

This Committee was not required to approve the SOA by 30 June before inspection of the external auditors, but would give them final approval prior to 30 September as they have done previously.

The Movement in Reserves Statement showed a surplus of £1.2m for the year compared to a breakeven position assumed in the original budget approved for 2011/12, reasons for the surplus were contained within the report.

The balance sheet and cash flow statements showed the turnover of cash and final cash position as at 31 March 2012. The Councils Treasury Management Strategy was the key document for the effective day to day management of cash resources and set out policies for the investment of surplus cash.

During the year the external borrowings had reduced from £8.872 to £7.822m and no new borrowings were made. The Council's general balance at year end was £2.264m which was in line with the Authority's Medium Term Financial Strategy that specifies they should be no lower than £2.0m. The Chief Executive explained that this amount was a judgement based upon a set of assumptions and took into account the Council's previous good reputation for making efficiencies and savings.

One of the areas of difference between accounting requirements and council tax regulations concerned pensions. The difference resulting from this was held in the Pensions Reserve. During 2011/12 this deficit on reserves had grown by £6.7m. The accumulated pension fund deficit now stood at £34.0m and Members were advised that the statutory position was that this deficit would be made good through future changes in contributions.

Following recent changes, the SOA now included heritage assets that were held primarily for their contribution to culture and knowledge. The authority had three assets that fitted into this classification, Astley Hall, the Council's Civic Regalia, and the furniture and art contents of Astley Hall.

There had been a significant reduction in debtors from £6.5m to £4.0m and Members were provided with a detailed analysis. The Collection Fund also showed a healthy surplus that was consistent with estimates and had been allowed for in the fixing of the 2012/13 Council Tax.

Members asked if comparative information could be provided at future meetings so that they could measure the authorities performance and success against other district councils.

The Committee was informed that notice had been received from the external auditor that the 13 August 2012 had been appointed as the date on or after which local government electors may exercise their rights to question the auditor about the accounts. A period of inspection would run for 20 working days before that date and the Council would give 14 days notice of the commencement of this period.

#### **RESOLVED**

- 1. That the Report be noted.**
- 2. That in the future comparative information from other district councils be included within the report.**

#### **07.CCS.05 TREASURY MANAGEMENT OUT-TURN 2011/12**

The Committee received and considered the report of the Chief Executive updating Members on the Council's treasury management strategy. Part of the changes in the regulatory environment, concerning treasury management was a greater onus on Members to scrutinise policy and activity.

The report updated on the prudential and treasury Indicators. The Capital Financing Requirement was significantly below that estimated in the Strategy as a voluntary provision for debt repayment had been made as part of the budget strategy. Borrowing had also remained within the limits set.

Members noted the positive treasury position and that the return on investments had gained interest of 1.07% compared to a bench mark of 0.43%.

In relation to Icelandic banks, court proceedings had been successfully concluded during the year with the confirmation of the priority status of the Council's debt and a first repayment of £596k had been received in February. A further payment of £248k had since been received and it was now expected that 100% of the claimed amount would be received.



**RESOLVED – That the report be noted.**

#### **07.CCS.06 ANNUAL GOVERNANCE STATEMENT**

The Head of Shared Assurance presented a report to remind the Committee of the regulatory framework requiring the Council to continuously review its system of governance and to formally publish an annual governance statement alongside its annual financial statements.

Members considered the draft annual government statement which had been produced in accordance with guidelines issued by the Chartered Institute of Public and Accountancy (CIPFA) and the Society of Local Authority Chief Executive (SOLACE).

It was explained what arrangements the Council would take in the forthcoming financial year to build and strengthen our corporate governance arrangements.

Particular attention was made to the undertaking of a members' skills analysis to update the member development programme to cater for the needs of new members to the Council and those Councillors taking on new roles.

Members requested that they be involved in the reviewing and re-issuing of a Protocol on Member/Officer relations.

**RESOLVED – That the Annual Governance Statement be formally signed off by the Leader and Chief Executive before being submitted for external audit alongside the 2011/12 financial statements.**

#### **07.CCS.07 GOVERNANCE COMMITTEE UPDATE 2011/12**

The Committee received a report of the Audit Commission providing the Committee with a progress report in delivering their responsibilities as our external auditors.

The external audit team continued to work closely with the Council's finance team around technical issues, closedown timetable and audit requirements to minimise the likelihood of any unexpected significant accounting issues and the Members were informed that the audit of the Council's financial statements would commence in July and the criteria against which the assessment of our Value for Money (VFM) arrangements would be made.

In April 2012 the Audit Commission had published its work programme and scale of fees for 2012/13. The fees set, represented a 40% reduction on previous years and had been set for the next five years. The reductions in fee had resulted from the significant reductions in the Audit Commission's costs following internal efficiencies and the savings achieved from the outsourcing of its in-house audit practices.

Members asked what procedures were in place to ensure that external groups/projects delivered the work they had promised, when they were funded by the Council and assurances were given that the allocation of the Core Grants had moved to a commissioning model, whereby a funding agreement would be in place that set out targets and was closely monitored by the relevant Executive Member.

**RESOLVED – That the report be noted.**

#### **07.CCS.08 DATA QUALITY POLICY 2012/13**

The Committee received a report of the Chief Executive that presented the Council's refreshed Data Quality Policy, recently approved by the Executive Member for Resources, Policy and Performance for information.

The Policy had been reviewed to ensure that it aligned to the council's new data quality strategy and reflected the organisations increasing reliance on data from IT systems. The report summarised the key changes from the previous policy and outlined the new arrangements that would be put in place to ensure greater control.

**RESOLVED – That the report be noted.**

#### **07.CCS.09 INTERNAL AUDIT ANNUAL REPORT**

The Head of Shared Assurance Services presented the internal audit annual report 2011/12 which summarised the work undertaken by the service during the 2011/12 financial year and gave an opinion on the adequacy and effectiveness of the control environment in the Council as a whole and individual service areas.

A detailed schedule of the work undertaken by the Internal Audit team had been provided and gave individual opinions on the adequacy control for each of the areas audited during the year, as the majority of the reviews received a substantial or adequate controls assurance rating, it was the Internal Audit's opinion that the Council continues to operate in a strong control environment.

Only four out of fourteen reviews had been given a 'limited' rating, two had since been fully implemented and actions had been put into place to resolve the remaining two.

Key performance data indicated that the majority of indicators were on or above target and the team were pleased to report that the average customer satisfaction for Chorley and Shared Services was 91%. Only four areas had varied significantly from the agreed targets and an explanation was provided for Members.

Members discussed whether, by reducing the scheduled work within the plan the team would have a more realistic chance of achieving the delivery of the full plan which was their target of 100%, when for the past two years they had only achieved 92%. It was explained that this was difficult to achieve as there were sometimes external factors outside of their control that they were not aware of at the time of drawing up the plan, that prevented the team from delivering a certain piece of work.

Members also requested if they could explore some joint arrangements with their counterparts at South Ribble Council, particularly in relation to the sharing of information and best practice.

Four members of the Audit Team had been successful in obtaining further qualifications and the team were also pleased to report that they had identified an unpaid debt of £20,000 whilst completing a recent audit review at Astley Hall and now had a formal agreement for an external contract of their services for St Catherine's Hospice that had resulted in additional income to the Council.

**RESOLVED – That the report be noted.**

#### **07.CCS.10 COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS**

The Head of Shared Assurance Services presented a report comprising information to enable 'those charged with governance' and 'management/section 151 officer' to provide assurances being sought by the Audit Commission in respect of fraud and corruption as part of the Council's 2011/12 accounts.

In March 2012, the Audit Commission had written to the Chief Executive and Chairman of the then Audit Committee requesting information to assist with their audit of the Council's 2011/12 financial statements. Given the assurances requested were similar to the evidence being collated by Internal Audit to support the Governance

Statement and in the interest of transparency, it was agreed with the Audit Commission that responses to their letters would be provided following consideration at this meeting.

Members noted that Internal Audit, having reviewed specific information were satisfied that the Council's arrangements were such that positive assurances could be given in the response to the Audit Commission.

**RESOLVED – That the Chair of Governance Committee and Section 151 statutory chief finance officer sign the assurance letters.**

#### **07.CCS.11 THE STANDARDS REGIME AFTER 1 JULY 2012**

Members received a report of the Head of Governance and Monitoring Officer for Chorley Council advising Members of the proposed Code of Conduct and complaints procedure to be adopted by the Council from 1 July 2012.

The report had been submitted for Members information as it had been considered at Executive Cabinet on 21 June with a view to being approved at Council.

Members clarified that the membership of any Hearing Sub Committee's would be drawn from Members of the Governance Committee and that the Council were looking to appoint three Independent Members to provide advice and support in this process.

Members also noted that the terms of reference for the Governance Committee would change after Council on 17 July 2012.

**RESOLVED – That the report be noted.**

#### **07.CCS.12 GUIDANCE TO COUNCILLORS SERVING ON OUTSIDE BODIES**

The Head of Governance presented a report to Members that sought approval of a guidance document for councillors serving on outside bodies.

The guidance document provided a generic approach to be followed by Members and would be used as a steer on what considerations a Chorley Councillor sitting on an outside body should have when discharging that function.

**RESOLVED – That the Guidance to Councillor: Serving on Outside Bodies be approved.**

#### **07.CCS.13 CHANGE OF START TIME FOR GOVERNANCE COMMITTEE**

Members of the Committee **RESOLVED (4:2) to change the start time of the Governance Committee meetings for the rest of 2012/13 municipal year to 2.30pm.**

Chair

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Report of	Meeting	Date
Monitoring Officer	Governance Committee	27 September 2012

**UPDATE ON IMPLEMENTATION OF THE NEW STANDARDS REGIME**

**PURPOSE OF REPORT**

- To update the Committee on the progress of implementation of the new standards regime.

**RECOMMENDATION(S)**

- To note the content of the report and support the Monitoring Officers invitation to Members to complete a Disclosable Pecuniary Interests form.

**EXECUTIVE SUMMARY OF REPORT**

- The new Code of Conduct has been adopted by this Council which is compliant with the legislative requirements. The Council have also approved a procedure for dealing with complaints to provide certainty of approach.
- At the point of adoption of the Code of Conduct no guidance had been provided in relation to disclosable pecuniary interests. Subsequently, guidance was issued for councillors on how to approach disclosure and this was circulated to members through intheknow.
- No guidance has been issued however in relation to the collation of disclosable pecuniary interests.
- This delay may in part be due to informal challenges to the legislation, particularly in relation to the pecuniary interests requirements. The legislation as drafted is unclear as to the legal disclosure requirements. Given this element has criminal sanctions imposed it is important for the legislation to be clarified and it is understood that the DCLG are presently taking legal advice.
- Although the legal position is unclear it is felt important to provide the opportunity for members to consider their position under the new rules in relation to disclosable pecuniary interests. It is proposed to invite all Councillors to request they complete the disclosure voluntarily online in order to promote transparency of decision making.

<b>Confidential report</b> Please bold as appropriate	Yes	No

**CORPORATE PRIORITIES**

- This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	

Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			X

**BACKGROUND**

9. Council adopted the new Code of Conduct and procedure for investigation document on 17 July. The Code contained provisions which addressed Disclosable Pecuniary Interests, but at that time no guidance was provided to Councillors as to what should be disclosed beyond the statutory definitions.
10. Subsequently, a guidance document was issued for Councillors by the DCLG. This has been circulated to all members through intheknow. This is the only guidance which has been delivered at this stage and it does seem that Authorities are being left to address this issue themselves.
11. One of the reasons for the delaying addressing this issue is the informal challenge to the legislation made by some interested parties (ACSeS and LGA). The legislation as drawn only requires members to disclose interests within 28 days of their election. As the legislation came into force after the last election there is no legal requirement for members to complete the disclosure of interests at this time. The obligation only applies 28 days after election so there is an argument that the first disclosure by members at Chorley would be for those elected in 2014 (the next local election – subject to any bye-elections).
12. Whilst this may be technically correct, this is clearly not in the spirit of the legislation and it is felt more appropriate, whilst making it clear the legal position is uncertain, to invite members to disclose any pecuniary interests held online. Training will be provided to members on the procedure. The Committee are asked to support this position. It is also proposed to assist Parish Councils by drafting a form for completion by their members.
13. Training sessions have been provided to all members and Parish Clerks on the new Code of Conduct and there will be further sessions taking place at group meetings.
14. The Committee are also asked to note that we have had confirmation from 3 parish councils to date that they have adopted Chorley’s Code of Conduct. This assists CBC as it will provide consistency for any members who are asked to consider complaints.

**IMPLICATIONS OF REPORT**

15. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

16. There are no financial implications in this report.

**COMMENTS OF THE MONITORING OFFICER**

17. The issues are addressed within the body of the report.

Chris Moister  
Monitoring Officer

There are no background papers to this report.

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Chris Moister	5160	19 September 2012	***

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Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	27 September 2012

## **INTERNAL AUDIT INTERIM REPORT AS AT 31 JULY 2012.**

### **PURPOSE OF REPORT**

1. To advise members of the work undertaken in respect of the Internal Audit Plans for Chorley and Shared Services during the first four months of 2012/13 and to comment on the outcomes;
2. To give an appraisal of the Internal Audit Service's performance to date;
3. To inform members of any general developments involving or impacting upon the work and / or performance of the Internal Audit Service.

### **RECOMMENDATION(S)**

4. That the report be noted.
5. That the Committee approves the recommendation relating to the review of Internal Audit Key Performance Indicators, as proposed within this report.

### **EXECUTIVE SUMMARY OF REPORT**

6. The report demonstrates that at this stage the Audit Plans are on target to be achieved and the majority of the performance indicators have either been achieved or exceeded.

<b>Confidential report</b>	Yes	<b>No</b>
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### **CORPORATE PRIORITIES**

7. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			<b>x</b>

### **BACKGROUND**

- 8. This is the first progress report for 2012/13 and covers the period between 1<sup>st</sup> April 2012 and 31st July 2012.

**INTERNAL AUDIT PLANS**

- 9. **Appendix 1** provides a “snapshot” of the overall progress made in relation to the 2012/13 Internal Audit Plans, indicating which audits have been completed and their control rating, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.
- 10. Members will note that at this stage, the Internal Audit Plans are on target to be achieved. Of the 8 reviews completed to date, 7 have been given substantial or adequate assurance rating. However, Health and Safety – Lone Working, has been given limited assurance rating. Management actions have been agreed with Senior Management and Internal Audit will monitor progress on their implementation.
- 11. The table below provides a brief summary of the audit work completed during the period together with any control issues identified.

Audit Area	Control Rating	Comments
<b>Shared Services</b>		
Main Accounting (11/12)	Adequate	Management actions were agreed to improve controls relating to virement coding.
Creditors (11/12)	Substantial	No key control issues
Payroll (11/12)	Substantial	No key control issues
Treasury Management (11/12)	Substantial	No key control issues
Cash and Bank / Cheque Control (11/12)	Substantial	No key control issues
Travel and Subsistence (11/12)	Substantial	No key control issues.

<b>Chorley</b>		
Annual Governance Statement	Not applicable	Proactive input was provided in collating information to inform the Annual Governance Statement.
Corporate Complaints	Substantial	No key control issues
Health & Safety (Lone working)	Limited	Management actions were agreed to: <ul style="list-style-type: none"> <li>• update the suite of Health &amp; Safety Policies;</li> <li>• raise awareness of the Lone Working Policy and its application;</li> <li>• improve the lone worker monitoring arrangements.</li> </ul>

## **INTERNAL AUDIT PERFORMANCE**

- 12.** **Appendix 2** provides information on Internal Audit performance as at the 31<sup>st</sup> July 2012. It is pleasing to note that the majority of indicators have either been achieved or exceeded.

## **GENERAL DEVELOPMENTS**

### **Key Performance Indicators**

- 13.** At the June meeting, Members were informed of a discussion at the Shared Services Joint Committee on Internal Audit Key Performance Indicators (KPIs). This encouraged a discussion by Members of this Committee, especially relating to the targets which are in place; there was a mixed response.
- 14.** Officers agreed to undertake a benchmarking exercise to identify the Performance Indicators that are collected and reported by other Internal Audit Services.
- 15.** This work is in progress; however, these discussions have prompted a more fundamental question as to whether the current performance indicators are still fit for purpose. It is clearly important that the measures adopted add real value without being administratively burdensome to collect and calculate.
- 16.** Furthermore, CIPFA and the Institute of Internal Auditors (IIA) are undertaking a joint review of Internal Audit Standards.
- 17.** We are therefore recommending to the members of both Governance Committees and the Shared Services Joint Committee that a baseline review of Internal Audit KPIs is undertaken and proposals be reported to the January meetings to enable any changes to take effect from 2013/14. The existing measures and targets will remain in place for this financial year.

### **Examination Success**

- 18.** One member of the Internal Audit Team was successful in their recent Institute of Internal Auditor examinations and has now achieved the Diploma in Internal Audit Practice

### **Staffing Issues**

- 19. One of the Principal Auditors, Jan Minchinton, has tendered her resignation and left the Service on the 25<sup>th</sup> September. Jan intends to enjoy her retirement in the South West of England.
- 20. An initial approach has been made to Lancashire Audit Service to procure some additional days to aid the completion of the Audit Plans.

**External Contract – St Catherine’s Hospice**

- 21. The first of two reviews has been completed. A letter has been received from St. Catherine’s Chief Executive expressing his thanks for the positive way in which the audit was undertaken.

**IMPLICATIONS OF REPORT**

- 22. The matters raised in the report are cross cutting and impact upon individual services and the Council as a whole.

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area	X	Policy and Communications	

GARRY BARCLAY  
 HEAD OF SHARED ASSURANCE SERVICES

Background papers include the 2012/2013 Internal Audit Plans for Chorley Council and Shared Services.

