

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**AUDIT OF ACCOUNTS 2007/08  
MATTERS ARISING FROM THE AUDIT**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 The council's unaudited accounts were approved by the Audit Committee on 28 June 2008. This met the statutory requirement that they be approved by 30 June 2008.
- 1.2 The accounts have since been audited and the external auditors have set out their findings in a report. This committee now needs to consider the proposed amendments and approve the changes to the accounts that result from it. It is a requirement that this process concludes by 30 September 2008.
- 1.3 Several amendments are required to the accounts. However they do not substantially change the position previously reported in terms of the General Fund or balances available. The main effect is to increase revenue balances by £38k.
- 1.4 The council's external auditors expect to issue an unqualified opinion on the accounts shortly.

**2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit Regulations require the Council to publish a statement of accounts each financial year. These accounts are the formal statement of the Council's financial performance for the year and its financial position at the end of that period. A financial year runs from April to March.
- 2.2 These accounts have to be considered and approved by council or a committee by 30 June. They must then be audited and published within six months of the financial year-end or 30 September. These deadlines are government requirements.
- 2.3 The International Standard on Auditing 260 – 'The Auditor's Communication with Those Charged with Governance (ISA 260)' requires

auditors to report certain matters arising from the audit of the council's financial statements before giving an opinion on them.

2.4 The report from the Audit Commission is attached. It sets out the matters arising from the audit of the council's 2007/08 accounts. I am in agreement with its findings. Staff from the Audit Commission will present the report to cabinet. A copy of the restated accounts has also been circulated with this report.

2.5 The main findings of the report are:

- that an unqualified opinion on the council's accounts is expected.
- that the closedown process has worked, meeting the necessary statutory deadlines. Some improvements in the process have been suggested.
- a number of adjustments are recommended to the accounts.

2.6 The main changes resulting from the audit are as follows:-

- Revenue Balances have increased by £38k as a result of several small adjustments.
- A presentational change to the Income & Expenditure Account to comply with requirements.
- A prior year adjustment of £10.6m relating to the treatment of Capital Grants applied to finance capital.
- Various balance sheet adjustments relating to unapplied Capital Grants.
- Some additional notes to the accounts.

2.7 The committee needs to agree that the accounting policies set out in the accounts are appropriate.

2.8 International Standard on Auditing 580 'Management Representations' requires auditors to obtain written confirmations of appropriate representations from management before the audit report is issued.

The Annual Governance report includes a proposed letter of representation which the Committee is asked to approve and authorise the Chair and Service Director Finance to sign.

2.9 The annual governance statement has been updated to reflect additional work undertaken on Authorised Signatories. Lists have now been received from all services. Testing has shown that all spend was appropriate.

### **3. OPTIONS FOR CONSIDERATION**

3.1 The Audit Committee are invited to approve the amended accounts as attached.

**4. ANALYSIS OF OPTIONS**

4.1 Statutorily the accounts must be approved by the 30th September. The committee should ask sufficient questions to gain assurance that the accounts present fairly the financial position of the council.

**5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1 The accounts present the council's financial position as at 31 March 2008. There are no other resource implications.

**6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 The Accounts and Audit Regulations 2003 (England) require that each authority prepare and approve its accounts by 30 June and publish them by 30 September. The format and content of the accounts is also governed by the Statement of Recommended Practice issued by CIPFA.

**7. OUTCOMES OF CONSULTATION**

7.1 None

**8. RECOMMENDATIONS**

8.1 That the Statement of Accounts for 2007/8 as amended in line with the Auditor's recommendation be received and considered for approval.

8.2 That the accounting policies contained within the accounts be approved.

8.3 The Audit Committee endorse the signing of the Letter of Representation by the Chair and Service Director Finance.

SERVICE DIRECTOR FINANCE

Pittwood House  
Ashby Road  
SCUNTHORPE  
North Lincolnshire  
DN16 1AB  
Author: Mark Kitching  
Date: 22/09/08

**Background Papers used in the preparation of this report**

# Annual Governance Report

North Lincolnshire Council

Audit 2007/08

September 2008



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### Purpose

- 1 This report summarises the findings from our 2007/08 audit, which are substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

### Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements drafted at Appendix 2.
- 4 The audit identified a number of issues which fell in the following areas.
  - Extra disclosures to fully comply with Code of Practice on Local Authority Accounting in the United Kingdom (SORP).
  - Changes to balances on the income and expenditure account and balance sheet.
  - Control issues over the annual accounts process and ledger.

### Value for Money

- 5 We plan to issue an unqualified conclusion also drafted at Appendix 2.

### Next Steps

- 6 We ask the Audit Committee to:
  - consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
  - agree to adjust the financial statements as set out in our recommendations;
  - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 7 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As members you have final responsibility for the financial statements and the Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
  - our views about your accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
New requirements of Accounting standards such as disclosing and measuring financial instruments part of assets and liabilities	We found areas of non-compliance a number of revised notes have been added to the draft statements.
Accounting, funding and governance issues surrounding the transfer of Housing stock to the private sector.	We found no significant Issues.
Control failures such as those relating to authorised signatory lists for creditors and payroll.	We were able to conclude that there was minimal impact on your financial statements having completed additional substantive testing in conjunction with internal audit.

### Draft representation letter

- 11** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
  - you are satisfied that all related parties requiring disclosure in the financial statements have been, and that the disclosure is adequate;
  - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
  - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 12** I request specific representations from you in respect of the valuation of infrastructure assets mainly roads and bridges valued at £40.9 million and recorded in your accounts as at March 2008. Following local government reorganisation in 1996 assets to the value £17.4 million were transferred to the new North Lincolnshire Council but this total was not supported by a detailed schedule. At 31 March the value recorded for the transferred assets was approximately £14 million. Specific assurances that there is a continuing long term maintenance programme in place for all of the Council's road will help confirm that this value is materially correct.
- 13** We have also recommended minor changes to the wording of Note 23 explaining the particular circumstances.
- 14** Appendix 1 contains the draft of the letter of representation we seek from you.