Report Author	Ext	Date	Doc ID
Dawn Highton Clare Ware	5468 01772 625249	July 2012	Audit Interim Report

INTERNAL AUDIT PLANS 2012/13

AUDIT AREA	PLAN (Days)	ACT (Days)	BAL (Days)	CONTROL RATING	COMMENTS
<b>SHARED SERVICES</b>					
<b>FINANCE</b>					
Main Accounting System	15	0	15		To commence Q4
Creditors	15	0	15		To commence Q4
Payroll	20	0	20		To commence Q4
Treasury Management	15	0	15		To commence Q4
Cash & Bank / Cheque Control	20	0	20		To commence Q4
<b>REVENUES &amp; BENEFITS</b>					
Council Tax	15	0	15		To commence Q3
National Non Domestic Rates	15	0	15		To commence Q3
Housing & Council Tax Benefits	15	0	15		To commence Q3
Debtors	20	0	20		To commence Q3
<b>GENERAL</b>					
Post Audit Reviews	10	2.7	7.3		On-going
Unplanned Reviews / Contingency	10	0	10		No requests received
<b>Residual Work from 2011/12</b>	15	31.6	(16.6)		
Main Accounting				Adequate	Complete
Creditors				Substantial	Complete
Payroll				Adequate	Complete
Treasury Management				Substantial	Complete
Cash & Bank / Cheque Control				Substantial	Complete
Travel & Subsistence				Adequate	Complete
<b>TOTAL</b>	<b>185</b>	<b>34.3</b>	<b>150.7</b>		
<b>CHORLEY</b>					
<b>CORPORATE AREAS</b>					
Annual Governance Statement	15	3.7	11.3	N/A	Complete
Anti-Fraud & Corruption / Awareness	10	3.8	6.2		On-going
National Fraud Initiative (NFI)	30	13	17		On-going
System Interrogations	10	0.5	9.5		On-going
CSO's / Financial Regulations	5	0	5		To commence Q3
<b>PARTNERSHIPS &amp; PLANNING</b>					
Impact of Localism Act	10	0	10		To commence Q4
Choice Based Lettings	20	0	20		To commence Q4
Section 106 funding	10	0.9	9.1		In progress
Community Infrastructure Levy	10	1.8	8.2		On-going
New Income Streams	10	0	10		To commence Q3
<b>TRANSFORMATION</b>					
Corporate Complaints	10	10.5	(0.5)	Substantial	Complete
Performance Management / Data Quality	5	0.4	4.6		In progress
Project Management Framework	5	0	5		To commence Q2
Win Time Recording System	15	10.7	4.3		In progress
Health and Safety – Lone Working	5	10	(5)	Limited	Complete
Active Directory	15	2.2	12.8		In progress
Mobile Phones	15	0	15		To commence Q3
<b>PEOPLE &amp; PLACES</b>					
Introduction of Mobile Working	10	9.1	0.9		In progress
Housing Standards	5	0	5		To commence Q3
Astley Hall	15	9.5	5.5		In progress
<b>AUDIT</b>	<b>PLAN</b>	<b>ACT</b>	<b>BAL</b>	<b>CONTROL</b>	<b>COMMENTS</b>

AREA	(Days)	(Days)	(Days)	RATING	
Modernisation of Streetscene	5	0	5		To commence Q3
Bereavement Services	15	0	15		To commence Q4
<b>GENERAL AREAS</b>					
Irregularities (Contingency)	15	0	15		No reviews undertaken to date
Post Audit Reviews	10	2.8	7.2		On-going
<b>Residual Work from 2011/12</b>	10	22.7	-12.7		
Transport				Substantial	Complete
Disaster Recovery					In progress
Penetration Testing					In progress
<b>Unplanned Reviews (Contingency)</b>	15	1	14		On-going
<b>Audit Committee</b>	25	9.9	15.1		On-going
<b>TOTAL</b>	<b>325</b>	<b>112.5</b>	<b>212.5</b>		

**KEY TO CONTROL RATINGS**

<b>Substantial</b>	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
<b>Adequate</b>	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
<b>Limited</b>	The Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

**INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 27<sup>th</sup> July 2012**

	Indicator	Audit Plan	Target 2012/13	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	10%	18%	Target exceeded
		CBC	90%	30%	35%	Target exceeded
2	% audit plan completed	SS	100%	22%	22%	Target achieved.
		CBC	100%	28%	19%	2 audits at draft report stage
3	% management actions agreed	SS	98%	98%	98%	Target achieved
		CBC	98%	98%	100%	Target exceeded
4	% of agreed management actions implemented.	SS	100%	100%	100%	Target achieved
		CBC	100%	100%	78%	14 out of 18 management action implemented 4 revised dates agreed,
5	Of the agreed management actions implemented – % implemented on time	SS	100%	100%	67%	6 out of 9 management actions implemented on time
		CBC	100%	100%	57%	8 out of 14 management actions implemented on time
6	% overall customer satisfaction rating (assignment level)	SS	90%	90%	97%	Target exceeded
		CBC	90%	90%	91%	Target exceeded

SS = Shared Services  
CBC = Chorley

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Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	27 September 2012

**National Fraud Initiative Members’ Briefing 2012**

**PURPOSE OF REPORT**

1. To remind members of the work undertaken by the Council in respect of the Audit Commission’s National Fraud Initiative (NFI);
2. To provide members with an NFI briefing note recently issued by the Audit Commission incorporating a checklist which has been completed on members behalf by Internal Audit;
3. To demonstrate that the Council is complying with and contributing effectively to the NFI.

**RECOMMENDATION(S)**

4. That the report be noted.

**CORPORATE PRIORITIES**

5. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			<b>x</b>

**BACKGROUND**

**An Overview of the Audit Commission’s National Fraud Initiative**

6. The NFI exercise has been carried out every two years since 1996. In 2007 the Audit Commission introduced the Single Person Discount NFI Exercise, (Council Tax data matched against the Electoral Register) which is carried out in the interim year. Nationally, a total of £939 million of fraud, overpayments and error has been identified so far. The main categories of fraud continue to relate to pensions, council tax and housing benefit.
7. The Audit Commission runs the NFI to help detect fraud, overpayments and error. The NFI is a data matching exercise, using sophisticated computer techniques which match data within and between organisations.
8. Over 1300 public and private organisations are involved. All local councils, police authorities, fire and rescue authorities and local NHS bodies are required by law to provide data for the

NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

9. Various information is compared including: benefits, insurance, payroll, pensions, creditors, taxi and personal alcohol licences, market traders, residents' parking permits; concessionary Now Card data; the electoral register and council tax records. The following provides a couple of examples of the data matches the NFI undertakes:

**Data Match**

**Possible Fraud or Error**

Housing Benefit payments to payroll records.

Claiming housing benefit by failing to declare an income.

Payroll records to other payroll records.

An employee working for one organisation while being on long-term sick leave at another.

10. The NFI works within a strong legal framework, namely the Data Protection Act 1998, the Audit Commission Code of Data Matching Practice and the Audit Commission Act 1998. The Council's Information Services section is involved with the data submission process and all the data is transferred to a secure Audit Commission website, using an electronic transfer process which encrypts data on upload.
11. NFI is a key weapon in our armoury to tackle fraud and acts as a powerful deterrent. It provides an excellent example of what can be achieved when organisations combine forces to tackle growing fraud risks. Fraud prevention is often beyond the means of individual organisations as they have limited powers and means to share data between departments and with other bodies.

**Roles, Responsibilities & Outcomes at CBC**

12. The Senior Responsible Officer for NFI is the Chief Executive, assisted by Internal Audit who co-ordinate the Council's input. The investigations are undertaken by Internal Audit and the Revenues and Benefits Service. In addition, a great deal of support is provided by services across the Council.
13. The outcomes achieved from the latest exercise (2010/11) include: benefit fraud investigations identified £24.5k of overpayments, where recovery is in progress, and 2 cases resulted in successful prosecutions. Further information about the outcomes from the latest exercise is contained in Appendix 2.

**Audit Commission's National Report**

14. The Audit Commission is keen to ensure that elected members should be effectively engaged in the NFI exercise. For that reason they produced a Members' Briefing in May 2012 to provide an overview to members of the contents of the National Report, please refer to Appendix 1. A checklist was also developed to help members understand and assess the Council's approach to NFI. To assist Members, Internal Audit has completed the checklist, which can be found in Appendix 2.

<b>Confidential report</b>	Yes	No
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**IMPLICATIONS OF REPORT**

The matters raised in the report are intended to mitigate the risk that Members' would not be aware of the impact of the Audit Commission's NFI.

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

GARRY BARCLAY  
 HEAD OF SHARED ASSURANCE SERVICE

Background papers include the Audit Commission's NFI National Report 2012

Report Author	Ext	Date	Doc ID
Linsey Roberts Clare Ware	01772 625233 01772 625249	August 2012	Council Members' Briefing Report September 2012

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# The National Fraud Initiative

Council members' briefing, May 2012



**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

## Introduction

**This briefing for elected members outlines the benefits from participating in the National Fraud Initiative (NFI), the Audit Commission's data matching exercise. It explains how the NFI helps councils fight fraud and sets out how the Commission plans to improve the NFI. It includes a checklist for members on page 9.**

## Fraud is a serious problem

- 1 In its recent *Annual Fraud Indicator*, the National Fraud Authority (NFA) estimates that fraud in the public sector costs £20.3 billion a year. This amounts to £390 for every adult in the UK. The cost of fraud to local government is estimated at £2.2 billion a year.
- 2 Councils need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. Members have a key role in ensuring that their council checks regularly the effectiveness of its arrangements for preventing and detecting fraud.
- 3 The NFI<sup>i</sup> combats the threat of fraud by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.
- 4 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters will often target different organisations at the same time, using the same fraudulent identities.

## The Audit Commission runs the NFI to help detect fraud, overpayments and error

- 5 Since 1996, the Audit Commission has run the NFI data matching exercise every two years, helping to identify nearly £939 million of fraud, overpayments and error across England, Scotland, Wales and Northern Ireland<sup>ii</sup>. Of this total, £813 million has been detected in England.
- 6 We run the NFI in partnership with the public audit agencies in Northern Ireland, Scotland and Wales. Aggregate outcomes for bodies in Scotland,

- i The government has confirmed it intends to continue the NFI after the Audit Commission's abolition.
- ii Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

Wales and Northern Ireland since they first started to run the NFI are £127 million.

**7** Some 1,300 participating organisations from across the public and private sectors provide data, and key data sets are provided by government departments and other national agencies.

**8** Participants include all local councils, police authorities, and fire and rescue authorities and local NHS bodies, who are required by law to provide data for the NFI. A number of other public sector and private sector bodies also participate on a voluntary basis.

**9** Table 1 shows examples of the data matches that we undertake and why. Where a match is found it indicates that there is an inconsistency that requires further investigation by the body. The investigation may detect instances of fraud, over or underpayments, and other errors. For example, payroll to housing benefit matches can identify employees who may be committing benefit fraud by not declaring their earnings; pension matches may identify a person as being listed as dead, but still in receipt of a pension.

**10** A match does not automatically mean there is a fraud. Often there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

Table 1: **Examples of the data matches the NFI undertakes**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets single person discount (SPD) because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: Audit Commission



## The NFI operates within a strong legal framework using secure web applications and systems

**11** The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

**12** Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998, which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice*.

**13** The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

**14** The NFI's data matching systems and processes comply with all relevant government information security standards.

### Secure data transfer process

- Datasets are transferred by participants to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload.
- All the matches are provided back to participants using the same secure tool.
- Access to the tool and NFI matches is controlled by secure password, and strict controls exist to ensure access is only provided to authorised individuals.

## The NFI has helped participants find record levels of fraud, overpayment and error

**15** Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million)<sup>i</sup>.

**16** The total comprises outcomes already delivered of £91 million and estimated outcomes of £137 million. These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

**17** The main categories of fraud identified by the NFI in England since May 2010 continue to relate to pensions (£90 million), council tax (£50 million) and housing benefit (£31 million).

<sup>i</sup> For national reporting purposes, outcomes are collated at two-yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

**The exercise also produced other significant results**

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel permits were cancelled.

**Making the most of the NFI**

**18** Data matching showing little or no fraud and error assures councils about the effectiveness of their control arrangements. It also strengthens the evidence for their Annual Governance Statement. It can identify fraud, and therefore fraud risks, which the council was unaware of; and help identify fraud against other NFI participants.

**19** The NFI's full potential is only realised if the bodies that take part (a) supply all the required data on time; and (b) undertake appropriate follow-up investigations of the matches promptly and thoroughly.

**20** The more effectively councils follow up their NFI matches, the more benefits they get.

**21** For each exercise we consider how well councils use the NFI taking into account the views of the external auditor. While most councils have sound arrangements in place for managing the NFI and for investigating data matches, there is still scope to do better.

- The NFI matches are not seen by some councils as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all councils are making use of the tools within the web application to help them identify high-priority matches linked to local risks.
- Some councils are using alternative matching services from commercial providers before they have followed up their NFI matches.

**Role of members**

**22** Councils that have the most successful counter-fraud strategies are generally those where there is strong support at a senior level, led by elected members, chief executives and directors of finance. These councils also have an effective anti-fraud culture in place, so employees have a clear understanding of the role they can play in tackling fraud.

**23** We welcome increased engagement by elected members in the NFI. A checklist has been included on page 9, which contains a series of questions that members can put to the director of finance/NFI senior responsible officer. The responses will help members understand how the NFI is being used within their organisation and importantly identify if the benefits of participation are being maximised.

## Looking to the future

**24** Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. The Commission will work closely with the Department for Communities and Local Government and other stakeholders to secure the most appropriate home for the NFI.

**25** While the Commission retains oversight of the NFI it will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

### Real-time and flexible data matching

**26** The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.

**27** The Commission has consulted councils on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application for a benefit or service is approved. The new service will offer a flexible range of options, including real-time and flexible batch data matching, and councils will be able to decide locally on the data they want to supply for matching.

**28** These new approaches to real-time and flexible batch matching could help councils identify potential fraud in a wide range of areas. These could include:

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against the Metropolitan Police’s Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

**29** These flexible services could be used by councils to deliver many of the recommendations made by NFA in its *Fighting Fraud Locally* strategy.

### New fraud risks

**30** In the Audit Commission’s annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services. In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

### Widening the NFI for other purposes

**31** We believe the NFI could secure even better outcomes if it were extended to cover non-fraud purposes, as the legislation already allows any Secretary of State to do. These other purposes are defined as being to assist in the:

- prevention and detection of crime other than fraud:

- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

### **Want to find out more about the NFI?**

**32** To find out more about the NFI, go to our web page, where you will find a copy of the May 2012 national report as well as other useful information.

[www.audit-commission.gov.uk/fraud/nfi/](http://www.audit-commission.gov.uk/fraud/nfi/)

Table 2: **The NFI – A checklist for members**

Question	Answers/action required
<p><b>The NFI in our council</b></p> <ul style="list-style-type: none"> <li>■ What is the role/post of the senior responsible officer accountable for the NFI in our council?</li> <li>■ Do we have a lead elected member for counter-fraud activity, including the NFI?</li> <li>■ What role does our audit committee play?</li> <li>■ How are other elected members or non-executive members kept informed of the NFI?</li> <li>■ What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?</li> <li>■ Who decides and monitors this approach?</li> <li>■ How is the NFI reflected in the governance training and development provided for officers and board/elected members?</li> </ul>	
<p><b>Maximising results</b></p> <ul style="list-style-type: none"> <li>■ What resources do we invest in the NFI?</li> <li>■ What were our outcomes from the most recent NFI?</li> <li>■ Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible?</li> <li>■ What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?</li> <li>■ What changes have we made as a result?</li> <li>■ Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches?</li> </ul>	
<p><b>Broadening our council’s engagement with the NFI</b></p> <ul style="list-style-type: none"> <li>■ Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching?</li> <li>■ Have we considered how we could use the new flexible batch and real-time matching services?</li> </ul>	
<p><b>Data Security</b></p> <ul style="list-style-type: none"> <li>■ What is our strategy/policy for data security?</li> <li>■ Is there any specific reference to the NFI data security in the strategy</li> </ul>	
<p><b>The NFI fit with wider counter-fraud policies</b></p> <ul style="list-style-type: none"> <li>■ How does the NFI influence the focus of our counter-fraud work?</li> <li>■ Does our counter-fraud policy include reference to the council’s participation in the NFI?</li> <li>■ Do we publicise the outcomes from the NFI?</li> <li>■ How does the NFI influence how and what we communicate to the public about our approach to counter-fraud?</li> <li>■ Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?</li> </ul>	

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**Appendix 2****Chorley Borough Council Members' Briefing, May 2012****The National Fraud Initiative (NFI) – A checklist for members**

Question	Answers/action required
<b>The NFI in our council</b>	
What is the role/post of the senior responsible officer accountable for the NFI in our council?	The Senior Responsible Officer (SRO) is the Chief Executive, Gary Hall.
Do we have a lead elected member for counter-fraud activity, including the NFI?	Chair of the Governance Committee, Councillor Leadbetter.
What role does our Governance committee play?	Receive updates about the NFI as part of the Internal Audit Annual Report to the Governance Committee.
How are other elected members or non-executive members kept informed of the NFI?	Information articles are published in "In the Know" e-bulletin; prior to each NFI exercise and to provide updates regarding key outcomes from the exercise. In addition, a letter is issued to all Members prior to the main NFI exercise, informing them about the process.
What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI? Who decides and monitors this approach?	<p>The Council provides all mandatory datasets in accordance with the Audit Commission guidelines. All data is held in a secure electronic folder prior to submitting the data to the Audit Commission; access is restricted to specific individuals. Below is the process following receipt of results.</p> <p>Each NFI report is reviewed and cases investigated in accordance with the Audit Commission guidelines.</p> <p>Additionally Housing/Council Tax Benefit cases are investigated as set out in the Benefit Enquiry Unit Procedure Manual.</p> <p>Officers involved in the exercise undertake on-line training, provided by the Audit Commission and are made aware of the requirements of the Data Protection Act.</p> <p>Although the SRO has delegated co-ordination of the Council's input to the NFI to Internal Audit, he is responsible for approving the Council's approach. This includes taking key operational process decisions, approval of letters and articles.</p> <p>Using the NFI Secure Site, Internal Audit monitors the progress of investigations to ensure the reports are progressed in accordance with the Audit Commission Handbook.</p>

	<p>Updates on performance are provided to the Governance Committee via Internal Audit's Annual Report.</p> <p>The Audit Commission has access to the Council's results; it monitors progress and reviews the Council's approach.</p>
<p>How is the NFI reflected in the governance training and development provided for officers and board/elected members?</p>	<p>Awareness about the NFI exercise and outcomes is provided as follows:</p> <ul style="list-style-type: none"> <li>• Raising awareness by writing to members and officers prior to the main NFI exercise. It is also promoted in E-News and Views and as part of the Corporate Team Brief.</li> <li>• Internal Audit's Annual Report to the Governance Committee.</li> <li>• New and revised governance documents are presented to Governance Committee for approval.</li> <li>• Governance documents are available on the Loop.</li> </ul>
<p><b>Maximising results</b></p>	
<p>What resources do we invest in the NFI?</p>	<p>Internal Audit: staff time co-ordinating the Council's input to the NFI; receipt, initial sift and then distribution of results for investigation; investigating payroll, creditors and concessionary travel reports; monitoring progress; reporting results. Use of computer software, IDEA, to reduce the number of council tax/single person discount matches for investigation.</p> <p>30 days have been allocated to NFI in the 2012/13 Audit Plan.</p> <p>Benefit Enquiry Unit: Staff time investigating matches and where benefit fraud is proven, implementing the Council's Sanctions and Prosecution Policy.</p> <p>Data holders: staff time complying with the Audit Commission Code of Data Matching Practice; extracting the required data at the right time.</p> <p>Other Services: Provision of Legal and Human Resources (HR) advice where necessary.</p>
<p>What were our outcomes from the most recent NFI?</p>	<p><b>NFI 2010/11 (Main Exercise)</b></p> <p>2183 reported cases for review. From these cases the following outcomes were achieved:</p> <p>Overpayments:</p> <ul style="list-style-type: none"> <li>• Housing benefit / council tax benefit £14,178</li> <li>• Income support / jobseekers allowance £10,399</li> </ul> <p>Ongoing weekly reduction of the Benefits bill £191.</p> <p>Sanctions concerning benefit cases:</p> <ul style="list-style-type: none"> <li>• 2 prosecutions</li> </ul>



	<p>No significant findings arose from the creditors, insurance, concessionary travel and payroll data matches.</p> <p><b>NFI 2011/12 (Council Tax and Electoral Register)</b></p> <p>779 reported cases for review. The matches are currently being progressed by the Council Tax Section and the Benefits Anti-Fraud Team.</p>
Are we ensuring we maximise the benefits of the NFI – for example, following up data matches promptly, recovering funds and prosecuting where possible?	<p>Matches are followed up as promptly as resources allow.</p> <p>Appropriate cases are followed through to sanction/prosecution and funds are recovered.</p>
What assurances have we drawn about the effectiveness of internal controls and the risks faced by the organisation?	The results from the exercise did not indicate that any procedural changes were required. This provides assurance that internal controls are effective and the risks faced by the organisation are mitigated as far as practicable.
What changes have we made as a result?	Refer to the above response.
Do those responsible for the NFI in the council feel they get appropriate support from other managers in the council when investigating matches?	Support is available to investigating officers from the Legal Section, Internal Audit and HR, as required.
<b>Broadening our council's engagement with the NFI</b>	
Are we taking advantage of the opportunity to suggest and participate in NFI pilot data matching?	<p>Any new opportunities / improvements identified would be forwarded to the Audit Commission.</p> <p>To date we have not been invited to take part in NFI pilot data matching.</p>
Have we considered how we could use the new flexible batch and real-time matching services?	There is a cost and time implication to using the new services; this will be considered in full by an officer sub-group.
<b>Data Security</b>	
What is our strategy/policy for data security?	<p>The Council has an Information Security Framework which explains why information should be protected and provides a clear statement on how information should be managed and secured.</p> <p>All employees involved in the NFI exercise have been briefed on the confidentiality of data, follow Audit Commission guidelines and operate very strict data security measures as a matter of course.</p>

	<p>Data is provided to the Audit Commission via a secure NFI website using an electronic transfer process which encrypts data on upload.</p> <p>Access to the results of the exercise is provided using the same secure tool. Employees are not given permission to extract or print information from the secure site, unless it is absolutely necessary.</p>
<p>Is there any specific reference to the NFI data security in the strategy</p>	<p>None of the current ICT policies and strategy makes specific reference to the NFI, but they explain generically how data should be managed.</p>
<p><b>The NFI fit with wider counter-fraud policies</b></p>	
<p>How does the NFI influence the focus of our counter-fraud work?</p>	<p>30 days are set aside in the 2012/13 Internal Audit Plan for the NFI exercise. In addition, an amount of time is set aside to investigate irregularities and this time could be utilised to investigate any potential frauds.</p> <p>The NFI data matches are managed carefully so as not to have a negative impact on existing Housing Benefit fraud cases and vice versa.</p>
<p>Does our counter-fraud policy include reference to the council's participation in the NFI?</p>	<p>Chorley Borough Council recognises the very real impact that the cross matching of data can have on the prevention and detection of benefit fraud; this is reflected in the Anti Fraud and Corruption Strategy (Section 8).</p>
<p>Do we publicise the outcomes from the NFI?</p>	<p>Press releases are issued for individual cases which lead to a successful prosecution</p>
<p>How does the NFI influence how and what we communicate to the public about our approach to counter-fraud?</p>	<p>To deter individuals from committing fraud the Council pro-actively publishes information about the NFI exercises and outcomes from previous exercises, this includes:</p> <p>To comply with fair processing notice requirements the Council promotes the NFI prior to exercises, through information held on the website. Additionally the NFI is referred to in the Council Tax leaflet and various application forms, for example benefit, taxi and recruitment application forms.</p> <p>NFI is mentioned in articles as being a key weapon in the armoury to prevent and detect fraud following the successful prosecution of NFI cases.</p>
<p>Are the outcomes from the NFI used to inform our wider decision making – for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?</p>	<p>Any significant weaknesses identified during the exercise are addressed immediately. Internal Audit would ensure that appropriate controls are implemented to counter-act the risks identified. All other minor issues would be noted for inclusion within the next relevant planned Internal Audit review.</p>



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Report of	Meeting	Date
Chief Executive/Section 151 Officer	Governance Committee	27 Sept 2012

**STATEMENT OF ACCOUNTS 2011-12**

**PURPOSE OF REPORT**

- To present for approval the Auditor’s Governance Report and the audited Statement of Accounts prior to the statutory deadline of 30 September 2012.

**RECOMMENDATION(S)**

- That the Committee
  - Note the contents of the Governance Report
  - Approve the audited Statement of Accounts for 2011/12
  - Authorise the Chief Executive to sign the Letter of representation, a draft of which is set out in the Governance Report

**EXECUTIVE SUMMARY OF REPORT**

- The attached Governance letter reports favourably on all matters, and there are no issues that the auditor wishes to bring to the attention of members.

Confidential report Please bold as appropriate	Yes	No

**CORPORATE PRIORITIES**

- This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			X

**BACKGROUND**

- The unaudited Statement of Accounts was presented to Committee, for information, on 28 June 2012. Since then the audit has been completed, and the auditor’s Governance Report is attached.
- The Audit and Accounts (England) Regulations 2011 require that a meeting of members should approve the statement by 30 September 2012. The full Statement is attached.

7. Following consideration and approval by this meeting, the Statement must be signed and dated by the Chairperson, be re-certified by the Chief Financial Officer and be published by 30 September.
8. The key messages are that the Auditor intends to issue an unqualified opinion on the Statements and an unqualified Value for Money conclusion. Furthermore she identified no material errors, no significant weaknesses in internal control, and she has reported positively on the quality of the accounts and the supporting workings. With regard to the significant risks identified in the 2011/12 Audit Plan her testings have not revealed any matters that she wishes to report.

**IMPLICATIONS OF REPORT**

9. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

10. All relevant comments are contained in the body of the report

**COMMENTS OF THE MONITORING OFFICER**

11. There is nothing in the report which highlights cause for legal concern

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
G Whitehead	5485	***	***

Appendices

- Appendix A - Governance Report
- Appendix B - Statement of Accounts

# Statement of Accounts 2011/2012



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## Foreword by the Chief Executive

### INTRODUCTION

The Chief Executive, as the Section 151 Officer of the Council, has the statutory responsibility for the proper administration of the Authority's financial affairs, and is required to confirm that the Council's systems can be relied upon to produce an accurate statement of accounts.

His Statement of assurance (The Annual Governance Statement) was reported to Audit Committee on 28 June 2012

This Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (The Code), which is based on International Financial Reporting Standards, and the Service Reporting Code of Practice for Local Authorities (SERCOP).

### ACCOUNTING CHANGES

The changes required by The 2011/12 Code are as follows

- Financial Reporting Standard 30 - Heritage assets, has been adopted. Heritage assets are defined as assets held principally for their contribution to culture and knowledge. These have to be recorded at their valuation, and there are comprehensive disclosure requirements. This has resulted in the inclusion in the balance sheet for the first time, of the contents of Astley Hall. The accounts for 2010/11 have been restated to enable comparison between the years.
- The number, and cost, of exit packages (compulsory and voluntary redundancies) is now reported (note 36).
- Any cases where the Authority acts as sole trustee are now reported (note 51).

The Service Reporting Code of Practice applies for the first time in 2011/12. It is very similar to its predecessor, The Best Value Accounting Code of Practice. The only significant change is that the Comprehensive Income and Expenditure Account now shows separately:

- Cultural and Related Services
- Environment and Regulatory Services
- Planning Services

Previously these divisions of service were grouped together. The 2010/11 figures have been restated to enable comparison.

### CORE FINANCIAL STATEMENTS

The core financial statements consist of the following:-

Page 8      **Statement of Responsibilities for the Statement of Accounts** – This summarises the responsibilities of the Council and the Statutory Finance Officer in relation to the Statement of Accounts.

- Page 9      **Movement in Reserves Statement** – Levels of reserves, and movements therein, are indicators of the financial strength of the organisation. This statement distinguishes usable from unusable reserves. The distinction is explained in the Balance Sheet comment below.
- The Movement in Reserves Statement shows the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting, however, a series of statutory adjustments are then made, resulting in a line entitled "Net Increase/Decrease before transfers to Earmarked Reserves." The final line shows any such discretionary transfers to or from earmarked reserves.
- Page 10     **Comprehensive Income and Expenditure Statement** – This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.
- This statement incorporates gains and losses which would have been shown in previous years in the Statement of Total Recognised Gains and Losses. The final line in the statement, "Total Comprehensive Income", reconciles to the movements in the year in Total Reserves of the Authority, as shown in the Balance Sheet.
- Page 11     **The Balance Sheet** – this shows the value of the assets and liabilities recognised by the authority. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet.
- Reserves are categorised into "Usable", i.e. available to fund expenditure or reduce local taxation, and "Unusable". The latter includes the Revaluation Reserve (holding unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and statutory basis prescribed for taxation purposes.
- Page 12     **Cash Flow Statement** – this shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.
- Page 13     **Notes to the Main Financial Statements** – these add to and interpret, the individual statements.
- Page 58     **Collection Fund Statement** – this is an agents statement that reflects the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the Council itself.

**FINANCIAL PERFORMANCE IN 2011/12**

**General Fund - Revenue Account Summary**

The Council’s revenue account shows the cost of providing services. This section of the foreword will:

- Compare actual spending against the budget and explain significant variations
- Show where the money came from and how it was spent
- Comment on treasury management issues
- Disclose the capital outturn
- Comment on balances, reserves and any other key balance sheet figures
- Comment on the Council’s financial position and future prospects

**Actual Spend Compared to the Budget**

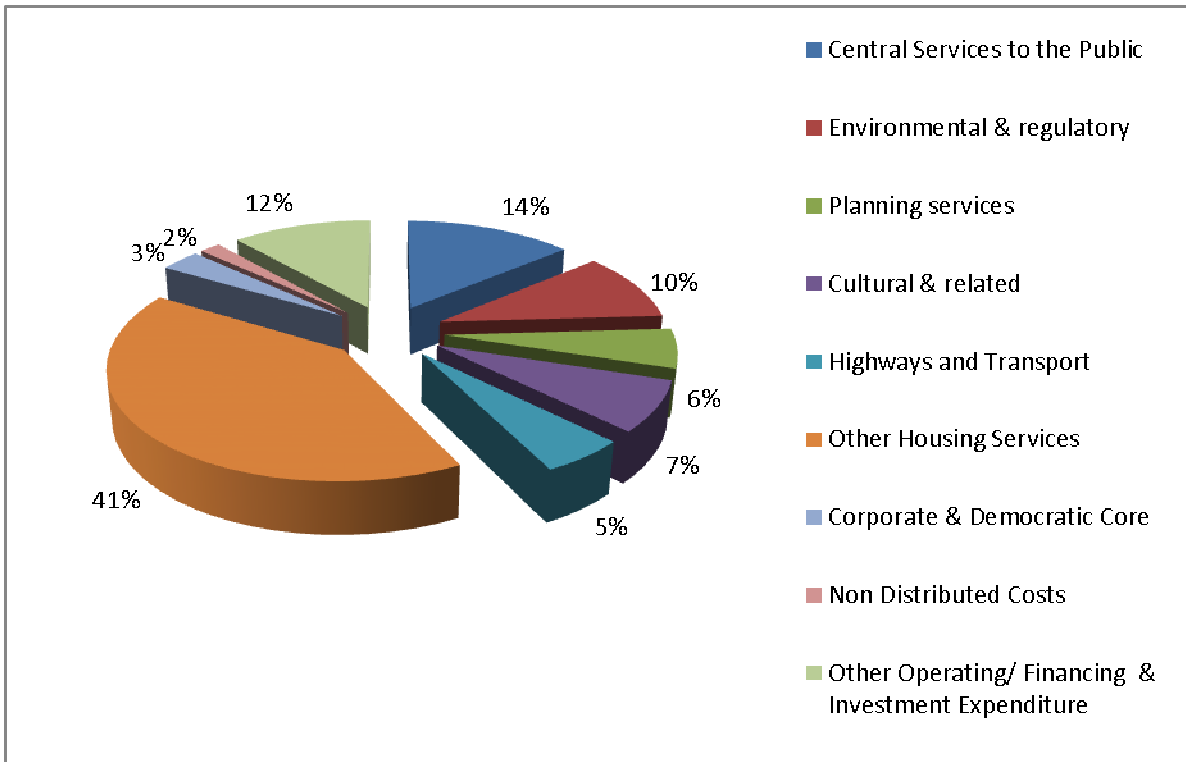
The Movement in Reserves Statement (page 9) shows a surplus of £1.2m for the year. This compares to a breakeven position assumed in the original budget approved for 2011/12.

The principle reasons for the surplus were:

- Approved items of expenditure which slipped into 2012/13 totalling £0.360m
- Single Homelessness Initiative Grant of £0.504m paid to the Council in late 2011/12 and earmarked for projects to commence in 2012/13
- Adjustment to interest income, and impairment charges, on Icelandic investments £0.051m
- Additional housing and council tax benefit £0.091m
- Numerous other minor variances £0.194m

**Where the money was spent**

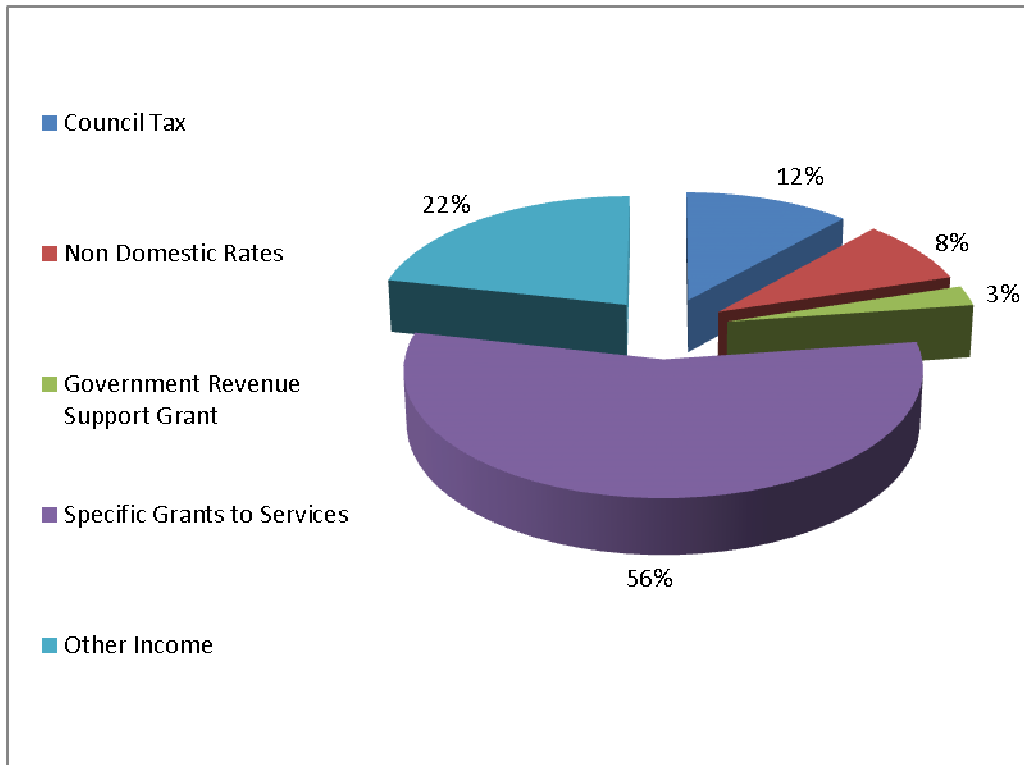
The Gross Expenditure for the Council is detailed in the Comprehensive Income and Expenditure Statement. In 2011/12 it consisted of:



**Where the money came from**

The Gross Income for the Council is disclosed in the Comprehensive Income and Expenditure Statement. It consists of:

- Council Tax
- Non Domestic Rates from Businesses
- Government Revenue Support Grant
- Grants Specific to Services, for example, Housing Benefits
- Other income within the Comprehensive Income and Expenditure Statement.



**Treasury Management**

The Balance Sheet and Cash Flow Statements show the turnover of cash and the final cash position as at 31 March 2012. The Council’s Treasury Management Strategy 2011/12 was the key document for the effective day to day management of cash resources and set out policies for the investment of surplus cash. The difficulties in the financial markets made it essential that close regard was given to management and control of risks and the strategy limited investments to British financial institutions, the UK Government and other Local Authorities and specified the maximum period of any investment.

The actual average rate of return during the year was 1.07% which exceeded the benchmark (7 day LIBID rate) of 0.48%.

During the year external borrowings reduced from £8.872 to £7.822m, and no new borrowings were made.

In 2011/12 the Icelandic Courts finally confirmed the priority status of the Council’s deposit with Landsbanki and the first repayment was made. It is now expected that it will be fully repaid, but over a timescale stretching to 2018. Because of the foreign exchange risk an effective recovery of 97% has been assumed in these accounts.

**Capital Spend and Financing Summary**

The Council incurs capital expenditure on its own buildings and equipment, and it is also permitted to use capital resources to finance expenditure on grants for capital works by others, for instance for disabled adaptations by home owners. In 2011/12 the biggest single project came within this category, being grant aid towards the construction of Buckshaw railway station.

The following tables details the areas of expenditure and sources of finance in 2011/12:

<b>Capital expenditure in 2011/12</b>	<b>Actual Capital Expenditure £'000</b>
Housing grants to housing associations	158
Housing disabled and repair grants	453
Buckshaw railway station	2,763
Leisure centre works	104
IT related expenditure	253
Parks and play areas	191
Other	441
<b>Total Capital Expenditure</b>	<b>4,363</b>

<b>Capital financing in 2011/12</b>	<b>Actual Capital Financing £'000</b>
Prudential Borrowing	209
Capital Receipts	63
Contributions from Revenue Budget	33
Revenue Budget VAT Shelter Income	360
External Contributions - Developers	3,092
External Contributions - Other	151
Government Grants – Disabled Facilities Grant	321
Government Grant – Housing Capital Grant	134
<b>Total Capital Financing</b>	<b>4,363</b>

The Balance Sheet includes unused grants and contributions totalling £2.692m which can only be used for capital purposes. The major part of this is committed to be spent in 2012/13.

**Reserves and Balances Summary**

The Authority's Medium Term Financial Strategy (MTFS) specifies that the general balance should be no lower than £2.0m. This is necessary given the budget challenges facing the Council and the level of savings required to balance the budget over the next two years. At the start of the year it totalled £2.077m.

During the year a net £1.0m has been transferred to reserves earmarked for specific purposes. At the year end these total £2.8m (note 8) and include sums to meet the slippage requests and homeless initiatives mentioned above of £0.9m, works within the capital programme £0.6m, potential claims against, and commitments made by the Council of £0.7m, and other items £0.6m.

The combination of these factors, and the surplus for the year, leaves a general balance at year end of £2.264m.

**Pension Fund Liability**

The pension fund liability is set out in detail within Notes 43 and 25e of this statement. In summary the Council has a liability as at 31 March 2012 of £33.959m. This is the actuary's assessment of the present value of the liabilities to be met by the fund less its current assets and future receipts. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. The Council is bound by the statutory arrangements for funding the deficit. These provide that the deficit on the Local Government Scheme will be made good by increased contributions, over the remaining working life of employees, as assessed by the scheme actuary. The recent changes agreed in the pension scheme will affect the accrual of future liabilities.