**Accounting policies and financial reporting**

- 15 We consider the qualitative aspects of your financial reporting such as:
- appropriateness of accounting policies and accounting estimates and judgements;
  - compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (SORP); and
  - apparent misstatements in other information published with the financial statements.
- 16 The initial draft of the accounts did not include the full disclosures required by the SORP the document which specifies the correct accounting treatment and disclosure in Local Government Accounts. Table 2 below summarised the amendments have been made to the revised accounts,

**Table 2 Revised disclosures to ensure compliance with SORP**

<b>Notes with revised disclosures</b>
<p><b>Income and Expenditure account.</b></p> <p>The classification of Service Expenditure was not in accordance with the latest guidance impacting on most of the service analysis. The most significant change was removing Education and Social Services costs and splitting between Adult (£29.9million) and Children's services (£32.1 million).</p>
<p><b>Note 24 Leases</b></p> <p>Income received by the council for buildings leased to third parties, mainly industrial units.</p>
<p><b>Note 33 Humberside Airport</b></p> <p>Disclosure of the net assets of the airport.</p>
<p><b>Note 44 Related Party Transactions</b></p> <p>Disclosure of senior officers and members sitting on the boards of significant partner organisation of the council.</p>
<p><b>Note 65 Financial Instrument balances</b></p> <ul style="list-style-type: none"> <li>• Analysis of assets and liabilities in the balance sheet classified as Financial instruments investments, borrowings and trade debtors and creditors.</li> <li>• Interest income, expenditure and impairment for bad debts.</li> <li>• The level of Risk associated with Assets and Liabilities.</li> </ul>

### Errors in the financial statements

17 We identified errors in the financial statements (other than those of a trivial nature) and reported these to officers, the following amendments have been made.

**Table 3**

Heading	Draft Accounts £000	Revised Accounts £000	Explanation
<b>Income and Expenditure</b>			
Children and Educations Services	34,660	32,077	Grant received for Education Capital where no fixed asset is created
HRA Service Net cost HRA Surplus Appropriation	1,733 (1,510)	223 0	HRA balance representing residual HRA reserve shown in income and expenditure is a reserve movement part of note 19
<b>Balance Sheet</b>			
Investments	36,784	37,479	Investments now should include accrued interest in accordance with the new financial instruments rules.
Debtors	24,385	23,428	There were a number of grant accounts not reconciled and incorrectly stated.
Creditors	(32,292)	(31,194)	There were a number of grant accounts not reconciled.
Government Grants Deferred	(38,757)	(46,806)	Amendment to prior years increasing the balance by £10.6million capital grants received. There was also an in year reduction of £2.6 for Education capital grant received spend but not resulting in the creation of a fixed asset.

Heading	Draft Accounts £000	Revised Accounts £000	Explanation
Capital Adjustments Accounts	257,145	249,890	See Government grants deferred amendment.
General Fund Balance	6,630	6,668	Impact of adjustment to creditors minor overstatement.

### The audit report

18 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

### Material weaknesses in internal control

19 We have identified weaknesses in the design or operation of an internal control that could result in a material error in your financial statements not previously reported to you. As a consequence of these weaknesses we have carried out some additional audit procedures to ensure we have sufficient assurance. These weaknesses are set out in Table 4.

**Table 4 Weaknesses in internal control**

Issue or risk	Finding
Closedown Exercise	The audit has identified several errors and omissions discussed earlier in the report. Formalisation of checking procedures, targeted to risk areas such as SORP compliance and balance sheet control accounts would improve the control.
General Ledger - Journal Authorisation	We found that some journals are not currently authorised in accordance with current policies although no inappropriate transfers were identified in our testing. Policies need to be amended to better balance the risk of incorrect transfers, the need for authorisation for inexperienced or junior staff and a lower level of supervision needed for experienced or senior staff.

## Financial statements and Annual Governance Statement

Issue or risk	Finding
General Ledger - reconciliations	25 Capital Grant Balances to the value of £8.5 million owing on the Balance Sheet were not properly reconciled. Whilst the impact on Income and Expenditure is minimal, this has led to a reduction of £1.4 million in creditors and changes to other balances, notably debtors and government grant deferred on the balance sheet. There is no formal reconciliation of these accounts or sign off by the respective group accountants.

### Recommendations

- R1** The Council should develop formal checking procedures as part of the closedown process, targeted to risk areas such as SORP compliance and balance sheet control accounts.
- R2** Journal authorisation policies should be set which better balance the risk of incorrect transfers, the need for authorisation for inexperienced or junior staff and a lower level of supervision needed for experienced or senior staff.
- R3** Formal reconciliation need to be introduced for all significant year end balance sheet codes including capital grant and revenue accrual codes. Responsible staff should certify that they are satisfied that the codes are correct.

- 20** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Other matters

- 21** There are no other matters that auditing standards require me to report to you.

# Value for money

- 22** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 23** We have assessed the arrangements of the Council as at least adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

# Formal audit powers

24 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in your accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice would require you to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure;
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

25 We have not and do not propose to exercise these powers.

# Independence

- 26 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 29 We have identified the following relationship[s] that might affect objectivity and independence and have put appropriate safeguards in place.

**Table 5 Relationships and safeguards**

Relationship	Safeguard
The Audit Team Leader, Sherie Newbould, is a former employee of the Council. And worked in the Education Department.	Ensure that no audit work is carried out on the work of former colleagues.

## Audit fees

- 30 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

**Table 6 Audit fees**

	Planned 2007/08 £	Actual 2007/08 £
<b>Audit</b>		
Risk assessment liaison and reporting	31,160	31,160
Financial Statements	84,270	94,539
Use of resources	32,925	32,925
Whole of government accounts	2,840	2,840

## Independence

	<b>Planned 2007/08</b>	<b>Actual 2007/08</b>
	<b>£</b>	<b>£</b>
National Fraud initiative	1,050	1,050
<b>Total audit fee</b>	<b>152,245</b>	<b>162,514</b>
Relationship Management	22,124	22,124
Corporate Assessment	103,750	103,750
<b>Total Inspection Fee</b>	<b>125,874</b>	<b>125,874</b>
<b>Total Audit and Inspection Fee</b>	<b>278,119</b>	<b>288,388</b>

31 The analysis above shows that additional work over and above what we planned was needed to complete the accounts audit because:

- our initial risk assessment was amended after control weaknesses were identified in systems testing. The practical implication was that we needed to check more transactions in our sample testing to comply with our audit approach; and
- there have been significant numbers of unexpected errors and uncertainties

### Our arrangements to ensure independence and objectivity

32 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 7.