**Looking Ahead – The Overall Financial Position of the Authority**

For a number of years local authorities have faced notable change and are now experiencing a period of continued reductions in funding, subsequent budgetary pressures and a period of great uncertainty with significant change on the immediate horizon in the form of Local Retention of Business Rates and a new Local Support Scheme for Council Tax, the details and impact of which are largely unknown. The 2012/13 Medium Term Financial Strategy (MTFS) recognises the serious risk that these changes pose together with the fact that uncertainty is a permanent feature within the annual financial planning cycle due to the fact that four yearly settlements have been replaced with funding regimes that use variable data each year. The Medium Term Financial Strategies to date have set the Council on course to meet the current, known budget gap as set out below.

<b>Year</b>	<b>Budget Gap/(Surplus) £'000</b>	<b>Cumulative £'000</b>
<b>2011/12*</b>	0	0
<b>2012/13</b>	(58)	(58)
<b>2013/14</b>	878	820
<b>2014/15</b>	367	1,187

*\*£1.295 budget savings were achieved to balance the budget for 2011/12.*

The Authority has a successful proven track record in identifying future financial risks and subsequent budget pressures and delivering sustainable efficiency savings to address budgetary shortfalls evidenced in the budget surplus position achieved for 2012/13. In this respect the Council's MTFS will:

- Continue to restrain Council Tax increases.
- Deliver a balanced budget over the period 2012/13 to 2014/15.
- Identify the savings required to balance the budget whilst minimising the impact on front line service users

In order to achieve the above budget efficiencies the Council will continue to manage its budget effectively and will:

- Increase productivity.
- Review expenditure on contracts.
- Review non employee related base budget heads.
- Review all income streams to ensure full cost recovery is being achieved and all possible revenue streams are being structured in the most appropriate way.
- Seek to increase income yield from Investment Properties as part of the rationalisation of administration buildings.



In recognition of the above financial environment together with the number of changing external factors that are likely to have a negative impact on the budget and the level of sustainable efficiency savings to be achieved, the Council has increased working balances to £2.265 million. Maintaining working balances provides protection against the Council having to make short term reactive changes that can significantly impact on service performance.

The current economic climate may also adversely affect the ability of tax payers to pay their Council Tax and Non Domestic Rate (NNDR) bills. The table below shows collection rates over the last three years. In 2010/11 rates were maintained for both taxes, but there has been a reduction in 2011/12, very small for council tax, more significant for NNDR. It should be noted however that NNDR is collected as agent for the DCLG, so collection rates do not impact directly on the revenue account of the Council.

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Council Tax</b>	98.4%	98.4%	98.3%
<b>NNDR</b>	97.4%	97.8%	97.2%

## **Statement of Responsibilities**

This statement defines the responsibility of the Council and the Responsible Financial Officer in respect of the Authority's financial affairs.

### **The Council's responsibilities**

The Council shall:

- Make arrangements for the proper administration of its financial affairs and 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code).

In preparing this Statement of Accounts, he has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that are reasonable and prudent.
- Complied with the local authority code.

He has also:

- Kept proper accounting records which are up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Certificate**

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the 31<sup>st</sup> March 2012 and its Income and Expenditure for the year ended 31 March 2012.

Gary Hall BA CPFA  
Chief Financial Officer  
Date 27 September 2012

I confirm that these Statements of Account were approved by Audit Committee on 27 September 2012

Councillor P Leadbetter  
Chair Governance Committee

## Movement in Reserves Statement

This statement shows the movements in the year on the different reserves held by the Council, analysed between those that are “usable” (available to fund expenditure or reduce local taxation), and other reserves.

The line “deficit/(surplus) on provision of service” shows the true economic cost of providing the authority’s services, as detailed in the Comprehensive Income and Expenditure Statement. For the purposes of council tax setting however, a series of statutory adjustments are then made. These adjustments are shown in total below.

	General Fund £'000	Earmarked Reserves (note 8) £'000	Capital Receipts Reserve £'000	Capital Grants & Contributions £'000	Total Usable Reserves £'000	Unusable Reserves Note 25 £'000	Total Reserves £'000
<b>Balance 31 March 2010</b>	(1,663)	(1,491)	0	(5,078)	(8,232)	5,505	(2,727)
<b><u>Movement in 2010/11</u></b>							
(Surplus) on provision of service.	(4,029)	0	0	0	(4,029)	0	(4,029)
Other Comprehensive Income & Expenditure.	0	0	0	0	0	(7,591)	(7,591)
<b>Total Comprehensive Income &amp; expenditure.</b>	<b>(4,029)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,029)</b>	<b>(7,591)</b>	<b>(11,620)</b>
Adjustments between accounting basis & funding basis under regulation (note 7).	3,292	0	(41)	(662)	2,589	(2,589)	0
<b>Net change before transfers to/from earmarked reserves.</b>	<b>(737)</b>	<b>0</b>	<b>(41)</b>	<b>(662)</b>	<b>(1,440)</b>	<b>(10,180)</b>	<b>(11,620)</b>
Transfers to/(from) earmarked reserves note 8	323	(323)	0	0	0	0	0
<b>(Increase)/Decrease in year.</b>	<b>(414)</b>	<b>(323)</b>	<b>(41)</b>	<b>(662)</b>	<b>(1,440)</b>	<b>(10,180)</b>	<b>(11,620)</b>
<b>Balance 31 March 2011</b>	<b>(2,077)</b>	<b>(1,814)</b>	<b>(41)</b>	<b>(5,740)</b>	<b>(9,672)</b>	<b>(4,675)</b>	<b>(14,347)</b>
<b><u>Movement in 2011/12</u></b>							
Deficit on provision of service.	3,115	0	0	0	3,115	0	3,115
Other Comprehensive Income & Expenditure.	0	0	0	0	0	6,391	6,391
<b>Total Comprehensive Income &amp; expenditure.</b>	<b>3,115</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,115</b>	<b>6,391</b>	<b>9,506</b>
Adjustments between accounting basis & funding basis under regulation (note 7).	(4,316)	0	41	3,048	(1,227)	1,227	0
<b>Net change before transfers to/from earmarked reserves.</b>	<b>(1,201)</b>	<b>0</b>	<b>41</b>	<b>3,048</b>	<b>1,888</b>	<b>7,618</b>	<b>9,506</b>
Transfers to/(from) earmarked reserves note 8	1,013	(1,013)	0	0	0	0	0
<b>(Increase)/Decrease in year.</b>	<b>(188)</b>	<b>(1,013)</b>	<b>41</b>	<b>3,048</b>	<b>1,888</b>	<b>7,618</b>	<b>9,506</b>
<b>Balance 31 March 2012</b>	<b>(2,265)</b>	<b>(2,827)</b>	<b>0</b>	<b>(2,692)</b>	<b>(7,784)</b>	<b>2,943</b>	<b>(4,841)</b>

**Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This is not the amount to be funded from taxation, since authorities raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Movement in Reserves Statement.

2010/11 restated				2011/12		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
8,856	(7,231)	1,625	Central services to the public.	8,851	(7,355)	1,496
7,279	(1,580)	5,699	Environment & regulatory services	6,482	(1,492)	4,990
3,898	(2,198)	1,700	Planning services	3,702	(2,160)	1,542
5,826	(631)	5,195	Cultural & related services	4,759	(479)	4,280
1,739	(1,609)	130	Highways and transport services.	3,300	(997)	2,303
23,476	(22,769)	707	Other housing services.	26,084	(26,009)	75
2,089	(116)	1,973	Corporate and democratic core.	2,096	(103)	1,993
1,339	(1,042)	297	Non distributed costs.	1,095	(838)	257
0	(5,584)	(5,584)	Exceptional item – past service pension liabilities	0	0	0
<b>54,502</b>	<b>(42,760)</b>	<b>11,742</b>	<b>Cost of Services</b>	<b>56,369</b>	<b>(39,433)</b>	<b>16,936</b>
874	(1,609)	(735)	Other operating expenditure (note 9).	2,344	(2,274)	70
5,384	(3,838)	1,546	Financing and investment income and expenditure (note 10).	5,020	(4,261)	759
0	0	0	Surplus or deficit of discontinued operations.	0	0	0
0	(16,582)	(16,582)	Taxation and non-specific grant income (note 11).	0	(14,650)	(14,650)
<b>60,760</b>	<b>(64,789)</b>	<b>(4,029)</b>	<b>(Surplus)/deficit on provision of services.</b>	<b>63,733</b>	<b>(60,618)</b>	<b>3,115</b>
		(1,435)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets.			196
		(6,156)	Actuarial (gains)/losses on pension assets and liabilities.			6,195
		0	Other gains.			0
		<b>(7,591)</b>	<b>Other Comprehensive (Income) and Expenditure.</b>			<b>6,391</b>
		<b>(11,620)</b>	<b>Total Comprehensive (Income) and Expenditure.</b>			<b>9,506</b>

The 2010/11 restatement refers to the separate reporting of The Environment & regulatory, Planning, and Cultural & related services; previously they were aggregated in one figure. All other 2010/11 figures are unchanged.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority.

It shows the net assets of the authority which are matched by the reserves held.

Reserves are reported in two categories. Usable Reserves includes reserves available to provide services and other reserves which may only be used to fund capital expenditure or repay debt.

Unusable Reserves fall into two categories. The first consists of the Revaluation Reserve which holds unrealised gains and losses in asset values. The second category holds amounts resulting from the "adjustments between the accounting basis and the funding basis", as shown in the Movement in Reserves Statement.

1 April 2010 £'000	31 March 2011 £'000		Notes	31 March 2012 £'000
36,507	35,957	Property, Plant & Equipment	12	34,507
2,647	1,667	Heritage Assets	13	1,667
1,055	1,123	Investment Property	14	1,152
544	690	Intangible Assets	15	582
0	0	Assets Held for Sale		0
8	8	Long Term Investments		8
357	352	Long Term Debtors		354
<b>41,118</b>	<b>39,797</b>	<b>Long Term Assets</b>		<b>38,270</b>
1,490	4,577	Short Term Investments		9,119
0	0	Assets Held for Sale	21	0
41	22	Inventories	17	26
7,695	6,538	Short Term Debtors	19	3,999
0	5,225	Cash and Cash Equivalents	20	3,869
<b>9,226</b>	<b>16,362</b>	<b>Current Assets</b>		<b>17,013</b>
(82)	0	Cash and Cash Equivalents		0
(2,780)	(1,101)	Short Term Borrowing		(598)
(5,275)	(4,512)	Short Term Creditors	22	(5,885)
0	0	Provisions	23	(15)
0	0	Liabilities in Disposal Groups		0
<b>(8,137)</b>	<b>(5,613)</b>	<b>Current Liabilities</b>		<b>(6,498)</b>
0	0	Long Term Creditors		0
0	0	Provisions	23	(1,750)
(900)	(7,822)	Long Term Borrowing		(7,272)
(37,656)	(27,277)	Other Long Term Liabilities - pensions	44	(33,959)
(13)	(14)	Other Long Term Liabilities - other		(14)
(911)	(1,086)	Grant Receipts in Advance – Capital		(949)
0	0	Grant Receipts in Advance - Revenue		0
<b>(39,480)</b>	<b>(36,199)</b>	<b>Long Term Liabilities</b>		<b>(43,944)</b>
<b>2,727</b>	<b>14,347</b>	<b>Net Assets</b>		<b>4,841</b>
8,232	9,672	Usable Reserves	Page 9	7,784
(5,505)	4,675	Unusable Reserves	25	(2,943)
<b>2,727</b>	<b>14,347</b>	<b>Total Reserves</b>		<b>4,841</b>

The separation of heritage assets has necessitated the restatement of the 2010/11 Balance Sheet. Note 50 refers. The unaudited accounts were issued on 28/06/2012 and the audited accounts were authorised for issue on 27/09/2012.

**Cash Flow Statement**

This shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

<b>2010/11</b>		<b>2011/12</b>
<b>£'000</b>		<b>£'000</b>
4,030	Net surplus or (deficit) on the provision of services	(3,115)
2,975	Adjustments to net surplus or deficit on the provision of services for non cash movements	3,890
(4,215)	Adjustments for items included in the net surplus or deficit on the provision of service that are investing & financing activity	(821)
2,790	Net cash flows from Operating Activities	(46)
(1,980)	Investing Activities (Note 27)	(4,332)
4,497	Financing Activities (Note 28)	3,022
5,307	Net increase or (decrease) in cash and cash equivalents	(1,356)
(82)	Cash and cash equivalents at the beginning of the reporting period	5,225
<b>5,225</b>	<b>Cash and cash equivalents at the end of the reporting period (note 20)</b>	<b>3,869</b>

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

#### General Principles

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). These notes explain the policies used to ensure the Council's financial position is fairly presented.

#### Accruals of Income and Expenditure

The Income and Costs of the Council are accounted for in the period to which they relate, regardless of when the cash is paid or received.

#### Cash and Cash Equivalents

Cash consists of cash in hand and deposits repayable without penalty on notice of not more than 24 hours. Cash Equivalents consists of investments which mature in less than three months. In the Cash Flow Statement cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Longer term investments are not reclassified if the outstanding period falls below three months at the date of account.

#### Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Authority is not required to raise council tax to meet these charges. Instead it has to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is achieved by means of an adjustment between the General Fund balance and the Capital Adjustment Account (in the Movement in Reserves Statement)

#### Contingent Assets and Liabilities

These are assets and liabilities arising from past events the existence of which will only be confirmed by future events not wholly within the Council's control. They are disclosed in notes to the accounts. See notes 45 & 46.

#### Exceptional Items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure statement or in the notes to the accounts, depending on their significance.

#### Employee Benefits

##### Benefits payable during employment

These are charged to the Surplus or Deficit on the Provision of Service. The charge includes an accrual for any untaken leave and holiday entitlement. This accrual does not affect council tax since it is reversed by transfer from the General Fund Balance to the Accumulating Compensated Absences Account (in the Movement in Reserves Statement).

Termination benefits

These are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or a decision by an officer to accept voluntary redundancy. The costs are recognised when the Council commits itself to terminate the employment of an officer or group of officers or makes an offer to encourage voluntary redundancy. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Post employment benefits

Employees are members of the Local Government Pension Scheme which provides defined benefits to members. Full details are given in Note 44.

Explanation of methodology

- The liabilities of the fund 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 earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.9% (based on the indicative rate of return on high quality corporate bonds)
- The assets of the fund attributable to the Authority 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 net pension liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income & Expenditure Statement to the services for which 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. These are charged to the Comprehensive Income & Expenditure Account 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. This is charged to Comprehensive Income & Expenditure Account within the Financing & Investment Income and Expenditure line
  - 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. This is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Account.
  - 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. These are charged to Non Distributed Costs within the comprehensive Income and Expenditure Account.
  - Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited to the Pension Reserve.
  - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities. These are not accounted for as an expense.

Statutory provisions require the General Fund balance to be charged with the amount payable to the pension fund, not the amount calculated according to the relevant accounting standards. This is achieved by transfers between the Pensions Reserve and the General Fund to remove the actuarial debits and credits and replace them with amounts actually paid and those accrued at the year end. The negative balance on the Pension Reserve thus 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 thus arising 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

### **Events After the Reporting Period**

Where an event occurring after the Balance Sheet date provides evidence of conditions existing at the Balance Sheet date, the amounts recognised in the Statement of Accounts are adjusted.

Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted. The “non adjusting event”, and an estimate of the financial effect, is however disclosed in the notes to the accounts.

### **Financial Liabilities**

Borrowings are initially measured at fair value and carried at their amortised cost. The annual charge to the Comprehensive Income & Expenditure Statement (CI&E) is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal payable plus interest accrued at 31 March.

Gains or losses on premature redemption are charged to the Comprehensive Income & Expenditure Statement unless they are the result of a restructure in which case they are added to the amortised cost and charged over the life of the modified loan. However, Regulations require discounts to be amortised over the shorter of the life of the original loan or ten years. Greater discretion applies to premia: they can be amortised over the life of the original or replacement loan, or a shorter period. A transfer is done from the General Fund Balance to the Financial Instruments Adjustment account to give effect to these regulations.

### **Financial Assets**

#### Loans and receivables

These are initially measured at fair value and carried at amortised cost. The annual credit to the Financing and Investment Income line in the Comprehensive Income and expenditure Account is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal receivable plus interest accrued at 31 March.

Where assets are identified as impaired because of a likelihood from a past event that payments will not be received, the asset is written down and a charge made to the relevant service, or the Financing and Investment Income and expenditure line in the Comprehensive Income and expenditure Statement. 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.

### **Government Grants and Other Contributions**

Government grants and other contributions for both revenue and capital purposes are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with. If compliance has not been achieved, cash received is held on the Balance Sheet as a creditor.

The postings in the Comprehensive Income and Expenditure account relating to capital grants and contributions are reversed out of the General Fund balance in the Movement in Reserves Statement. If the monies have not been used they are credited to the Grants Unapplied Reserve. If they have been applied to fund capital expenditure they are credited to the Capital Adjustment Account.

## **Heritage Assets**

Heritage assets are assets held principally for their contribution to culture and knowledge. The Council has the following assets which meet this definition:

- Civic Regalia are reported in the Balance Sheet at their insured value. This is reviewed periodically (the last time being in 2009). The regalia are deemed to have an indeterminate life and a high residual value, hence the authority does not consider it appropriate to charge depreciation.
- Collection of furniture and paintings, held at Astley Hall. These assets are reported at their insurance valuation (as at 2010). For the reasons applying to civic regalia, no depreciation is charged.
- Astley Hall a country house built in the seventeenth century and extended in the nineteenth. It was donated to the Council in 1922, and is currently recorded in the accounts at a nominal value and no depreciation is therefore charged.

## **Intangible assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences), is capitalised at cost if it will bring benefits to the Council for more than one financial year. Internally generated assets are capitalised where it is demonstrable that the Council will generate future economic benefits.

The cost is amortised over the economic life to reflect the pattern of consumption, the first year of charge being that in which the expenditure is incurred. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The postings in the Comprehensive Income and Expenditure Statement are reversed from the General Fund balance in the Movement in Reserves Statement and charged to the capital Adjustment Account.

## **Inventories**

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

## **Investment Properties**

Investment properties are those held solely to earn rentals or for capital appreciation.

They are measured initially at cost and subsequently at fair value. They are not depreciated but are re-valued annually. 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. Gains and losses on revaluation and disposal are not permitted by statute to impact on the council tax. A reversal is therefore done between the General Fund Balance and the Capital Adjustment Account (or, in the case of sale proceeds exceeding £10,000 to the capital receipts Reserve).

Income and expenditure from investment properties are charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

## **Leasing**

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

If the lease covers both land and buildings, then the land and building 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**

An assets held under a finance lease 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 is matched by a liability, being the obligation to the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are split between a finance charge, charged to the Comprehensive Income and Expenditure Statement, and the principal element, applied to write down the lease liability.

Assets held under a finance lease will be subject to depreciation and revaluation in the same way as any other asset.

##### **Operating leases**

Rentals are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the asset.

#### The Authority as lessor

##### **Finance Leases**

Where the Authority grants a finance lease over an asset, it is written out of the Balance Sheet and charged to the "gain or loss on disposals" line in Other Operating Expenses in the Comprehensive Income and Expenditure Statement. The Authority's net investment in the lease is credited to the same line, matched by a Long Term Debtor in the balance Sheet.

Lease rental receipts are split between finance income (credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement), and the principal element applied to write down the Long Term Debtor.

##### **Operating leases**

Where the Authority grant an operating lease over an asset it remains on the Balance Sheet, and the income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(See note 41).

#### **Overheads**

The Service Reporting Code of Practice (SERCOP) requires that all Central Support and Administrative costs, with the exception of those mentioned below, be allocated to services in proportion to the benefit received.

The exceptions are:

- The costs of Democratic Representation and Management
- A narrow range of costs defined as Corporate management
- Non Distributed costs. These consist of certain costs relating to retirement benefits (past service, curtailment and settlement costs), and costs associated with unused IT facilities and surplus assets.

#### **Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors**

Changes in 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 practice or if the change provides more reliable or relevant information about the effect of transactions on the Council's financial performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts from prior periods. (see note 50)

Material errors also will require a prior period adjustment.

**Property Plant and Equipment (PPE)**

All expenditure on the acquisition, creation, or enhancement of fixed assets is capitalised on an accruals basis in the accounts provided it exceeds the 'de minimis' threshold of £5,000 and provides benefits to the Council for a period of more than one year.

Measurement

PPE is accounted for in accordance with IAS 16. As adapted for the public sector this provides that:

- Infrastructure, Community Assets, Assets under Construction, and equipment, are held at depreciated historical cost.
- All other assets are measured at fair value. In respect of specialised assets, if there is an absence of market based evidence of value, fair value will be assessed using the depreciated replacement cost approach.

Valuations are provided by qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Property assets are re-valued, at a minimum, every 5 years.

A gain on revaluation is credited to the Revaluation Reserve unless it reverses a previous loss charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement

Depreciation

Non current assets held for sale are not depreciated.

Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the closing value of assets. Components are separately depreciated if:

- The total value of the host asset (excluding land) exceeds £500k and
- The value of the component exceeds 20% of the asset value (excluding land)

Depreciation periods are as follows:

	<u>years</u>
Property (excluding components separately identified)	5-70
Property components - mechanical	25
Portable office facilities	10-15
Vehicles	3-10
IT equipment	3-5
Other equipment	5-15

Revaluation gains are also depreciated by transfer of the difference between the current valuation depreciation charge and the historic cost depreciation charge, from the Revaluation Reserve to the Capital Adjustment Account

### Impairment

All assets are reviewed annually for impairment. Impairment losses are charged against revaluation gains held in the Revaluation Reserve. If these are inadequate the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

If an impairment loss is subsequently reversed, the reversal, up to the amount of the original loss adjusted for depreciation, is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

### Disposal 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 continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately and carried at the lower of this amount and fair value less costs to sell. If assets subsequently fail to meet the criteria to be classified as Assets Held for Sale, they revert to their Non Current Asset classification, and are re-valued at their original value adjusted for any depreciation, impairment or revaluation that would have applied.

On disposal the carrying amount of an asset 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 exceeding £10,000 from disposal are credited to the same line. Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

### Capital Charges and Council Tax

The postings in the Comprehensive Income and Expenditure Statement in respect of depreciation, impairment, disposals and revaluation are reversed in the Movement in Reserves Statement to avoid impacting on council tax. Capital Receipts exceeding £10,000 are reversed to the Capital Receipts Reserve. Other reversals are to the Capital Adjustment Account

### **Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing is uncertain. Provisions are charged to the appropriate revenue account. Expenditure, when incurred, is charged directly to the provision.

### **Reserves**

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement, and the reserve is appropriated back into the General Fund Balance through the Movement in Reserves Statement.

### **Revenue Expenditure Funded From Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provision but 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.

If the Authority has determined to use capital resources to meet the cost (as opposed to funding from revenue), a transfer is done in the Movement in Reserves Statement, from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the council tax.

### **Value Added Tax**

VAT is included in the accounts only to the extent that it is irrecoverable.

**2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

Amendments to IFRS 7 *Financial Instruments: Disclosures (transfer of financial assets)* have not yet been adopted. The Council has no relevant activity and does not expect the standard to impact on the accounts.

**3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Last year this note referred to the awaited judgement of the Icelandic Supreme Court in the proceedings concerning the Icelandic bank, Landsbanki. Note 47 refers to the successful outcome of that case, so that this is no longer a critical issue for the Council. There are no other issues of significant judgement.

**4 ASSUMPTIONS ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains figures estimated on the basis of historical experience, current trends and other relevant factors. The following table notes items for which there is a significant risk of material future adjustment:

Item	Uncertainty	Effect if actual results differ
Pensions liability	The estimated liabilities depend on a number of complex judgements. These include future retirement ages, mortality rates, salary increases, returns on investments and discount rates. A firm of consulting actuaries is engaged to provide advice on these assumptions.	The accounts show a pension liability of £34m. The effect of changes in the assumptions are: - additional year of life £1.9m - 0.1% salary inflation £1.6m - 0.1% on discount rate (£1.6m) Every 3 years the fund is comprehensively revalued which leads to increases in the Council's contributions. These will rise by 1.0% over the next two years.
Debtors	The most significant debtor issue for the Council is its responsibility for collecting £74m in business rates and council tax. It is however acting solely as agent of the government (for business rates) and mainly as agent (for major preceptors) for council tax. The major recovery risk resulting from shortfalls in collection falls to these bodies. Note 18 shows sundry debtors of £3.7m. This includes housing benefit debts totalling £0.9m. Of this sum, a significant amount is expected to be recovered from on-going benefit, but changes in HB administration may affect this. The provision for impairment has therefore been increased to 22% (from 15%). The total bad debt provision is £0.4m.	All significant debts have been individually scrutinised in assessing the required provision. Any increase in impairments will be a charge to the revenue account.

**5 MATERIAL ITEMS OF INCOME AND EXPENSE**

All material items have been disclosed in the statement or in the notes to the accounts.

**6 EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 28 June 2012. 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 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

No events, occurring after 31 March 2012, and which would materially affect the Council's financial position, have been identified.

## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

The surplus or deficit on the provision of service is subject to adjustment in order to calculate the amount to be met from taxation. This statement details those adjustments and agrees to the Movement in Reserves Statement.

In the following statement:

- **The General Fund Balance** is the statutory fund into which all receipts are paid and from which all liabilities are met. Statutory rules require different treatment of some items, than is provided for by accounting regulations. The resulting adjustments are detailed below.
- **The Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets. Statute requires that these can only be used to fund new capital expenditure or to be set aside to finance historical capital expenditure.
- **Capital Grants Unapplied** These are grants and contributions received towards capital projects which are unencumbered by any repayment conditions. There may be restrictions as to the capital expenditure against which they can be applied.

	2011/12			
	General Fund Balance £'000	Capital Receipts Account £,000	Capital Grants Unapplied £'000	Unusable Reserves £'000
<b><u>Adjustments involving the Capital Adjustment Account</u></b>				
<u>Reversal of debits and credits to the Comprehensive Income and Expenditure account (CI&amp;E)</u>				
Charges for depreciation of non current assets	(1,531)			1,531
Charges for impairment of non current assets	(265)			265
Revaluation losses on Property, Plant and Equipment	0			0
Movements in the market value of Investment Property	29			(29)
Amortisation of intangible assets	(185)			185
Revenue expenditure funded from capital under statute	(3,561)			3,561
Capital grants funding REFFCUS	500		3,007	(3,507)
Capital grants received & used to fund capital in year	106			(106)
Non-current assets charged to CI&E on disposal	(176)			176
<u>Insertion of items not posted to CI&amp;E</u>				
Statutory and voluntary provision for the repayment of debt	586	150		(736)
Capital expenditure charged to the General Fund Balance	393			(393)
<b><u>Adjustments involving Capital Grants Unapplied</u></b>				
Capital grants and contributions unapplied credited to CI&E	44		(44)	
Grants applied to fund capital expenditure transferred to CAA			85	(85)
<b><u>Adjustments involving the Capital Receipts Reserve</u></b>				
Capital receipts from the disposal of non current assets	153	(153)		
Preserved Right To Buy receipts	19	(19)		
Capital receipts used to finance new capital expenditure		63		(63)
Capital receipts credited to CI&E to meet the pooling liability	(1)	1		
Transfer from Deferred Capital Receipts	(1)	(1)		2
<b><u>Adjustments involving Financial Instruments Adj. A/c</u></b>				
Difference between finance costs in CI&E and those chargeable in accordance with statutory regulation	0			0
<b><u>Adjustments involving the Pensions Reserve</u></b>				
Reversal of pension charges made in CI&E	(2,138)			2,138
Employer's contributions and payments made to pensioners	1,651			(1,651)
<b><u>Adjustments involving the Collection Fund Adj A/c</u></b>				
Difference between credit to CI&E and precepted amount	61			(61)
<b><u>Adjustments involving the Accumulated Absences A/c</u></b>				
Difference between remuneration charged to CI&E and that chargeable per statutory requirement	0			0
<b>TOTAL ADJUSTMENTS</b>	<b>(4,316)</b>	<b>41</b>	<b>3,048</b>	<b>1,227</b>



2010/11 Comparative figures	2010/11			
	General Fund £'000	Capital Receipts £,000	Capital Grants £'000	Unusable Reserves £'000
<b><u>Adjustments involving the Capital Adjustment Account (CAA)</u></b>				
Reversal of debits and credits to CI&E				
Charges for depreciation of non current assets	(1,573)			1,573
Charges for impairment of non current assets	(1,764)			1,764
Revaluation losses on Property, Plant and Equipment				
Movements in the market value of Investment Property	68			(68)
Amortisation of intangible assets	(175)			175
Revenue expenditure funded from capital under statute	(1,241)		1,208	33
Non-current assets charged to CI&E on disposal	(350)			350
<b><u>Insertion of items not posted to the CI&amp;E</u></b>				
Statutory & voluntary provision for the repayment of debt	1,131			(1,131)
Capital expenditure charged to the General Fund Balance	709			(709)
<b><u>Adjustments primarily involving Capital Grants Unapplied</u></b>				
Capital grants and contributions unapplied credited to CI&E	2,139		(2,139)	
Grants applied to fund capital expenditure transferred to CAA			269	(269)
<b><u>Adjustments involving the Capital Receipts Reserve</u></b>				
Capital receipts credited to CI&E on non current asset disposals	77	(77)		
Capital receipts used to finance new capital expenditure		36		(36)
Capital receipts credited to CI&E to finance the payment to the Government's capital receipt pool	(2)	2		
Transfer from Deferred Capital Receipts		(2)		2
Transfer from Capital Adj Account re mortgage repayments				
<b><u>Adjustments involving Financial Instruments Adjustment A/c</u></b>				
Difference between finance costs in CI&E and those chargeable in accordance with statutory regulation				
<b><u>Adjustments involving the Pensions Reserve</u></b>				
Reversal of pension charges made in the CI&E	2,577			(2,577)
Employer's contributions and payments made to pensioners	1,646			(1,646)
<b><u>Adjustments involving the Collection Fund Adjustment A/c</u></b>				
Difference between credit to CI&E and precepted amount	62			(62)
<b><u>Adjustments involving the Accumulated Absences A/c</u></b>				
Difference between remuneration charged to the CI&E and that chargeable per statutory requirement	(12)			12
<b>TOTAL ADJUSTMENTS</b>	<b>3,292</b>	<b>(41)</b>	<b>(662)</b>	<b>(2,589)</b>

**8 TRANSFERS TO/FROM EARMARKED RESERVES**

	Balance	Transfers		Balance	Transfers		Balance
	1 April 2010 £'000	Out £'000	(In) £'000	31 March 2011 £'000	Out £'000	(In) £'000	31 March 2012 £'000
Chief Executive	(13)	13	(19)	(19)	19	(19)	(19)
Partnerships, Planning & Policy Directorate	(532)	257	(267)	(542)	190	(1,220)	(1,572)
People and Places Directorate	(208)	72	(128)	(264)	226	(196)	(234)
Transformation Directorate	(190)	113	(190)	(267)	243	(452)	(476)
VAT Shelter Income unapplied	(398)	398	(347)	(347)	347	(449)	(449)
Service and efficiency improvements	(150)	75	(300)	(375)	298	0	(77)
<b>Total</b>	<b>(1,491)</b>	<b>928</b>	<b>(1,251)</b>	<b>(1,814)</b>	<b>1,323</b>	<b>(2,336)</b>	<b>(2,827)</b>

**9 OTHER OPERATING EXPENDITURE**

2010/11 £'000		2011/12 £'000
595	Parish council precepts	589
1	Payments to the Government's Capital Receipt Pool	1
274	(Gains)/losses on disposal of non current assets	23
0	Capital receipts from the sale of previously transferred housing stock	(19)
(1,587)	VAT shelter receipts	(524)
(18)	Net VAT recoveries from HM Revenues and Customs	0
<b>(735)</b>	<b>Total</b>	<b>70</b>

**10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

2010/11 £'000		2011/12 £'000
213	Interest payable and similar charges	205
1,612	Pensions interest cost net of expected return on pension assets	862
(211)	Interest receivable and similar income	(279)
(68)	Income and Expenditure in relation to investment properties and changes in their fair value	(29)
0	Other investment income	0
<b>1,546</b>	<b>Total</b>	<b>759</b>

**11 TAXATION AND NON SPECIFIC GRANT INCOMES**

2010/11 £'000		2011/12 £'000
(6,959)	Council Tax income	(7,063)
(7,411)	Non Domestic Rates	(5,149)
(1,281)	Non ring-fenced Government Grants	(2,125)
(931)	Capital grants and contributions	(313)
<b>(16,582)</b>	<b>Total</b>	<b>(14,650)</b>

## 12 PROPERTY PLANT AND EQUIPMENT

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra- structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
<b>Cost or valuation</b>						
<b>At 1 April 2011</b>	<b>31,119</b>	<b>5,512</b>	<b>459</b>	<b>3,298</b>	<b>1,995</b>	<b>42,383</b>
Additions	327	361	(6)	37	0	719
Revaluations recognised in Revaluation Reserve (RR)						
Revaluations recognised in CI&E	(140)					(140)
De-recognition - disposals	(176)					(176)
De-recognition - other						
Assets reclassified						
Other movements						
<b>At 31 March 2012</b>	<b>31,130</b>	<b>5,873</b>	<b>453</b>	<b>3,335</b>	<b>1,995</b>	<b>42,786</b>
<b>Depreciation and Impairment</b>						
<b>At 1 April 2011</b>	<b>(2,959)</b>	<b>(3,110)</b>	<b>(90)</b>	<b>(267)</b>	<b>0</b>	<b>(6,426)</b>
Depreciation charge	(622)	(732)	(54)	(123)		(1,531)
Depreciation written out of RR						
Depreciation written out of CI&E	2					2
Impairment losses recognised in RR	(197)					(197)
Impairment losses recognised in CI&E	(127)					(127)
De-recognition - disposals						
De-recognition - other						
Other movements						
<b>At 31 March 2012</b>	<b>(3,903)</b>	<b>(3,842)</b>	<b>(144)</b>	<b>(390)</b>	<b>0</b>	<b>(8,279)</b>
<b>Net Book Value</b>						
<b>At 31 March 2011</b>	<b>28,160</b>	<b>2,402</b>	<b>369</b>	<b>3,031</b>	<b>1,995</b>	<b>35,957</b>
<b>At 31 March 2012</b>	<b>27,227</b>	<b>2,031</b>	<b>309</b>	<b>2,945</b>	<b>1,995</b>	<b>34,507</b>

Comparative Movements in 2010/11	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra- Structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
<b>Cost or valuation</b>						
<b>At 1 April 2010</b>	<b>29,792</b>	<b>5,035</b>	<b>459</b>	<b>3,274</b>	<b>2,345</b>	<b>40,905</b>
Additions	225	477		22		724
Revaluations recognised in Revaluation Reserve (RR)	1,161					1,161
Revaluations recognised in CI&E	(57)					(57)
De-recognition - disposals					(350)	(350)
De-recognition - other						
Assets reclassified	(2)			2		0
Other movements						
<b>At 31 March 2011</b>	<b>31,119</b>	<b>5,512</b>	<b>459</b>	<b>3,298</b>	<b>1,995</b>	<b>42,383</b>
<b>Depreciation and Impairment</b>						
<b>At 1 April 2010</b>	<b>(1,897)</b>	<b>(2,322)</b>	<b>(36)</b>	<b>(144)</b>	<b>0</b>	<b>(4,399)</b>
Depreciation charge	(608)	(788)	(54)	(123)		(1,573)
Depreciation written out of RR	331					331
Depreciation written out of CI&E						
Impairment losses recognised in RR	(57)					(57)
Impairment losses recognised in CI&E	(727)					(727)
De-recognition - disposals						0
De-recognition - other						0
Assets reclassified						0
Other movements	(1)	0	0	0	0	(1)
<b>At 31 March 2011</b>	<b>(2,959)</b>	<b>(3,110)</b>	<b>(90)</b>	<b>(267)</b>	<b>0</b>	<b>(6,426)</b>

### Fixed Assets Valuations

During 2012/13 the valuations were carried out by Liberata UK Limited. The basis of valuation is set out in the Statement of Accounting Policies.

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra- structure £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
<b>Carried at historical cost</b>	<b>543</b>	<b>5,873</b>	<b>453</b>	<b>3,108</b>	<b>0</b>	<b>9,977</b>
Valued at fair value as at:						
31 March 2012	273	0	0	0	0	273
31 March 2011	8,147	0	0	1	0	8,148
31 March 2010	3,546	0	0	218	281	4,045
31 March 2009	4,734	0	0	1	753	5,488
31 March 2008	13,887	0	0	7	961	14,855
<b>Total cost or valuation</b>	<b>31,130</b>	<b>5,873</b>	<b>453</b>	<b>3,335</b>	<b>1,995</b>	<b>42,786</b>

### Capital Commitments

The Authority does not have any significant capital projects in construction.

### 13 HERITAGE ASSETS

Cost or Valuation	2010/11	2011/12
As at 1 April	2,648	1,667
Revaluations	(981)	0
Depreciation	0	0
<b>As at 31 March</b>	<b>1,667</b>	<b>1,667</b>

The accounting policy note gives details of the types of assets and the basis of valuation.

### 14 INVESTMENT PROPERTIES

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or its right to receipt of income or the proceeds of disposal.

The assets are comprehensively re-valued every five years, and annually reviewed for any indications that changes in yields or void levels warrant a review of fair values. The following table summarises the movement in the fair value of these properties over the past years.

	2010/11 £'000	2011/12 £'000
Fair value at the start of the year	1,055	1,123
Net gain from revaluation	68	29
<b>Value at year end</b>	<b>1,123</b>	<b>1,152</b>

**15 INTANGIBLE ASSETS**

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The following periods have been used in amortising the Authority's significant intangible assets.