**Table 7 Arrangements to ensure independence and objectivity**

<b>Area</b>	<b>Arrangements</b>
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul>

Area	Arrangements
	<p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>● the general requirement to carry out work independently and objectively;</li> <li>● safeguarding against potential conflicts of interest;</li> <li>● acceptance of additional (non-audit) work;</li> <li>● rotation of key staff;</li> <li>● other links with audited bodies;</li> <li>● secondments;</li> <li>● membership of audited bodies;</li> <li>● employment by audited bodies;</li> <li>● political activity; and</li> <li>● gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

# Appendix 1 – Draft Letter of Representation

To Mark Kirkham  
District Auditor  
Audit Commission  
Room 205  
Crosskill House  
Mill Lane  
Beverley  
HU17 9JB

Dear Mark

North Lincolnshire Council - 2007/08 Letter of Representation.

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers of North Lincolnshire Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

## **Compliance with statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and the financial performance of the Council and for making accurate representations to you.

## **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

## **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

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

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## Appendix 1 – Draft Letter of Representation

### Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### Post balance sheet events

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### Specific Representations

Since 1996 the Council has agreed and delivered annual maintenance programmes for the assets classified as infrastructure in the accounts such that no impairment in value is necessary. This includes the assets to the value of £17.6 million transferred to the Council in 1996 from the Humberside County Council and now valued at approximately £14 million.

Signed

Signed

Service Director Finance  
North Lincolnshire Council  
Date 30 September 2008

Chair of the Audit Committee  
North Lincolnshire Council  
Date 30 September 2008

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# Appendix 2 – Draft Opinion

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## Independent auditor's report to the Members of North Lincolnshire Council

### Opinion on the financial statements

I have audited the Authority accounting statements and related notes of North Lincolnshire Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, and the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of North Lincolnshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### Respective responsibilities of the Responsible Financial Officer and auditor

The Service Director Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

## Appendix 2 – Draft Opinion

I read other information published with the Authority accounting statements, and consider whether it is consistent with the Authority audited accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

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### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

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### Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

#### Authority's responsibilities

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

### **Auditor's responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for (principal local authorities/other local government bodies). I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, North Lincolnshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### **Best Value Performance Plan**

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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

Mark Kirkham

District Auditor

Room 205  
Crosskill House  
Mill Lane  
Beverley  
HU17 9JB  
30 September 2008

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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# North Lincolnshire Council Statement of Accounts 2007/08



22/09/2008

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Cover picture:-

Top Left	Watersedge Visitors Centre, Barton
Top Right	The new Brigg Primary School
Bottom Left	St. Johns Church, Scunthorpe
Bottom Right	Thornton Curtis Abbey

# Foreword

## Purpose

The purpose of this foreword is to provide an easy-to-understand guide to the Statement of Accounts. For the non-specialist this is the best starting point to interpret the document.

An annual statement of accounts is a legal requirement for all councils. The form in which the accounts are presented is also standard for all councils.

It provides a regular report on how the council has spent public money and on the state of its current finances. As such it is intended to provide accountability to electors, local taxpayers and service users, the members of the authority and any other interested parties.

The Foreword does three things:

-  It explains the main features of the council's financial performance in 2007/08.
-  It explains how the statement of accounts is structured and the significance of each part.
-  It gives a range of other details in respect of the council's financial plans and activities.

## Financial Performance 2007/08

The main features of the council's financial performance were presented to cabinet on 21 May 2008. These are explained in the following paragraphs.

### General Fund Revenue 2007/08

The council keeps a General Fund to account for the day-to-day spending on most council services. Within the Fund each service has its own budget. The table shows the position for each service.

	Approved Budget	Actual	Difference
	£000	£000	£000
Adult Social Care	23,641	23,851	210
Asset Management & Culture	7,915	8,377	462
Capital Financing	9,534	8,520	(1,014)
Children, Strategy & Partnership	12,873	12,886	13
Community, Planning & Resources	5,601	5,670	69
Corporate Budgets	7,458	7,580	122
Finance	4,110	4,022	(88)
Highways and Planning	7,134	7,104	(30)
Human Resources	1,835	1,733	(102)
Learning, Schools & Communities	9,940	9,956	16
Legal and Democratic Services	2,417	2,432	15
Neighbourhood & Environmental	14,413	14,388	(25)
Large Scale Voluntary Transfer - Housing	1,500	1,500	0
	<b>108,371</b>	<b>108,019</b>	<b>(352)</b>
Adult Service Pooled Budgets	5,819	5,646	(173)
Building Control	8	28	20
Property Trading Account	(2,099)	(2,079)	20
Continuing Care Refund from PCT	0	(572)	(572)
<b>Total Cost</b>	<b>112,099</b>	<b>111,042</b>	<b>(1,057)</b>
General fund reserves	(236)	38	274
Revenue account support reserve	(1,180)	(955)	225
Insurance reserve	(250)	0	250
Large Scale Voluntary Transfer Reserve	(1,500)	(1,511)	(11)
Property Trading Account	0	(20)	(20)
Building Control Reserve	(8)	(28)	(20)
Barton Boathouse Reserve	0	(14)	(14)
Earmarked DSG reserves surplus 07-08	0	19	19
2006/07 carry Forwards	(167)	(167)	0
2007/08 Carry Forwards	0	354	354
Total Cost after transfer to reserves	108,758	108,758	0
Education– Schools	90,210	89,846	(364)
earmarked DSG reserves supporting schools	(685)	(685)	0
Dedicated Schools Grant	(89,525)	(89,525)	0
schools reserves	0	364	364
Schools net funding	0	0	0
<b>Total General Fund</b>	<b>108,758</b>	<b>108,758</b>	<b>0</b>
<b>Financed by</b>			
Formula grant	50,599	50,599	0
Council Tax	58,159	58,159	0
<b>Total Financing</b>	<b>108,758</b>	<b>108,758</b>	<b>0</b>

Overall there was a small under spend of £352k on services. The main differences were:

- ▲ Uninsurable costs of £340k relating to the June 2007 storms were charged to Asset Management and Culture.
- ▲ The council earned £500k more interest on its investments through achieving higher interest rates than anticipated.
- ▲ The council used £304k less revenue to pay for capital spend than originally expected.
- ▲ Staff savings were made in the Human Resources service.
- ▲ The Corporate Budgets include the costs of a Coroner's enquiry.