Asset Description	Amortisation Period
e-planning software	5 years
Website	3 years
Thin client implementation	7 years
Core financial management information system	5 years

Amortisation is on a straight line basis. In 2011/12 the amortisation charge of £185k was charged principally to Customer Services £40k, ICT Services £53k, Housing Benefits £32k, Planning £32k and Shared Financial Services £17k. These cost centres are absorbed as overheads across all services. It is not possible therefore to simply indicate the amount charged to each heading in the Comprehensive Income and Expenditure Account.

The movements on Intangible Asset balances during the year are as follows:-

	2010/11 £'000	2011/12 £'000
<b><u>Balance at the start of the year</u></b>		
Gross carrying amount	1,865	2,081
Accumulated amortisation	(1,321)	(1,391)
<b>Net carrying amount at year start</b>	<b>544</b>	<b>690</b>
<b><u>Movements in the year</u></b>		
Additions in year	321	77
Disposal in year	(105)	0
Amortisation in year	(175)	(185)
Amortisation in respect of disposals	105	0
<b>Net carrying amount at the year end</b>	<b>690</b>	<b>582</b>

There are no significant contractual commitments, and no individual intangible assets the amortisation of which is materially significant to the Council.

**16 FINANCIAL INSTRUMENTS****16a Categories of Financial Instrument**

The following categories of Financial Instruments are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000
<u>Investments</u>				
Loans and receivables	8	8	4,577	9,119
<u>Debtors</u>				
Loans and receivables (note 19)	352	354	3,902	3,251
<u>Borrowings</u>				
Financial liabilities at amortised cost	(7,822)	(7,272)	(1,101)	(598)
<u>Other Long Term Liabilities</u>				
Finance lease liabilities	0	0	0	0
Capital grant receipt in adv.	(1,086)	(949)	0	0
<u>Creditors</u>				
Financial liabilities carried at contract amount (note 22)	0	0	(3,030)	(2,944)

There has been no reclassification of assets and no pledges of collateral have been made in the periods reported in these statements.

**16b Income, Expense, Gains and Losses**

The amounts charged in the Comprehensive Income and Expenditure Account are as follows:-

	2010/11			2011/12		
	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000
Interest expenses	206	0	206	205	0	205
impairment	0	7	7	0	0	0
	<b>206</b>	<b>7</b>	<b>213</b>	<b>205</b>	<b>0</b>	<b>205</b>
Interest income	0	(127)	(127)	0	(188)	(188)
Interest income accrued on impaired assets	0	(84)	(84)	0	(91)	(91)
<b>Total income</b>	<b>0</b>	<b>(211)</b>	<b>(211)</b>	<b>0</b>	<b>(279)</b>	<b>(279)</b>
<b>Net (gain)/loss for the year</b>			<b>2</b>			<b>(74)</b>

**16c Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables, and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:-

- any borrowings or investments are discounted at the rates applying to equivalent transactions at the Balance Sheet date.
- where an instrument will mature in the next twelve months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		31 March 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial liabilities				
Borrowings	(8,923)	(8,947)	(7,870)	(8,240)
Deferred liabilities	(14)	(14)	(14)	(14)
<b>Total</b>	<b>(8,937)</b>	<b>(8,961)</b>	<b>(7,884)</b>	<b>(8,254)</b>

	31 March 2011		31 March 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial assets				
Loans and receivables	8	8	8	8
Long term debtors	352	427	354	418
<b>Total</b>	<b>360</b>	<b>435</b>	<b>362</b>	<b>426</b>

**17 INVENTORIES**

	2010/11 £'000	2011/12 £'000
Balance at 1 April	41	22
Purchases	125	176
Issued in year	(143)	(172)
Written off in year	(1)	0
<b>Balance at year end</b>	<b>22</b>	<b>26</b>

**18 CONSTRUCTION CONTRACTS**

The Council is not involved as a contractor in any construction contracts

**19 DEBTORS**

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	1,959	53
Other local authorities	2,382	575
NHS bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	2,499	3,754
	6,840	4,382
Less provision for bad debts	(302)	(383)
<b>Net carrying amount at the year end</b>	<b>6,538</b>	<b>3,999</b>

The bad debt provision has been made against debtors classified as "other entities and individuals".

**20 CASH AND CASH EQUIVALENTS**

The balance of Cash and Cash Equivalents is made up of the following elements:-

	31 March 2011 £'000	31 March 2012 £'000
Cash held by the Authority	0	0
Bank current and call accounts	5,225	3,869
Short term deposits	0	0
<b>Total cash and cash equivalents</b>	<b>5,225</b>	<b>3,869</b>

**21 ASSETS HELD FOR SALE**

	Current		Non Current	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Balance outstanding at the start of the year	0	0	0	0
Assets sold	0	0	0	0
Transfers from non-current to current	0	0	0	0
<b>Balance outstanding at year end</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**22 CREDITORS**

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	(976)	(2,376)
Other local authorities	(1,070)	(1,487)
NHS bodies	(13)	(1)
Public corporations and trading funds	0	0
Other entities and individuals	(2,453)	(2,021)
<b>Net carrying amount at the year end</b>	<b>(4,512)</b>	<b>(5,885)</b>



**23 PROVISIONS**

During 2011/12 the following provisions have been made:

	2010/11 £'000	2011/12 £'000
Balance at beginning of year	0	0
Provision made in year		
Municipal Mutual Insurance (see note 45)	0	15
Pension Liability transferred staff (see note 45)	0	1,750
<b>Net carrying amount at the year end</b>	<b>0</b>	<b>1,765</b>

**24 USABLE RESERVES**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 9).

**25 UNUSABLE RESERVES**

	31 March 2011 £'000	31 March 2012 £'000
Revaluation Reserve	(5,450)	(5,131)
Capital Adjustment Account	(26,301)	(25,625)
Financial Instruments Adjustment Account	0	0
Deferred Capital Receipts Reserve	(302)	(300)
Pensions Reserve	27,277	33,959
Collection Fund Adjustment Account	(24)	(85)
Accumulated Absences Account	125	125
<b>Total unusable reserves at year end</b>	<b>(4,675)</b>	<b>2,943</b>

**25a Revaluation Reserve**

The Revaluation Reserve holds the gains arising from increases in the valuation of Property, Plant and Equipment. The balance is reduced by any subsequent reductions in value, by impairment, by depreciation, and by disposal.

The Reserve holds only gains accumulated since 1 April 2007. Gains prior to that date were consolidated in the Capital Adjustment Account.

	2010/11 £'000	2011/12 £'000
Balance at 1 April	(4,323)	(5,450)
Upward revaluation of assets	(1,435)	0
Difference between fair value and historic cost depreciation	123	123
Downward revaluation and impairment not charged to the Comprehensive Income & Expenditure Account	0	196
Accumulated gains on assets de-recognised	185	0
<b>Balance at 31 March</b>	<b>(5,450)</b>	<b>(5,131)</b>

**25b Capital Adjustment Account**

This account contains the following:-

- Sums set aside to finance capital expenditure
- Accumulated gains and losses on Investment Properties
- Revaluation gains on Property, Plant and Equipment accumulating prior to 1 April 2007
- The difference between the charges required by accounting practice for the amortisation of assets (depreciation and impairment) and the de-recognition of assets, and the capital charges required by statute.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	<b>(27,675)</b>	<b>(26,301)</b>
<u>Adjustments between accounting and regulatory funding bases (see note 7)</u>		
<i>Items relating to capital charges</i>		
Charges for depreciation of non current assets	1,573	1,531
Charges for impairment of non current assets	1,764	265
Amortisation of intangible assets	175	185
Revenue expenditure funded from capital under statute	1,241	3,560
Net cost assets disposed of	350	176
<i>Movements in the market value of Investment Properties</i>	(68)	(29)
<i>Capital financing applied in the year</i>		
Capital receipts used to finance new capital expenditure	(36)	(63)
Capital expenditure charged to the General Fund Balance	(709)	(393)
Statutory & voluntary provision for the repayment of debt	(1,131)	(736)
Grants used in the year to fund capital expenditure	(1,477)	(3,698)
<i>Adjustments with the Revaluation Reserve (see note 25a)</i>		
Accumulated gains on assets de-recognised	(185)	0
Difference between fair value and historic cost depreciation	(123)	(122)
<i>Adjustment with Capital Receipts Reserve</i>		
<b>Balance at 31 March</b>	<b>(26,301)</b>	<b>(25,625)</b>

**25c Financial Instruments Adjustment Account**

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of certain financial instruments.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	<b>0</b>	<b>0</b>
<b>Balance at 31 March</b>	<b>0</b>	<b>0</b>

**25d Deferred Capital Receipts Reserve**

This account shows the sums recognised as due to the Council on the disposal of non-current assets but for which cash settlement has yet to take place.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	<b>(304)</b>	<b>(302)</b>
Transfer to Capital Receipts Reserve on receipt of cash	2	1
Transfer to Comprehensive Income & Expenditure	0	1
<b>Balance at 31 March</b>	<b>(302)</b>	<b>(300)</b>

**25e Pensions Reserve**

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of pensions.

The costs of benefits are charged to the Comprehensive Income and Expenditure Account when they are earned rather than when they are paid. Statutory arrangements however require that benefits be financed only when the Authority makes contributions to the pension fund. The debit balance on the Pension Reserve therefore shows that benefits earned by employees exceed the payments made by the authority to fund them.

Statutory arrangements require that adequate funding will ultimately be set aside.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	<b>37,656</b>	<b>27,277</b>
Actuarial(gains)/ losses on pension assets and liabilities	(6,156)	6,195
Reversal of charges posted to the Comprehensive Income & Expenditure Account	(2,577)	2,138
Employers contributions and direct payments to pensioners payable in the year	(1,646)	(1,651)
<b>Balance at 31 March</b>	<b>27,277</b>	<b>33,959</b>

**25f Collection Fund Adjustment Account**

Council tax income is recognised in the Comprehensive Income and Expenditure as it becomes due from individual payers of the charge. Statute requires however that the Council recognises the estimated amount determined when the council tax charge for the year was fixed. The difference is shown in this account.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	<b>38</b>	<b>(24)</b>
Amount by which council tax income credited to the Comprehensive Income & Expenditure account exceeded the amount required by statute	(62)	(61)
<b>Balance at 31 March</b>	<b>(24)</b>	<b>(85)</b>

**25g Accumulated Absences Account**

The cost of compensated absences (e.g. leave entitlement) not taken by employees during the year of account, is charged to the Comprehensive Income and Expenditure Account. Statutory arrangements require however that the impact on the General Fund Balance is neutralised by transfers to or from this account.

	2010/11 £'000	2011/12 £'000
<b>Balance at 1 April</b>	113	125
Transfer from the General Fund Balance	12	0
<b>Balance at 31 March</b>	125	125

**26 CASH FLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:-

	2010/11 £'000	2011/12 £'000
Interest received	538	319
Interest paid	(167)	(183)
<b>Net</b>	<b>371</b>	<b>136</b>

**27 CASH FLOW STATEMENT – INVESTING ACTIVITIES**

The following items have been included within investing activities in the cash flow statement

	2010/11 £'000	2011/12 £'000
Purchase of property, plant & equipment, investment property and intangible assets.	(1,882)	(454)
Purchase of short and long term investments.	(5,000)	(4,583)
Proceeds from the sale of assets.	78	197
Proceeds from short and long term investments.	2,000	0
Other payments for investing activities		(5)
Other receipts relating to investing activity (government grants).	2,824	513
<b>Total investing activities</b>	<b>(1,980)</b>	<b>(4,332)</b>

**28 CASH FLOW STATEMENT – FINANCING ACTIVITIES**

The following have been included within financing activities in the cash flow statement

	2010/11 £'000	2011/12 £'000
Cash receipts from short and long term borrowing	8,146	0
Cash paid to reduce lease liabilities	0	0
Repayments of borrowings	(2,942)	(1,049)
Change in indebtedness relating to NNDR(due from Government) and Council Tax (due from Precepting authorities)	(707)	4,071
<b>Total financing activities</b>	<b>4,497</b>	<b>3,022</b>

**29 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (SEGMENTS)**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However decisions about resource allocation are taken by the Authority 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:

- They exclude capital charges (depreciation, impairment and revaluation losses)
- Retirement benefits are included on the basis of cash flows rather than current service costs
- Expenditure on some support services is budgeted for centrally

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

<b>Directorate Income and Expenditure 2011/12</b>	<b>Chief Executive £'000</b>	<b>Partnerships Planning &amp; Policy £'000</b>	<b>People and Places £'000</b>	<b>Total £'000</b>
Fees, charges & other service income	(1,880)	(2,343)	(2,997)	(7,220)
Government grants	(703)	(32)	(4)	(739)
<b>Total Income</b>	<b>(2,583)</b>	<b>(2,375)</b>	<b>(3,001)</b>	<b>(7,959)</b>
Employee expenses	5,139	2,340	3,346	10,825
Other service expenses	3,258	1,100	5,338	9,696
<b>Total Expenditure</b>	<b>8,397</b>	<b>3,440</b>	<b>8,684</b>	<b>20,521</b>
<b>Net Expenditure</b>	<b>5,814</b>	<b>1,065</b>	<b>5,683</b>	<b>12,562</b>
<b>Directorate Income and Expenditure 2010/11</b>	<b>Chief Executive £'000</b>	<b>Partnerships Planning &amp; Policy £'000</b>	<b>People and Places £'000</b>	<b>Total £'000</b>
Fees, charges & other service income	(2,157)	(2,316)	(2,835)	(7,308)
Government grants	(858)	(118)	(109)	(1,086)
<b>Total Income</b>	<b>(3,015)</b>	<b>(2,434)</b>	<b>(2,944)</b>	<b>(8,393)</b>
Employee expenses	5,681	2,404	3,829	11,914
Other service expenses	3,454	1,112	5,019	9,585
<b>Total Expenditure</b>	<b>9,135</b>	<b>3,516</b>	<b>8,847</b>	<b>21,499</b>
<b>Net Expenditure</b>	<b>6,120</b>	<b>1,082</b>	<b>5,904</b>	<b>13,106</b>

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

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

	2010/11 £'000	2011/12 £'000
Net expenditure in the Directorate Analysis	13,106	12,562
Net expenditure of services and support services not included in the Analysis (Note a)	889	212
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis Note (Note b)	(2,253)	4,162
	<b>11,742</b>	<b>16,936</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	0	0
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>11,742</b>	<b>16,936</b>

#### Notes

- (a) Though all cash income and expenditure budgets are monitored throughout the year, some budgets are excluded from the monitoring of directorate totals. In 2011/12, the expenditure and income reported separately included payments to the pension fund in respect of past service, and council tax and housing benefits.
- (b) Non-cash budgets are excluded from monitoring of income and expenditure. These include budgets that do not affect the cost to the council tax payer, in particular depreciation, amortisation and impairment of fixed and intangible assets, accrual of employee benefits, and technical pensions accounting entries.

#### Reconciliation to Subjective Analysis

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

2011/12	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(7221)	(662)	(45)	(13,864)	(21,792)	(2,293)	(24,085)
Interest and Investment Income					0	(4,257)	(4,257)
Income from council tax					0	(7,063)	(7,063)
Government grants and contributions	(739)	(29,807)	(959)		(31,505)	(7,587)	(39,092)
<b>Total Income</b>	<b>(7,960)</b>	<b>(30,469)</b>	<b>(1,004)</b>		<b>(53,297)</b>	<b>(21,200)</b>	<b>(74,497)</b>
Employee expenses	10,825	219	(375)		10,669	1,750	12,419
Other service expenses	9,696	30,462	3,561		43,719		43,719
Support Service recharges				13,864	13,864		13,864
Depreciation, amortisation & impairment			1,981		1,981		1,981
Interest Payments					0	5,016	5,016
Precepts & Levies					0	589	589
Payments to Housing Capital Receipts Pool					0	1	1
Gain or Loss on Disposal of Fixed Assets					0	23	23
<b>Total Expenditure</b>	<b>20,521</b>	<b>30,681</b>	<b>5,167</b>	<b>13,864</b>	<b>70,233</b>	<b>7,379</b>	<b>77,612</b>
<b>Surplus or deficit on the provision of services</b>	<b>12,561</b>	<b>212</b>	<b>4,163</b>	<b>0</b>	<b>16,936</b>	<b>(13,821)</b>	<b>3,115</b>

2010/11	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(7,308)	(179)	(659)	(15,071)	(23,217)	(1,609)	(24,826)
Interest and Investment Income			(5,584)		(5,584)	(3,838)	(9,422)
Income from council tax					0	(6,959)	(6,959)
Government grants and contributions	(1,085)	(28,627)	(524)		(30,236)	(9,623)	(39,859)
<b>Total Income</b>	<b>(8,393)</b>	<b>(28,806)</b>	<b>(6,767)</b>	<b>(15,071)</b>	<b>(59,037)</b>	<b>(22,029)</b>	<b>(81,066)</b>
Employee expenses	11,914	256	(239)		11,931		11,931
Other service expenses	9,585	29,439	1,241		40,265	12	40,277
Support Service recharges				15,071	15,071		15,071
Depreciation, amortisation & impairment			3,512		3,512		3,512
Interest Payments					0	5,376	5,376
Precepts & Levies					0	595	595
Payments to Housing Capital Receipts Pool					0	1	1
Gain or Loss on Disposal of Fixed Assets					0	274	274
<b>Total Expenditure</b>	<b>21,499</b>	<b>29,695</b>	<b>4,514</b>	<b>15,071</b>	<b>70,779</b>	<b>6,258</b>	<b>77,037</b>
<b>Surplus or deficit on the provision of services</b>	<b>13,106</b>	<b>889</b>	<b>(2,253)</b>	<b>0</b>	<b>11,742</b>	<b>(15,771)</b>	<b>(4,029)</b>



**30 ACQUIRED AND DISCONTINUED OPERATIONS**

There were no operations acquired or discontinued during the year.

**31 TRADING OPERATIONS**

The Authority has no Trading Operations.

**32 AGENCY SERVICES**

The Council acts as agent for central government in the collection of national non domestic rates, and as agent for major preceptors in the collection of council tax. Further details are given in the notes to the Collection Fund.

**33 ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000**

Not applicable

**34 POOLED BUDGETS**

The Council has no material pooled budget arrangements

**35 MEMBERS ALLOWANCES**

The Council paid the following amounts to its members during the year.