In addition there is a continuing care refund from the Primary Care Trust (PCT) of £0.6m.

Four other areas of general fund activity are ring-fenced. These are shown separately below:

- ▲ School budgets and related support services, which are funded from Dedicated Schools Grant and which can only be used for this purpose
- ▲ Adult Services pooled budgets
- ▲ A separate Building Control account which is required by law
- ▲ The Property Trading account, which manages the council's commercial property portfolio

Each delivered a surplus or deficit which is reserved to the ring-fenced activity.

Following Government approval to close its Housing Revenue Account (HRA) on the 31<sup>st</sup> March 2008, the Council was able to transfer the £1.51m balance on its HRA to its General Fund. As a result General Fund balances have increased by this amount. This means general balances stand at £6.67m. My judgement is that, taking account of the council's risk management strategy and the assessment of risks made for budget setting in February 2008, balances of this order are just above the minimum level sufficient for the council's needs.

For the first time formula grant from central government has been allocated for three years not one: for 2008/09, 2009/10 and 2010/11. The first year's figures are firm; years two and three are indicative. This has given authorities the ability to plan for the medium term with greater certainty. North Lincolnshire Council has set three year budgets on this basis. The 2008/09 budget is firm and the net budget is £128.4m, for 2009/10 and 2010/11 indicative net budgets of £138.7m and £144.6m have been set. Council tax increased by 3.9% just below the average for all councils of 4.0% for 2008/09, and the financial plan for 2009/10 and 2010/11 is also based on a 3.9% increase.

### Housing Revenue Account

This account has delivered a surplus in 2007/08. A net deficit of £164k was offset by the use of £260k from an earmarked reserve set aside to meet HRA closure costs. This leaves £350k in the reserve to meet the final costs of closure, including the closure of the B Line operation. This means an increase in balances by £96k to £1,510k. On the 31<sup>st</sup> March 2008 this balance was transferred to the General Fund.

	Approved Budget	Actual	Difference
	£000	£000	£000
Net surplus(-)deficit(+)	610	164	(446)
Earmarked Reserve	<u>(610)</u>	<u>(260)</u>	<u>350</u>
Total	0	(96)	(96)
Balance brought forward		(1,414)	(1,414)
<b>Balance at year end</b>	<b>0</b>	<b>(1,510)</b>	<b>(1,510)</b>

## Capital Programme 2007/08

There is a net under spend of £3.6m on a programme of £34.7m. This is a combination of under and over spends, including rephased spending between years.

Service	Approved budget £000's	Actual £000's	Difference £000's
Adult Social Care	117	178	61
Asset Management & Culture	5,908	6,183	275
Children & Young Peoples Service			
-Children, Strategy & Partnership	343	419	76
-Learning , Schools & Communities	6,711	6,493	(218)
Community Planning & Resource	69	71	2
Corporate Budgets	368	335	(33)
Highways & Planning	8,336	8,087	(249)
Neighbourhood & Environment	6,285	5,942	(343)
Local Area Agreement	1,195	1,118	(77)
<b>Service Total</b>	<b>29,332</b>	<b>28,826</b>	<b>(506)</b>
Sub Regional Housing Project	3,790	652	(3,138)
Housing	0	(6)	(6)
North Lincolnshire Homes Set-up Costs	1,356	1,356	0
Fleet Vehicle Leasing	209	209	0
<b>Total</b>	<b>34,687</b>	<b>31,037</b>	<b>(3,650)</b>

The main variance is the Sub Regional Housing Project, for which the Council is the accountable body. Spending is by North East Lincolnshire, Hull, East Riding of Yorkshire in addition to North Lincolnshire.

## Capital Investment

The council is planning to invest in a wide range of schemes aimed at improving the area. These include:

- ▲ Scunthorpe's Baths Hall redevelopment into a new entertainment venue
- ▲ Completion of the work to replace the Baysgarth Leisure Centre in Barton
- ▲ A new Sports Academy, including improvements to Central Park in Scunthorpe
- ▲ Spending over £24.3m on improved road infrastructure
- ▲ Spending £88.8m on the Building Schools for the Future (BSF) scheme, improving Scunthorpe secondary schools.

## **Capital Financing - Borrowing**

The councils' policy is to borrow to meet some of the costs of capital investment, with the option to borrow short-term if necessary. During 2007/08 the Council has repaid £5.277m to the Public Works Loan Board (PWLB). To fund capital programme requirements the Council borrowed £13m from the PWLB in December 2007 (£6.5m repayable at maturity on 15<sup>th</sup> September 2033 at 4.53% and £6.5m repayable at maturity on 15<sup>th</sup> September 2030 at 4.57%). Maturity dates were selected to achieve a spread in the Council's debt maturity profile. This takes outstanding debt to £121.664m at 31<sup>st</sup> March 2008.

The Council's borrowing requirement for 2008/09 to finance capital expenditure is estimated to be £16.165m, and £17.067m and £9.846m in the two subsequent years. This takes total debt to £160m at 31<sup>st</sup> March 2011. This is considered to be an affordable level of debt under the Prudential Code.

## **Other Capital Financing**

Borrowing is only part of the funding for the future capital programme which will also draw on capital receipts, grants, external contributions, leasing, and revenue.

Capital Receipts – Projections have been made of capital receipts that the council could achieve from the sale of land and property. These are potentially large sums, but are not without risk. Market and general economic conditions, planning requirements and a change in council needs can all affect the value or viability of asset sales. There are sometimes costs to be incurred to make an asset sale feasible. Subject to these reservations a target of £26.7m capital receipts is projected over the current and next two years.

Grant & contributions- External funding has been factored into resource planning where this is confirmed or can be estimated.

Leasing – Historically the council has used leasing to finance the acquisition of vehicles and equipment. Changes to accounting for leases has meant they are now less attractive as a method of financing and so most vehicles are now purchased and financed from capital receipts.

Revenue – The council has a policy to make as much use of other forms of capital financing as possible and so very little of the capital programme is financed from revenue.

## **Asset Valuations**

Each year the council's valuers revalue part of its asset portfolio. As a result of this exercise council assets increased in value by £16m to £428.9m. The majority of this figure related to schools. It is the opinion of our valuers, that the widely publicised decrease in property prices nationally, has not yet affected this area as severely as it has other neighbouring areas.

## **Pensions**

The council's liability relating to the East Riding Pensions Fund has reduced significantly in 2007/08. It now stands at £104.8m, down from £145.0m in 2006/07. This liability has been taken into account in the latest Actuarial review of the scheme and the employer's contribution rate has been set accordingly. The council became liable to pay £2.5m in respect of pensions for staff transferred to North Lincolnshire Homes on the 26<sup>th</sup> February 2007. In 2007/08, £1.5m of this liability was paid to the pensions fund. The remaining £1m liability will be repaid by higher contributions in future years.

## **The Structure of the Statement of Accounts**

The accounts which follow are prescribed by the Statement of Recommended Practice (SORP). It determines the appropriate principles and practices to be followed when preparing a set of accounts. It also specifies how the information should be presented.

The main parts are:

- ▲ The foreword
- ▲ An explanation of the accounting policies used
- ▲ A statement of responsibilities for the accounts
- ▲ The accounting statements
- ▲ Notes which give more explanation of figures in the statements

In the following, the purpose of each section of the accounts is explained and comments are included on each of the statements.

### **Accounting Policies**

This section explains how the figures have been compiled. It provides a basis for judging that the Statement 'presents fairly' the council's financial position and performance.

### **Accounting Policy Changes**

In 2007/08 the council adopted a new capitalisation policy. This document enables a more robust approach to be taken to the correct categorisation of spending.

Other changes to policies have been made in line with the latest Statement of Recommended Practice (SORP). They include:

- ▲ The treatment of impairment of fixed assets (A definition of impairment is given in the glossary at the end of this document). This has resulted in an additional £11.4m of expenditure being recognised in the Income and Expenditure Account.
- ▲ The outstanding value of loans now has to include any interest due, but not paid at the year end.
- ▲ Premiums and discounts on the early repayment of loans now have to be charged to revenue in the year of the repayment. Some older premiums and discounts previously deferred and recorded on the balance sheet have been netted off the loan and will be charged to revenue over the life of the replacement loan.

### **Statement of Responsibilities**

This makes clear who is responsible for what:

- ▲ The council must make sure it has proper arrangements for managing its financial affairs; to deliver value for money and safeguard its assets; and must approve the accounts.
- ▲ It discharges these responsibilities by appointing a Chief Financial Officer (the Service Director Finance) to keep proper accounting records, to follow proper accounting practice and to prepare the accounts.

In addition there is a Governance Statement signed by the Chief Executive and the Leader of the council. This gives assurance that the organisation has proper systems of governance in place. After the accounts are approved they are audited by independent auditors to give the reader further assurance. The final version of the accounts will include a statement from the auditors on the fairness of the accounts.

### **The Accounting Statements**

These are the heart of the document. The form of most of these statements is basically unchanged from 2006/07. The process of aligning the accounts of public bodies with international standards for companies is on-going. Further changes will take place over the next few years.

### **Income and Expenditure Account**

Just as the profit and loss statement is a measure of operating performance for companies, so the income and expenditure account is intended to be a measure of the performance of the council. For

a council, that performance does not mean profit or loss but whether it has contained its spending within the resources allocated for the year; and whether there is a surplus or deficit at the year end. The income and expenditure account, however, gives an incomplete answer to this question and the Statement of Movement on the General Fund Balance is therefore required to complete the picture. In summary, the income and expenditure account shows the cost of all council activities in the year and how they have been paid for from grant, council tax and other income. The presentation is different to that used for cabinet (see the section Financial Performance 2007/08 on page 3), which reports spending according to the council's own management and service structure.

In the Income and Expenditure Account the *net cost of services* includes

- ▲ The Housing Revenue Account as well as General Fund services
- ▲ A charge for the use each service makes of council assets (depreciation)
- ▲ An adjustment for pension costs, and
- ▲ Services are grouped in standard categories (e.g. social services are shown as one figure; costs of support services like HR and IT are shared between 'front-line' services and so do not appear)

More adjustments then follow to derive *net operating expenditure*

- ▲ Parish precepts are included as council spending (but not fire and police)
- ▲ Trading undertakings and other levies are shown separately from service spending
- ▲ Some adjustments are made to reverse pension and capital costs in the first part of the statement and to add other capital items

### **Statement of Movement on the General Fund Balance**

This statement explains how the performance shown in the income and expenditure account affects the General Fund balance. The statement derives the surplus or deficit on general fund which the council must use for budget setting. The general fund surplus tells the council what funds it has in reserve.

Some of the items charged to an Income and Expenditure account are different to those charged by law to a general fund. The main changes required are:

Take out

- ▲ Items defined as revenue by the SORP but capital by statute
- ▲ The loss or gain on the sale of fixed assets

Replace

- ▲ Depreciation with the statutory provision for the repayment of debt
- ▲ Pension costs calculated by the SORP with the calculation required by pension scheme calculations

Add in

- ▲ Transfers to and from reserves

The result is to show how far general balances have increased or decreased in the year (an increase of £1,912k); and how much of this is ring-fenced to schools (£364k) and how much is available for general use (£1,548k). This position is important for judging the council's performance and financial stability: it accords with the position reported to cabinet.

### **Statement of Total Recognised Gains and Losses (STRGL)**

The income and expenditure account shows gains (income) or losses (expenditure) as a result of the council's operational activity during 2007/08. It shows an operating deficit for the year. The STRGL takes a wider view and presents the total movement on the balance sheet between the start and the end of the year.

It therefore adds:

- ▲ The operating deficit for the year (£11.6m from the income and expenditure account which compares to £265.6m deficit in 2006/07. The large variance is due to the housing transfer which took place in 2006/07)
- ▲ An increase in council assets following revaluation (£16.3m)
- ▲ A reduction in the estimated pension fund deficit, because the actuary has revised down his forecast of the cost (net present value) of future liabilities (£34.5m, compared to a reduction of £28.1m in 2006/07)
- ▲ Other transactions which have not been put through the income and expenditure account. (£0.2m).

The overall movement on the balance sheet is an increase in net assets of £39.4m.

### **The Balance Sheet**

This shows the council's financial position at the year end. It shows the value of its assets (buildings, investments, cash); and the value of its liabilities (what it owes, such as long-term debt or payments due to creditors). Generally the value of an organisation's assets should be greater than its liabilities. The difference is equivalent to the total of its reserves.