	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
Allowances	294	291
Expenses	7	8
<b>Total</b>	<b>301</b>	<b>299</b>

### 36 OFFICERS REMUNERATION

SENIOR EMPLOYEES Post Title	Year	Salary £'000	Expense Allowances £'000	Benefits In kind £'000	Compensation for loss of office £'000	Total Remuneration (excl. Pension Contributions) £'000	Pension Contribution £'000	Total Remuneration (including pension contributions) £'000
Chief Executive (note 1) 01/04/2011 – 07/08/2011 08/08/2011 – 31/03/2012	2010/11	123	12			135	23	158
	2011/12	44	3			47	8	55
	2011/12	67	4			71	13	84
Director of Partnerships, Planning and Policy	2010/11	90	6			96	17	113
	2011/12	90	6			96	17	113
Director of Transformation (note 1)	2010/11	90	5			95	17	112
	2011/12	32	2			34	6	40
Director of People and Places	2010/11	90	5			95	17	112
	2011/12	90	6			96	17	113
Head of Shared Financial Services	2010/11	55	6			61	10	71
	2011/12	56	6			62	11	73
Head of Governance	2010/11	48	6			55	9	64
	2011/12	50	4			54	10	64
Head of Customer, ICT and Transactional Services	2010/11	50	4			54	9	63
	2011/12	50	4			54	9	63
Head of Human Resources & OD	2010/11	44	3			47	8	55
	2011/12	29	6			35	6	41
Head of Policy and Communications	2010/11	43	1			44	7	51
	2011/12	47	5			52	9	61

Note (1) The Chief Executive left the Council on 7<sup>th</sup> August 2011. The former Director of Transformation was appointed to fill the post from the same date. The costs shown are net of 50% of the former post holder's costs recharged to Wyre BC, for whom she also acted as Chief Executive.

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Other employees receiving more than £50,000 remuneration, excluding pension contributions, were as follows:

<b>Remuneration band</b>	<b>2010/2011 Number of employees</b>	<b>2011/2012 Number of employees</b>
£50,000 - £54,999	2	3
£55,000 - £59,999	1	1
£60,000 - £64,999	-	-
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	-

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Packages banded by cost	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages		Total cost of exit packages	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
£0 -£20,000	0	0	17	8	17	8	153	58
£20,001 - £40,000	0	0	9	1	9	1	247	39
£40,001 - £60,000	0	0	1	1	1	1	52	57
£60,001 - £80,000	0	0	0	1	0	1	0	67
£80,001 - £100,000	0	0	1	0	1	0	81	0
£100,000 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	0	0	28	11	28	11	533	221

**37 EXTERNAL AUDIT COSTS**

The Authority has incurred the following costs relating to external audit

	2010/11 £'000	2011/12 £'000
Fees for statutory inspection and audit	97	91
Fees for the certification of grant claims and returns	22	27
<b>Total</b>	<b>119</b>	<b>118</b>

**38 GRANT INCOME**

The Authority credited the following grants, contributions and donations to the Comprehensive Income and expenditure Statement

	2010/11 £'000	2011/12 £'000
<b><u>Credited to Taxation and Non Specific</u></b>		
National non domestic rates	(7,411)	(5,149)
Revenue support grant	(1,076)	(1,592)
Other revenue grants	(205)	(533)
Capital Grants – Regional Housing Pot	(80)	0
Capital Contributions - Section 106 Planning	(727)	(207)
Capital Other grants and contributions	(124)	(106)
<b>Total</b>	<b>(9,623)</b>	<b>(7,587)</b>
<b><u>Credited to Services</u></b>		
Grants – benefits related	(28,116)	(30,501)
Grants – Homelessness	(51)	(504)
Grants – Concessionary fares	(734)	0
Grants – other	(675)	(869)
Contribution – County Council reimbursement	(842)	(895)
Contributions – other	(1,273)	(946)
<b>Total</b>	<b>(31,691)</b>	<b>(33,715)</b>

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached that could require the monies to be returned to the giver. The balances at year end are as follows

	2010/11 £'000	2011/12 £'000
<b>Capital Grants</b>		
Grant - Regional Housing Pot	936	802
Grant – various LCC	138	75
Other grants and contributions	12	72
<b>Total</b>	<b>1,086</b>	<b>949</b>

**39 RELATED PARTIES**

In accordance with FRS8, the financial statements must disclose material transactions with related parties, to draw attention to the possible 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.

- **Central Government**

Central government has effective control over the general operations of the council as it provides the statutory framework within which the Authority operates and the majority of its funding in the form of grants. Details of government grants received is given in note 38.

- **Members of the Council**

Members have direct control over the council's financial and operating policies. Elected members are required to complete a Notice of Registerable Interests and notify the council of any changes within 28 days. Declarations of interests in items relating to the personal interest of partners, relatives or friends, are also recorded in the minutes of the meeting and the member will leave the meeting. Declarations are open to public inspection.

Note 35 refers to the allowances paid to members. The amounts paid to individual members are reported on the Council's web site.

- **Officers**

If appropriate, Directors of the Council complete a voluntary declaration of transactions involving related parties. The returns showed that in respect of the declarations made during the year to 31 March 2012 there were no material transactions.

- **Chorley Community Housing Ltd (CCH)**

In 2006/07 the Council's housing stock was transferred to CCH. Pursuant to that transfer CCH purchased services valued at £0.161m from the Council (2010/11 £0.161m); and paid over a proportion of the receipts from the preserved right to buy sales of dwellings to former Chorley council tenants totalling £0.019m (2010/11 nil). In addition, the Council received income totalling £2.274m (2010/11 £1.587m) from CCH under a VAT sharing agreement (see also note 46 Contingent Assets).

- **Partnerships, Companies and Trusts**

- Financial & Assurance Shared Services Partnership – In January 2009 this partnership was established under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. This provides for the provision of accountancy, exchequer, treasury management, procurement and assurance services across the administrative areas of the two Councils.

A Shared Services Joint Committee has been established to discharge the Chorley and South Ribble Councils' functions of providing the services detailed in the Shared Services Agreement.

In 2011/12 gross expenditure of £1.989m (2010/11 £2.178m) was incurred on the shared services, which was fully funded by recharges of £1.009m (2010/11 £1.091m) to South Ribble Borough Council and £0.98m (2010/11 £1.087m) to Chorley Borough Council.

- In the following cases the Council made grants and payments for services that were significant relative to the size of the recipient organisation:

	2010/11 £'000	2011/12 £'000
Business Venture Group	259	83
Lancashire Economic Partnership	7	0
The Arts Partnership	19	18
Chorley, South Ribble & District Citizen Advice Bureau	85	85
Chorley and South Ribble Shop Mobility	10	15
North West Local Authorities Employers' Organisation	4	10
Chorley & South Ribble CVS	4	1
<b>Total grants and payments</b>	<b>388</b>	<b>212</b>

#### 40 CAPITAL EXPENDITURE AND FINANCING

The total capital expenditure in the year is shown below, together with the resources that have been used to finance it.

The statement incorporates details of the movements in the Capital Financing Requirement. This is a measure of the capital expenditure historically incurred by the Authority that has yet to be financed. This will be discharged by future charges to the revenue account.

	2010/11 £'000	2011/12 £'000
Opening Capital Financing Requirement	9,672	8,605
Capital investment		
Property, Plant and Equipment	724	719
Intangible Assets	321	77
Revenue Expenditure Funded from Capital under Statute	1,241	3,561
Sources of finance		
Capital Receipts	(36)	(63)
Government Grants and Other Contributions	(1,477)	(3,698)
Sums set aside from revenue		
Revenue Financing	(709)	(393)
Minimum Revenue provision - statutory	(412)	(322)
Minimum Revenue provision - voluntary	(719)	(264)
Sums set aside from capital receipts		
Voluntary provision for debt repayment	0	(150)
<b>Closing Capital Financing Requirement</b>	<b>8,605</b>	<b>8,072</b>
Explanation of movements in year		
Increase in prudential borrowing	62	203
Provision made for debt repayment	(1,131)	(736)
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(1,069)</b>	<b>(533)</b>

**41 LEASES****41a Authority as lessee**Finance leases

The Council has no finance leases

Operating leases

The Authority operates plant, vehicles and office equipment under operating leases. There are also lease arrangements embedded in the refuse contract. The future minimum payments, and sub lease minimum receipts, are as follows:

	31 March 2011		31 March 2012	
	Payments £'000	Receipts £'000	Payments £'000	Receipts £'000
Not later than 1 year	647	(43)	613	(43)
Later than 1 yr, not later than 5	2,265	(170)	2,296	(170)
Later than 5 years	1,353	(595)	1,011	(467)
<b>Minimum lease payments</b>	<b>4,265</b>	<b>(808)</b>	<b>3,920</b>	<b>(680)</b>

The operating lease rentals charged in the Comprehensive Income and expenditure statement during the year were as follows:

	2010/11 £'000	2011/12 £'000
Minimum lease payments	396	360
Contingent rents	0	0
Sub-lease payments receivable	(43)	(43)
<b>Total payable rentals</b>	<b>353</b>	<b>317</b>

**41b Authority as lessor**Finance leases

The Council has leased two properties, each for periods of 125 years.

In the following table the gross investment in the leases is reconciled to the present value of the minimum lease payments:

	31 March 2011 £'000	31 March 2012 £'000
Finance lease debtor (present value of minimum lease payments)	289	289
Unearned finance income	2,355	2,331
<b>Gross investment in the lease</b>	<b>2,644</b>	<b>2,620</b>



The gross investment in the lease and the minimum lease payments will be received over the following periods:-

	Gross investment in the lease		Minimum lease payments	
	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000
Not later than 1 year	24	24	24	24
Later than 1 yr, not later than 5	95	95	95	95
Later than 5 years	2,525	2,501	2,525	2,501
<b>Total</b>	<b>2,644</b>	<b>2,620</b>	<b>2,644</b>	<b>2,620</b>

No allowance for uncollectible amounts is deemed necessary. The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £23k contingent rents were receivable by the Authority (2010/11 £14k).

#### Operating leases

The Council lets 27 offices, industrial units and sites. The future minimum lease payments receivable are:

	31 March 2011 £'000	31 March 2012 £'000
Not later than one year	330	200
Later than one year and not later than five years	920	700
Later than five years	9,205	8,887
<b>Total receivable rentals</b>	<b>10,455</b>	<b>9,787</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £17k contingent rents were receivable by the Authority (£3k 2010/11).

## 42 IMPAIRMENT LOSSES

The impairment losses recognised during the years are as follows. All losses were within the "Other Land & Building" class of asset. These losses appear also in the analysis of movements in Property plant and equipment (Note 12).

	2010/11 £'000	2011/12 £'000
Impairment loss recognised in cost of services	727	200
Impairment losses reversed in cost of services	0	(73)
Impairment losses taken to the Revaluation Reserve	57	197
<b>Total impairment losses</b>	<b>784</b>	<b>324</b>

Material individual impairments	Amount	Directorate	Valuation	Basis
Town Hall – disrepair of windows	£0.2m	Chief Executive's	Fair value in existing use	Cost to repair
Clayton Green Sports Centre – repairs needed	£0.197	People & Places	Depreciated replacement cost	Cost to repair
White Hart Public House – reversal of previous impairment due to permanent reduction in value	(£0.073)	Chief Executive's	Fair value in existing use	Income stream

#### 43 TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2011/12 incurring liabilities of £0.221 million (£0.5 million in 2010/11). See note 36 for the number of exit packages and total cost. Of the total in 2011/12, £0.0125 million was in respect of Shared Financial Services and was shared with South Ribble Borough Council. Termination payments made to Directors, Heads of Service and other senior managers in 2010/11 and 2011/12 are shown in note 36 as 'compensation for loss of office.

#### 44 DEFINED BENEFIT PENSION SCHEME

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through the Local Government Pension Scheme. This scheme is administered by Lancashire County Council and is a funded, defined benefit scheme, meaning that the authority and employees pay contributions calculated at a level intended to balance the pension liabilities with investment assets.

##### 44a Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the revenue account in the Cost of Services, when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge required to be made against council tax is based on the cash payable to the fund during the year. An adjustment is therefore made to the General Fund via the Movement in Reserves Statement. The following table shows the transactions made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in reserves Statement during the year:

	2010/11 £'000	2011/12 £'000
<u>Comprehensive Income &amp; Expenditure Statement</u>		
Cost of Services		
current service cost	1,395	1,178
Past service cost	(5,584)	0
Settlement and curtailment	0	98
Financing and investment Income and Expenditure		
Interest costs	5,222	4,811
Expected return on scheme assets	(3,610)	(3,949)
<b>Total post employment benefit charged to the (Surplus)/Deficit on the Provision of Service</b>	<b>(2,577)</b>	<b>2,138</b>

<u>Other post employment benefit charged to the Comprehensive Income &amp; Expenditure Statement</u>		
Actuarial (gains) and losses	(6,156)	6,195
<b>Total post employment benefit charged to the Comprehensive Income &amp; expenditure Statement</b>	<b>(8,733)</b>	<b>8,333</b>
<u>Movement in Reserves Statement</u>		
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services	2,577	(2,138)
<b>Actual amount charged against the General Fund balance for pensions in the year</b>	<b>1,646</b>	<b>1,651</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is £26.824m.

#### 44b Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities

	Scheme Liabilities	
	Local Government Pension Scheme	
	2010/11	2011/12
	£'000	£'000
<b>1 April</b>	<b>(93,804)</b>	<b>(88,254)</b>
Current service cost	(1,395)	(1,178)
Interest cost	(5,222)	(4,811)
Contributions by scheme participants	(500)	(454)
Actuarial gains and (losses)	4,088	(3,240)
Benefits paid	2,995	3,197
Curtailment	0	(98)
Past service costs	5,584	0
<b>31 March</b>	<b>(88,254)</b>	<b>(94,838)</b>

Reconciliation of fair value of the scheme assets

	Scheme Assets	
	Local Government Pension Scheme	
	2010/11	2011/12
	£'000	£'000
<b>1 April</b>	<b>56,148</b>	<b>61,912</b>
Adjustment relating to prior years employer contributions		(935)
Expected return on plan assets	3,610	3,949
Actuarial gains & (losses)	2,068	(2,955)
Employer contributions	2,581	1,597
Contributions by scheme participants	500	454
Benefits paid	(2,995)	(3,197)
<b>31 March</b>	<b>61,912</b>	<b>60,825</b>

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

The actual gain on scheme assets in the year was £0.993m (2010/11 gain £4.535m).

In the 2010/11 accounts, the actuarial deficit of £26.342m at 31 March 2011 differed from that shown in the balance sheet of £27.277m, a difference of £0.935m. This was due to a variation in the actual contributions charged on an accrual basis in the accounts and those estimated by the actuary. The actuary amended his estimate during 2011/12 to bring it in line with the actual contributions and this is reflected in the adjustment to the opening balance for 2011/12 in the table above.

#### 44c Scheme history

	2007/08 As restated £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Present value of liabilities	(80,435)	(67,700)	(93,804)	(88,254)	(94,838)
Fair value of assets	52,993	42,192	56,148	61,912	60,825
<b>Surplus/(deficit) in the scheme</b>	<b>(27,442)</b>	<b>(25,508)</b>	<b>(37,656)</b>	<b>(26,342)</b>	<b>(34,013)</b>

The liabilities show the underlying commitments that the authority has in the long term to pay post employment (retirement) benefits. The total liability of £34.013m 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 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.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £1,596.

#### 44d Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercers, an independent firm of actuaries. Estimates for the County Council Fund are based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations have been as follows:-

	Local Government Pension Scheme	
	2010/11	2011/12
Long term expected rate of return on assets in the scheme		
Equity investments	7.5%	7.0%
Government bonds	4.4%	3.1%
Other bonds	5.1%	4.1%
Property	6.5%	6.0%
Cash/liquidity	0.5%	0.5%
Other	7.5%	7.0%
Mortality assumptions		
Longevity at 65 for current pensioners		
Men	21.60	21.70
Women	24.20	24.30
Longevity at 65 for future pensioners		
Men	23.00	23.10
Women	25.80	25.90
Rate of inflation (RPI)	3.40%	n/a
Rate of inflation (CPI)	2.90%	2.50%
Rate of increase in salaries	4.90%	4.50%
Rate of increase in pensions	2.90%	2.5%
Rate for discounting scheme liabilities	5.50%	4.9%
Take up option to convert pension into lump sum	50%	50%

**44e Analysis of scheme assets**

	Proportion of Total Assets 31/03/2011 %	Proportion of Total Assets 31/03/2012 %
Equity investments	64.0	58.0
Government Bonds	7.0	5.0
Other Bonds	14.0	15.0
Property	8.0	10.0
Cash/liquidity	1.0	5.0
Other assets	6.0	7.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**44f History of experience gains and losses**

The actuarial losses identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March in each year.

	<b>2007/08 As restated %</b>	<b>2008/09 %</b>	<b>2009/10 %</b>	<b>2010/11 %</b>	<b>2011/12 %</b>
Experience gains and (losses) on assets	(14.0)	(34.2)	20.0	3.3	(4.9)
Experience gains and (losses) on liabilities	3.9	0	0	4.7	0

#### **44g Prepaid or accrued pension contributions**

There were no prepaid or accrued pensions contributions held on the balance sheet as at 31 March 2012.

#### **45 CONTINGENT LIABILITIES**

The Council has received claims from a number of private search companies in respect of fees paid for land charge searches since 2005. The Local Government association is acting on behalf of all Councils in dealing with this. The amount repayable has not yet been accurately quantified.

The Council gave warranties to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years. It has paid a single premium to insure against claims of up to £15m for a period of 10 years, and is covering the remaining 8 years by payment of an additional annual premium. At 31 March 2012 there are 13 years of the liability period outstanding.

#### **46 CONTINGENT ASSETS**

The Council has claimed an amount of £1.03m from HM Revenue and Customs in relation to Value Added Tax charged on car parking for previous financial years. A further claim for £0.327m is to be submitted for 2010/11 and 2011/12. The claim is subject to a judicial review. This was held in May 2012 and a decision is awaited.

The Council has also submitted a claim to HMRC regarding VAT overpaid over many years, mainly at its leisure centres. This has been settled save for claims for compound interest, which could total £400k.

Under the terms of the Voluntary Stock Transfer Agreement dated 26 March 2007, the Council was entitled to receive an estimated £3.45 million from Chorley Community Housing. It becomes payable if CCH is successful in reclaiming VAT on the qualifying works (i.e. those works it planned to do to the transferred houses over a period of roughly ten years). The cumulative total received to 31 March 2012 was £3.150 million. There is no reason at the moment to believe that the works will not be done, nor that the further VAT reclaim will be contested by HMRC.

The Council is also entitled to a share of the proceeds from the sale of dwellings transferred to the Association. This agreement has a further ten years to run. The amount will depend on the numbers sold and cannot be predicted.

**47 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**Key risks**

The authority’s activities potentially expose it to a variety of financial risks:

- Credit risk – that other parties might fail to pay amounts due to the Council.
- Liquidity risk – that the Authority might not have liquid funds available to make payments when due.
- Market risk – the possibility of financial loss arising from movements in interest rates.

**Overall procedures for managing risk**

In managing investment risk the Council works within the legal framework set out in the Local Government Act 2003 and associated regulations. This requires compliance with the CIPFA Code of Practice, the Prudential Code, and investment guidance issued through the Act. A key requirement is that the council should annually consider its Treasury Management Strategy which incorporates the following:-

Prudential indicators specifying

- Maximum and minimum exposure to fixed and variable rates;
- Limits on the maturity structure of the debt portfolio;
- Limits on total borrowing.

An Investment Strategy specifying

- The use that should be made of credit ratings and other indicators to determine the financial standing of counterparties;
- The use of sovereign ratings to limit investments to specific countries;
- The maximum amounts that might be deposited with any institution;
- The lengths of time for which deposits can be made.

**Credit risk**

This exists in relation to debtors, and investments made as a result of the Council’s treasury operations. The following table analyses relevant investments and debtors as at the date of account.