Some of the key changes between opening and closing balances are:

- ▲ Fixed assets. An increase in the value of operational assets of £11.4m
- ▲ Current Assets. Surplus funds invested reduced from £40.4m to £37.5m, outstanding payments due from debtors and cash balances increased (these surplus funds are short-term and are generally committed)
- ▲ Long-term Liabilities. Long-term borrowing increased to £118.8m as the amount of debt repaid was less than new borrowing. The pension liability also fell to £104.8m as the actuary revised his forecast of the pension fund deficit.
- ▲ Reserves. In total this is the difference between council assets and liabilities, the 'net worth' of the organisation. Each has a particular purpose: the Restatement Reserve measures any revaluation of council assets since their acquisition; the pension reserve measures the deficit in future funding; other reserves are set aside for particular purposes (see note 38 to the accounts).

### **The Cashflow Statement**

This statement is a summary of all the different kinds of cashflow to and from the council during the period. For example, it includes payments to employees, the purchase of goods and services and spending on the capital programme; and income from all sources including council tax, grants, income from the sale of goods and services and from rents on industrial properties. Ultimately, it explains the change in the cash balance on the balance sheet.

Cashflow is an important measure of the health of a business. As a tax-raising body with more certainty of income the council is less likely to get into cashflow difficulties. The statement confirms what the balance sheet shows: that the council's cash and short-term investments (liquid resources) were in a healthy position at 31 March 2008.

### **The Housing Revenue Account**

There is a legal requirement to show separately income and expenditure incurred on running the council housing stock. The figures are included in the Income and Expenditure Account for the council as a whole, but are also shown separately here. The account generated a surplus of £96k in 2007/08, giving a carry forward balance of £1,510k. Following approval to close the HRA on 31<sup>st</sup> March 2008, from the Secretary of State, this balance has been transferred to the General Fund.

### **The Collection Fund**

As a billing authority, the council is responsible for collecting council tax and business rates in its area. This is on top of its responsibility to provide local services and a separate statement is required. The statement shows the amount in business rates collected and paid over to the government and the amount in council tax collected and paid over to precepting bodies (Police, Fire and parishes) and to itself.

The account has generated a surplus in 2007/08 of £297k, giving a balance of £717k to be carried forward. This surplus is shared with the major precepting bodies - police and fire authorities - and a proportion has been applied to reduce the council tax demand for 2008/09.

### **Conclusion**

2007/08 has been a challenging year for the council and its finances. It has faced considerable financial pressures, in common with the whole of the public sector, but the summer floods caused significant suffering in the area and seriously disrupted the council's operations. Against this background the council has been judged by the Audit Commission as 'four star, improving adequately'. It has also judged that our use of resources is good and improving, being above minimum standards (score 3 out of 4) on all measures. This reflects the council's emphasis on the search for value for money and tight financial controls.

The year's financial results show the council is in good financial health. Service spending has been contained within the approved total overall. However the level of general fund balances remains only just above the minimum amount appropriate for the assessed risks which the council faces, so good financial monitoring and control will be necessary. This task falls to members and staff across the council, who I am sure, will continue to carry out this task as effectively in 2008/09 as in 2007/08.

Mike Wedgewood  
Service Director Finance

# Statement of Accounting Policies

## 1. General Principles

The accounts have been drawn up in accordance with the 2005 CIPFA Code of Practice on Local Authority Accounting in Great Britain. This has been approved as a statement of recommended practice (SORP). The Code specifies the principles and practices required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of the local authority.

## 2. Accruals of Income & Expenditure

In respect of both capital and revenue transactions, the Council operates on the normal accruals concept of income and expenditure, thus all known sums, above the Council's de minimis threshold of £1,000, due to and from the Council at 31<sup>st</sup> March each year are included in the year end accounts.

### Customer and Client Receipts

Customer and client receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate.

### Employee Costs

The full cost of employees is charged to the accounts of the period within which the employees worked. Accruals are made for wages, expenses and allowances earned but unpaid at the year-end.

### Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates.

### Supplies and Services

The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Accruals are made for all material sums unpaid at the year-end for goods or services received or work completed.

## 3. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax. Where the council has received grant to meet the cost of the deferred charge, that grant, although capital in nature is treated as a revenue grant.

#### 4. Fixed Assets and Depreciation

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

**Measurement:** assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

-  Land and Buildings are valued on the basis of existing use value, unless they are of a specialist nature in which case they are valued on a depreciated replacement cost basis.
-  Infrastructure assets such as highways are valued at historical cost less depreciation where appropriate.
-  Community assets such as parks are recorded at historical cost or where this is not available at nominal or insurance value.
-  Vehicles, Plant and Equipment are valued at cost less depreciation as a proxy for current value for existing use.
-  Non-operational assets are valued at the lower of the net current replacement cost or net realisable value. In the case of investment properties this is open market value.

All valuations are subject to review as part of a five-year rolling revaluation programme, carried out by an in-house team in accordance with RICS standards. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. The receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance. The costs incurred in the administration of the sale of assets are deducted from the capital receipts.

**Depreciation:** depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

The calculation uses the straight-line method based on the following expected useful lives:

▲ Operational Buildings	1 to 53 Years
▲ Schools	7 to 50 Years
▲ Plant and Machinery	1 to 15 Years
▲ Vehicles	7 Years
▲ Infrastructure	5 to 50 Years.

The remaining useful life of these assets is reviewed annually.

No depreciation is provided on land, community assets, non-operational investment property assets and assets in the course of construction.

No depreciation is provided on any asset in the year of acquisition.

**Grants and contributions:** where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them. If the asset will never be depreciated then there is no justification to defer the grant. Therefore the grant is amortised to revenue in year.

## 5. Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- ▲ depreciation attributable to the assets used by the relevant service
- ▲ impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- ▲ amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by a minimum revenue provision (MRP) in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## 6. Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

## 7. Leases

### Finance Leases

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

-  a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
-  a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Currently the council has no finance leases.

### Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## 8. Overheads

Support Service costs are fully charged out to services provided by the Council, to Council Management and to Capital Schemes. These costs have been allocated using appropriate cost drivers.

## 9. Pension Costs

Employees of the council are members of two separate pension schemes:

The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

The Local Government Pensions Scheme, administered by the East Riding of Yorkshire Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees of the council. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

### The Local Government Pension Scheme

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

-  The liabilities of the East Riding of Yorkshire pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in

relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 6.9%.