	<b>Amount at 31 March 2012 £'000</b>	<b>Default risk %</b>	<b>Exposure to default £'000</b>
Investments			
Impaired bank deposit at carrying value	1,065		0
Other long term deposits with banks and financial institutions	8,054		0
Sundry Debtors (see separate analysis)	3,525	8.5	299
	<b>12,644</b>		<b>299</b>

Provision has been made for the impairment of sundry debtors.

Impaired Bank Loan

The impaired bank deposit was made with the following Icelandic bank which went into liquidation in October 2008:

Bank	Date Invested	Maturity Date	Amount	Interest Rate	Carrying value 31/03/2012	Impairment Suffered
Landsbanki	09/09/2008	09/12/2008	£2m	5.81%	£1.065m	£0.676m

Interest continues to accrue on the carrying amounts at the original interest rates.

During the year the priority status of the Council's claim was finally confirmed by the Icelandic court, and a first payment made. It is now expected that the principal and interest up to the date of claim, will be fully repaid, but in view of the exchange rate risk (see below) only a 97% sterling receipt has been assumed over a timescale stretching to 2018.

Other Bank Loans

The Council's Investment Strategy restricts investments to a narrow range of counterparties. There is no reason to assume a risk of impairment.

Sundry Debtors

The sundry debtors (as in note 19) are analysed in the following table (the analysis excludes arrears of council tax £229k):-

	£'000
Not yet past due date	2,411
Up to three months past due date	91
Three to six months past due date	29
Six months to one year past due date	273
Beyond one year	721
	<b>3,525</b>

No collateral is held as security.



**Liquidity risk**

The authority has ready access to borrowing from the Public Works Loan Board and the money markets. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council manages its liquidity position through the risk management procedures outlined above as well as through cash flow management procedures required by the Council. The maturity analysis of its borrowing is as follows:

	31 March 2011 £'000	31 March 2012 £'000
Less than 1 year	1,101	598
Between 1 and 2 years	550	350
Between 2 and 5 years	6,049	6,049
More than 5 years	1,223	873
<b>Total</b>	<b>8,923</b>	<b>7,870</b>

**Market risk**

**Interest rate risk** – The Council has limited exposure to interest rate movements on its borrowings and investments. Borrowings and short term investments are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings and investments do not impact on the Comprehensive Income and Expenditure Statement. To mitigate risk the Treasury Strategy reviews interest rate forecasts and fixes prudential indicators for fixed and variable interest rate exposure.

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

	£'000
Gain - Increase in interest payable on variable rate borrowings	0
Gain - Increase in interest receivable on variable rate investments	(150)
Gain - Impact on Income and Expenditure Account	(150)
Loss - Decrease in fair value of fixed rate investments (no impact on Comprehensive Income & Expenditure Statement)	0
Gain - Decrease in fair value of fixed rate borrowing (no impact on Comprehensive Income & Expenditure Statement)	(259)

**Price risk** – The Council has no exposure to this risk, having no available for sale assets.

**Foreign Exchange Risk** – The Council has exposure to the risk of currency movements on repayments on its Icelandic loans. £1.065m is still outstanding. Of this roughly two thirds is expected to be paid in foreign currency (mainly euros and dollars).

**48 HERITAGE ASSETS – FIVE YEAR SUMMARY OF TRANSACTIONS**

There were no disposals or acquisitions during the five years 2007/08 to 2011/12.

**49 HERITAGE ASSETS – FURTHER INFORMATION**

The assets included within Heritage assets are as follows:-

**Civic Regalia**

This mainly consists of mayoral badges, chains of office, and other regalia used in civic activities. It was last re-valued in 2009.

**Astley Hall**

The house was built in the mid seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11 its value was reduced to a nominal £1 to reflect the substantial repair liability.

**Astley Hall furniture and art collection**

A large part of the collection was gifted to the Council with the house, but it has been added to by gifts and purchases in the following years. The collection consists of numerous minor works of art and furniture. It is included in the statement of accounts for the first time in 2011/12 at the insurance value of £1.582m.

**Preservation and management**

The Council has a five year plan for the use and maintenance of the hall and contents. Periodic structural surveys are undertaken, the next in 2012. Additions and disposal of the collection is managed in accordance with The Acquisitions and Disposal Policy

**50 HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY REQUIRED BY THE CODE OF PRACTICE IN 2011/12**

The Code of practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the accounting treatment of Heritage Assets. As set out in the summary of accounting policies, Heritage Assets should now be carried in the balance sheet at valuation. The notes to the accounts should state where this is not possible.

In previous years both Astley Hall and the civic regalia were recognised as a Community Assets. The art and furniture collection did not appear in the balance sheet. The effects of the restatement are as follows:-

<b>Category</b>	<b>Original 31/03/2010 £'000</b>	<b>Reason for Change</b>	<b>Change £'000</b>	<b>Restated 31/03/2010 £'000</b>
Property Plant & Equipment	37,571	Community assets reclassified as Heritage Assets	(1,064)	36,507
Heritage Assets	0	Reclassified from PP&E	1,064	
		Inclusion of Heritage Assets for first time	1,583	2,647
Unusable Reserves	7,088	Heritage Assets brought into account	(1,583)	5,505

Original Category	Original 31/03/2011 £'000	Reason for Change	Change £'000	Restated 31/03/2011 £'000
Property Plant & Equipment	36,041	Community assets reclassified as Heritage Assets	(84)	35,957
Heritage Assets	0	Reclassified from PP&E	84	
		Inclusion of Heritage Assets for first time	1,583	1,667
Unusable Reserves	(3,092)	Revaluation Reserve – Heritage Assets brought into account	(1,583)	(4,675)

### Comprehensive Income and Expenditure Statement

During 2010/11 Astley Hall was revalued. This was recognised in the Comprehensive Income and Expenditure Statement so no restatement is necessary.

### 51 TRUST FUNDS

The Authority acts as sole trustee for a small number of funds. In some cases the asset (cash) is held on the Council's balance sheet and shown as a sundry creditor. In other cases the fund has investments not recorded in the Council's accounts. The Avondale Library Trust is also a registered charity

2011/12	Income £'000	Expenditure £'000	On Balance Sheet		Off Balance Sheet	
			Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
McKnight Memorial Fund	0	0	5	5	0	0
William Cocker Charity	0	0	0	0	3	3
W B Parkes Charity	0	0	2	2	0	0
Avondale Library Trust	3	2	26	26	82	82
H T Parkes Baths Fund	0	0	0	0	2	2
<b>Total</b>	<b>3</b>	<b>2</b>	<b>33</b>	<b>33</b>	<b>87</b>	<b>87</b>

2010/11	Income £'000	Expenditure £'000	On Balance Sheet		Off Balance Sheet	
			Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
McKnight Memorial Fund	0	0	5	5	0	0
William Cocker Charity	0	0	0	0	3	3
W B Parkes Charity	0	0	2	2	0	0
Avondale Library Trust	7	0	23	23	84	84
H T Parkes Baths Fund	0	0	0	0	2	2
<b>Total</b>	<b>7</b>	<b>0</b>	<b>30</b>	<b>30</b>	<b>89</b>	<b>89</b>

**Collection Fund**

The Collection Fund (England) 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

2010/11 £'000		2011/12	
		£'000	£'000
	<b>Income</b>		
47,578	Income from Council Tax		48,099
6,482	Transfers from General Fund		
	Council Tax Benefits	6,604	
	Transitional Relief	(1)	
6,482			6,603
20,956	Income Collectable from Business Ratepayers		25,754
<b>75,016</b>			<b>80,456</b>
	<b>Expenditure</b>		
	Precepts and Demands		
39,017	Lancashire County Council	39,418	
6,917	Chorley Borough Council	6,976	
5,149	Lancashire Police Authority	5,202	
2,241	Lancashire Combined Fire Authority	2,264	
53,324			53,860
	Distribution of Collection Fund Surplus/(Deficit)		
(113)	Lancashire County Council	146	
(20)	Chorley Borough Council	26	
(15)	Lancashire Police Authority	19	
(6)	Combined Fire Authority	8	
(154)			199
0	Adjustment to previous years Community Charge		0
	Business rates		
20,826	Payment to National Pool	25,624	
130	Cost of Collection Allowance	130	
20,956			25,754
	Bad and doubtful debts/appeals		
97	Write offs	107	
315	Provisions	61	
412			168
<b>74,538</b>			<b>79,981</b>
478	Surplus/(deficit) for the year		475
0	Surplus/(deficit) at 1 April		0
(62)	Transfer to/from Collection Fund Adjustment Account		(61)
(416)	Net transfer to Major Precept Debtor		(414)
<b>0</b>	<b>Surplus/(deficit) at 31 March</b>		<b>0</b>

**ACCOUNTING FOR COUNCIL TAX**

The amount of Council Tax to be credited to the Comprehensive Income and Expenditure Statement for both billing authorities and major preceptors is their share of the accrued income. However, statute requires that the amount to be credited to the General Fund should be the authority's precept or demand for the year plus its share of the previous years Collection Fund surplus or deficit. The difference between this regulatory charge and the accrued income is taken to the Collection Fund Adjustment Account, as revealed in the Movement in Reserves Statement.

Since the collection of Council tax is an agency arrangement, debtor and creditor balances belong proportionately to the billing authority and the major preceptors. This results in a debtor/creditor position between the billing authority and each major preceptor.

**COUNCIL TAX DETAILS OF CHARGE**

For the purpose of calculating Council Tax residential properties are classified into eight valuation bands. Each valuation band is proportionate to the central Band D property. This enables calculation of the total tax base. The Council Tax Base for 2011/12 was calculated as follows:

Band	Dwellings	Total Equivalent Dwellings	Proportion of Band D Charge	Band D Equivalent
A (disabled)	19	17.50	5:9	9.70
A	14,328	11,873.00	6:9	7,915.30
B	10,259	9,080.00	7:9	7,062.20
C	8,643	7,827.25	8:9	6,957.60
D	5,924	5,461.75	9:9	5,461.80
E	4,204	3,942.25	11:9	4,818.30
F	1,709	1,617.00	13:9	2,335.70
G	744	701.00	15:9	1,168.30
H	62	43.00	18:9	86.00
<b>Total</b>	<b>45,892</b>	<b>40,562.75</b>		<b>35,814.90</b>
Less adjustments for anticipated changes to the base and losses on collection				<b>(249.10)</b>
Band D Equivalent Number of Properties				<b>35,565.80</b>

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year and dividing this by the council tax base. This results in a basic Band D charge (excluding Parish Precepts) of £1,505.37 for 2011/12 and £1,505.50 for 2010/11). The other valuation bands are proportionate to this.

**SIGNIFICANT PRECEPTORS**

The authorities who make a significant precept on the Collection Fund are:

	2010/11	2011/12
	£000	£000
Lancashire County Council	39,017	39,418
Lancashire Police Authority	5,149	5,202
Lancashire Combined Fire Authority	2,241	2,264

## **ACCOUNTING FOR BUSINESS RATES**

With effect from 2009/10 accounting arrangements for NNDR have reflected the fact that it is in substance an agency arrangement, the Council being the agent of the Government in the collection of the charge. Consequently:

1. NNDR income does not belong to the billing authority and is not included in it's I&E account.
2. NNDR debtor and creditor balances with taxpayers are not recognised in the authority's balance sheet.
3. Cash collected belongs to the Government and any amounts over or under paid are recognised in the balance sheet as a Government debtor or creditor.

## **NNDR DETAILS OF CHARGE**

Business Rates are organised on a national basis. In 2005/2006 the Government introduced a Small Business Rate Relief Scheme. This results in there being two multipliers – one for small businesses at 42.6p in 2011/12 and one for larger businesses at 43.3p. The Council is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into a Business Rates pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

The Business Rates income, after reliefs and provisions, was £25.7 million for 2011/12 (£20.9million for 2010/11).

The rateable value for the Council's area at the end of the financial year 2011/12 was £68.31million (£65.96 million in 2010/11).

# Annual governance report

Chorley BC

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

My audit of the Council's financial statements is substantially complete and as at 14 September I expect to issue an unqualified audit opinion by 30 September 2012.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and related only to disclosure issues.

The Council's accounts were prepared to a good standard and were supported by good quality working papers. Officers responded helpfully to my audit queries in a timely way.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Council has again achieved significant efficiency savings whilst delivering well against its performance targets. Good progress has been made in securing the required levels of savings for 2012/13 and identifying actions needed to deliver additional savings in 2013/14. In line with others, the Council faces considerable uncertainty over the next few years from the impact of economic conditions on the demand for the services it provides, centrally driven changes around welfare reform and NNDR changes.

In this context, the key challenge for the Council is to ensure the continued identification and delivery of significant financial savings whilst also meeting local needs for the services it provides. Its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## **I ask the Audit Committee to:**

- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Uncorrected errors

There are no uncorrected errors.

## Corrected errors

A number of amendments have been agreed to improve the accuracy, clarity and internal consistency of the disclosure notes within the financial statements. There are no items that warrant bringing to your attention. All errors identified during the course of the audit have been amended for. None of the amendments have affected the general fund balance

## Significant risks and my findings

I reported to you in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to account for all heritage assets due to the subjective nature and valuation basis associated with these assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I evaluated the management controls you have in place to recognise and value heritage assets. I also undertook detailed testing on a sample of heritage assets to confirm the Council has accounted for them in accordance with FRS 30 and the Code and the financial statements are fairly stated.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the subjective nature and valuation basis associated with these assets.</p>	<p>I have evaluated the instructions given to the Council's valuer against the CIPFA guidance and the valuers' qualifications and independence. I have tested a sample of assets to satisfy myself that the valuation and depreciation of property, plant and equipment accounted for by the Council and disclosed in the financial statements was in line with the requirements of IAS 16 and the Code. My testing has not identified any issues to bring to your attention.</p>
<p><b>Estimation of pension liability and asset</b></p> <p>The Council is required to reflect data relating to the</p>	<p>I have reviewed the design and implementation of management controls over establishing the estimate, including arrangements for instructing actuaries and controls over information provided to actuaries. I have used my own expert to enable me to</p>

Risk	Finding
<p>assets and liabilities as well as income and expenditure relating to its Pension Fund within its accounting statements.</p> <p>The data is based on information provided by Mercers, an independent firm of actuaries, employed by the County Council Fund and is based on the latest full valuation of the scheme as at 31 March 2010.</p> <p>Given the large values involved and the high degree of estimation and subjectivity this is deemed to be a significant risk.</p>	<p>evaluate the work of your actuary. I have agreed the estimate to the actuarial report. My testing has not identified any significant issues to bring to your attention.</p>

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have no matters I wish to report.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

I have no matters I wish to report.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 14 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 28 September 2012.

# Value for money

**I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<ul style="list-style-type: none"><li>■ Management and Officers understand the significant financial management challenges and risks facing the Council and are taking appropriate action to secure a stable financial position. Financial and operational risks are identified early and effective plans put in place to manage those risks.</li><li>■ The Council exceeded its target for efficiency saving of £1.1m for 2011/12 by almost £100k. The extra savings were generated from additional initiatives identified in year. Additional efficiency savings for 2012/13 have already been secured.</li><li>■ Medium-term financial planning and annual budgeting reflect the council's strategic objectives and priorities for the year, and over the longer term. The Council has reviewed its Medium Term Financial Strategy (MTFS) in light of the current economic climate. Its current MTFS covers the period up to 2014/15 and indicates that further savings of £1.2m are needed. Provisional plans are in place to meet the required</li></ul>

Criteria	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>savings target for 2013/14 and work is ongoing to determine how to meet required savings in future years.</p> <ul style="list-style-type: none"> <li>■ The Council operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members. General fund reserves have increased during 2011/12 slightly to £2.3m. The Council faces considerable uncertainty in the coming years relating to revision to the redistribution of NNDR, providing welfare services and how it is funded, and the funding of support services provided by Lancashire County Council through the Council’s facilities. Officers are alert to these challenges and will take action when the proposed changes are finalised. The level of general fund reserves will give the Council time to secure the required level of saving from the changes.</li> <li>■ The key challenge for the Council is to ensure the continued identification and delivery of significant financial savings whilst also meeting local needs for the services it provides. As noted in previous years, its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>■ The Council has strong leadership and is adopting a strategic approach to identifying cost reductions and challenging spending. It has reviewed its strategic priorities and the cost-effectiveness of its activities. It is taking a rational view of its priorities and of the short, medium and longer-term opportunities for savings.</li> <li>■ Overall performance on the key measures in the Corporate Strategy and key performance indicators for 2011/12 is strong, with 95% of the Corporate Strategy measures performing above target or within the 5% tolerance.</li> <li>■ In the areas where performance is below target, action plans are in place to achieve improvements. These include plans to increase the percentage of 16-18 year olds who are in education, employment or</li> </ul>



## Criteria

## Findings

training and to reduce the number of families in temporary accommodation..

- The Council continues to have good engagement with the local community, staff and external partners and uses this effectively to identify and consider options for addressing the specific challenges it is facing.
- The Council's arrangements for financial strategic planning are effective and it focuses resources through its budget setting programme. It uses benchmarking against similar councils and its in-house costing reviews to support planning and decision making. The Council has invested the savings secured through these reviews in its priority areas such as reducing crime and anti-social behaviour.
- During 2011/12 substantial efficiency savings were identified through the Transformation Strategy through contract renegotiation and service reviews. The following relate to efficiencies secured in 2011/12:
  - Revenues and Benefits restructure (£86,000)
  - Planning restructure (£56,000)
  - Planning fees and charges (£58,000)
  - Insurance and other procurement (£37,000)
  - Bengal Street depot relocation (£75,000)
  - Debt restructuring (£50,000)
  - Base budget review (£69,000)

Additional savings were also identified by agreeing changes to the waste collection contract of £302,000 that will be implemented in 12/13.

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# Fees

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**I reported my planned audit fee in the 2011/12 Audit Plan.**

I have completed my audit in line with the agreed fee.

# Appendix 1 – Draft independent auditor’s report

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## **Opinion on the Council financial statements**

I have audited the financial statements of Chorley Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Chorley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Chief Executive and auditor**

As explained more fully in the Statement of the Chief Executive’s Responsibilities, the Chief Executive 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 Council Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My 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 me to comply with the Auditing Practices 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 Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, I read all the

financial and non-financial information in the foreword by the Chief Executive to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

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

### **Opinion on other matters**

In my opinion, the information given in the foreword by the Chief Executive for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

### **Respective responsibilities of the Council and the auditor**

The Council 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council'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**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council 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 me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

### **Conclusion**

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

## Certificate

I certify that I have completed the audit of the accounts of Chorley Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Fiona Blatcher

Engagement Lead

Audit Commission  
2nd Floor, Aspinall House  
Aspinall Close  
Middlebrook  
Bolton  
BL6 6QQ  
September 2012

# Appendix 2 – Draft letter of management representation

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## **Chorley Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other insert relevant details directors of Chorley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other Council. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Chorley Borough Council

I confirm that the this letter has been discussed and agreed by the Governance Committee on 27 September 2012



Signed  
Name  
Position  
Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Council and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Governance Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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- any director/member or officer in their individual capacity; or
- any third party.



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