▲ The assets of the East Riding of Yorkshire pension fund attributable to the council are included in the balance sheet at their fair value:

- ▲ quoted securities – mid-market value
- ▲ unquoted securities – professional estimate
- ▲ unitised securities – average of the bid and offer rates
- ▲ property – market value.

The change in the net pensions liability is analysed into seven components:

- ▲ current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- ▲ past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and 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 – debited to Net Operating Expenditure in the Income and Expenditure Account
- ▲ expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- ▲ gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- ▲ actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- ▲ contributions paid to the East Riding of Yorkshire pension fund –shown in the pensions notes and included in the cashflow.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

### **Discretionary Benefits**

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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.

The Annual Report and Accounts of the East Riding Pension Fund can be obtained from:

East Riding Pension Fund  
Pensions Section  
PO Box 118  
Council Offices  
Church Street  
GOOLE  
DN14 5YU

Or visit their website <http://www.eastriding.gov.uk> and select pensions from the A-Z of services.

**10. Provisions**

Provisions have been made for any liabilities or losses, which are likely to be incurred, or certain to be incurred, but uncertain to the amounts or the dates on which they will arise. Provisions are charged to the appropriate Revenue account and when expenditure is incurred it is charged direct to the provision.

Provisions for Insurance Liabilities are made on the basis of the Council's Loss Adjuster's estimates.

Provisions have been made for doubtful debts and known uncollectable debts have been written off in full to the relevant Revenue account.

**11. Contingencies**

Where the Council can estimate, with a degree of certainty, a contingent loss (cost) it is included as a provision within the financial statements. However, where the cost cannot be accurately estimated or because the event is not considered sufficiently certain, it is not included but disclosed as a note to the accounts. Contingent gains are not accrued into the accounts.

**12. Reserves**

Amounts set aside for purposes falling outside the definition of provisions have been accounted for as a reserve. In line with the SORP, expenditure is charged to revenue and not directly to the reserve.

The Council has established a number of general and earmarked reserves that are available to meet revenue and capital expenditure.

**13. Stocks, Stores and Work in Progress**

The Council accounts for all material stock holdings and work in progress. The Council has set a de minimis level of £5,000 for stock. Stocks and stores are valued at the lower of cost or net realisable value. Work in progress is shown at actual cost including overheads, but excluding any profit element.

**14. Exceptional items and prior year adjustments**

Any exceptional items are included on the face of the income and expenditure account.

Any prior year adjustments are accounted for in the year they are identified and are included within the appropriate revenue account where they are the result of estimations.

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Account and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the Statement of Total movements in Reserves of the current period or in a note to the accounts.

**15. Value Added Tax**

VAT is only included within the income and expenditure accounts, whether of a capital or revenue nature, where it is irrecoverable.

**16. Internal Recharges**

Internal recharges have been eliminated from the accounts.

**17. Intangible Fixed Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

In line with proper practice these assets are not revalued but carried at historic cost less those amounts amortised. They will be amortised over their useful lives. For most such assets this will be between two and three years. Amortisation will be on a straight-line basis and, subject to materiality, will be calculated quarterly.

**18. Landfill Allowance Trading Scheme (LATS)**

The Government LATS scheme began on 1st April 2005. The allowances given to the Council have been valued at fair value based on the available trading history. The total value of the Council's allowances are recognised as a short-term debtor and the value of those used as a short-term liability. The net surplus or deficit is recognised in the revenue account. This surplus or deficit is then transferred to an earmarked reserve and only recognised in the revenue account when the allowances are actually sold.

**19. Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of

repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments or took place prior to 2006, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

## **20. Financial Assets**

Financial assets are classified into two types:

-  loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
-  available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

If the Council makes a loan to an organisation or individual at less than market rates the loan is known as a soft loan. When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

### **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for

interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

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

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required: -

- ▲ To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Service Director Finance.
- ▲ To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ▲ To approve the Statement of Accounts.

## The Chief Financial Officer's Responsibilities

The Service Director Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this statement of accounts the Service Director Finance has: -

- ▲ Selected suitable accounting policies and then applied them consistently
- ▲ Made judgements and estimates that were reasonable and prudent
- ▲ Complied with the Code of Practice.

The Service Director Finance has also: -

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

This statement of accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

Signature: 

22nd September 2008

M L Wedgewood CPFA  
Chief Financial Officer

# North Lincolnshire Council Annual Governance Statement 2007/08

## **Scope of responsibility**

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

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

North Lincolnshire Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

A copy of the code is on our website at [www.northlincs.gov.uk](http://www.northlincs.gov.uk) or can be obtained from Pittwood House, Ashby Road, Scunthorpe. This statement explains how North Lincolnshire Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## **The purpose of the governance framework**

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

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

The governance framework has been in place at North Lincolnshire Council for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

## **The governance framework**

The council's governance arrangements are supported by well-established systems and processes including:

### **Identifying and communicating the authority's purpose and vision and intended outcomes for citizens and service users**

The council sets its vision and objectives after extensive consultation with all its stakeholders. The three-year Strategic Plan entitled 'Going Forward Together' explains the council's vision, priorities for improvement and outcomes to be achieved. The drivers behind the plan are the council ambitions – four of which are shared with the North Lincolnshire Strategic Partnership and four of which are internal council ambitions. The Strategic Plan is being reviewed to reflect the second generation Local Area Agreement.

Service plans integrate all key council planning processes and make explicit service delivery contribution to the council's ambitions. The planning process identifies the contribution services and individuals have to achieve the shared vision through the Community Strategy.

The council's activities and achievements, its financial position and performance is published in an annual report which is available on the council's website.

### **Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

'Performing Together' is the council's performance management framework. This sets out the council's model for planning, achieving and reviewing performance. Performance targets are reviewed quarterly at a corporate level and by services to ensure key service delivery targets are monitored and appropriate action is taken where necessary. Quarterly Performance Reviews (QPR) are a key method for reviewing progress towards ambitions and priorities in the service plans and the council's strategic plan. An important link will be made between cost and performance to ensure value for money is considered and other critical issues such as risk management information. Action plans are required for all indicators showing performance below the national lower quartile, which are then subject to more regular performance monitoring processes through Corporate QPRs and Performance Improvement Panels involving Members and Service Directors. There is also an annual performance review before senior management and councillors.

The Value for Money (VFM) Board has been instrumental in the development of the service planning and performance management arrangements to ensure VFM is properly considered through Quarterly Performance Reviews and Performance Improvement Panels where necessary. A closer alignment of VFM work with the council's financial planning arrangements has been made to help meet the challenge of budget and efficiency savings the council faces. The Strategic Procurement and VFM Manager is the lead on this agenda to apply a service delivery and commissioning challenge to large-scale projects.

Improved budget monitoring procedures have operated throughout the year and have given robust indications of outturn. These enabled the council to deal effectively with potential areas of pressure during the revised estimates process (particularly costs arising from the June 2007 floods) so that problems did not carry through to year-end. Regular reporting of forecast outturn, explanations of variances and recovery plans for dealing with variances has continued for senior officers and members. All changes to service delivery must be financially assessed and included in reports to members for consideration.

### **Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The council's Constitution sets out clearly the respective roles and responsibilities of members and officers. A scheme of delegated and reserve powers is also set out in the approved Delegations to Officers and Appointment of Proper Officers schedule.

The Executive (which is made up of the Leader and Cabinet of councillors) make decisions in line with the council's overall policies and budget. Any decisions outside the budget or policy framework would be referred to the Council as a whole to decide. The Overview and Scrutiny committees support the work of the Executive and Council by reviewing and making recommendations on policy, budget and service delivery. They can also monitor and review decisions taken by the Executive prior to implementation. There are also committees that deal with regulatory functions such as Planning, Licensing and Appeals. In accordance with relevant legislation the council has a Standards Committee to deal with issues of members conduct.

### **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for local Authorities**

The council established an audit committee in May 2007 in compliance with best practice. The committee oversees the management of governance issues, internal controls, risk management and financial reporting.

### **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The council promptly adopted the new revised members code of conduct at its Annual Meeting in May 2007 to replace the previous code. The CPA corporate assessment found that the ethical framework is working effectively and the Leader, Chief Executive and monitoring officer show strong commitment to ensuring adherence to the framework

The council also has an employee code of conduct on gifts and hospitality and pecuniary interests, which is based on the Local Government Management Board Standards, together with a code, which covers additional issues such as management & supervision, health & safety and personal conduct. It is binding as part of each employee's contractual terms. Compliance with the employee code is managed through various policies contained within the council's Human Resources Manual.

Corporate governance arrangements ensure that the conduct of officers and members is of the highest standard in decision-making and application of policy and procedures in service delivery. The council's Local Code of Corporate Governance and key supporting procedures are monitored and regularly reviewed.

### **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/ manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The council has a formal Constitution and Delegations to Officers. These set out how the council operates and how it makes decisions. These policies are reviewed and amended to reflect changes in regulations and working practices when necessary.

There is an established financial management framework in place that is set out in the council's Constitution through the Financial Regulations, Finance Manual, Contract Procedure Rules and Procurement Manual. The council's Chief Financial Officer sets out the internal controls that must be complied with to ensure the proper administration of the council's financial affairs.

Risk management arrangements have developed over a number of years and the Strategic Risk Management Group (SRMG) has been instrumental in this process. The council has developed a

comprehensive risk management strategy, which has been adopted throughout the council. The strategy is reviewed annually and an action plan of work is developed each year. The risk management strategy sets out the council's approach to risk management and the framework in place to manage risks. This includes strategic and operational risk registers, which assess the likelihood and impact of risks, the mitigating controls in place and responsibilities for those controls. The Strategic Risk Register identifies corporate risks to the council. These are linked to the council's strategic objectives; the definition used was 'those risks which will significantly impair the achievement of the council's principal aims and objectives.' The register identifies the likelihood and impact of controls and the lead responsibility for managing controls. The Strategic Risk register is reviewed and monitored regularly. Risk related training has been provided for both members and officers throughout the year.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

There are well-established arrangements in place to ensure compliance with the council's Constitution, relevant laws, regulations etc. and that expenditure is lawful. Legal advice is available on request including specialisms such as employment, planning, education and child care law. There are controls in place to ensure that all reports to members have been formally considered for legal, financial, risk management and procedural issues etc. before presentation.

The council has a strong managerial framework that is supported with policies and procedures in all key areas. Senior managers review controls in place to ensure objectives and obligations are met. Annual statements of assurance are prepared by each Service Director to confirm that the system of internal control within each service area is adequate and key supporting procedures are regularly monitored and reviewed. These are independently evaluated through the work of internal audit.

#### **Whistle-blowing and for receiving and investigating complaints from the public**

The Whistle-blowing charter incorporates appropriate safeguards to protect whistleblowers and details of the Public Interest Disclosure Act 1998. The whistle blowing policy is advertised on the council's web site:

<http://www.northlincs.gov.uk/northlincs/councilanddemocracy/finances/fraud/fraudhotline.htm> and intranet. The whistle blower's hotline telephone details are publicised throughout the council.

The council's procedures for dealing with complaints have been improved for 2008/09. Complaints will be recorded on the Performance Management System and reviewed through Quarterly Performance Reviews to provide better analysis of data and learning opportunities.

The annual report from the Ombudsman reported no cases of maladministration.

#### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The council promotes development through the member development charter and access to regular development opportunities. Councillors are helped in their role by a comprehensive induction process after election and ongoing training and development. A member development group has been established to drive continuous development.

The council's commitment to learning and development is described in our Human Resources Strategy 'Valuing People'. The strategy demonstrates how the council will deliver one of its core values of 'We Value' in achieving its vision and ambitions.

The council takes a strategic approach to workforce planning and effectively supports staff to fulfil their role. There is a corporate training programme to ensure skills gaps can be addressed and a learning and development reviewing process (LADAR) to assess the impact and effectiveness of each

training course. Employee development reviews and one to one meetings take place to continually assess training and development needs through a personal action plan.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

The council's communication strategy 'Communicating Together' supports and drives communications around the ambitions, focuses communications on critical areas and improves co-ordination across the council. A key element of the communication strategy is the council's monthly magazine Direct, which is distributed to all households and provides a useful tool for surveying stakeholders' views.

The council has encouraged and maintained an effective relationships with local people and other stakeholders by:

-  publishing a Forward Plan of Key Decisions;
-  encouraging and supporting the public in a range of ways to present issues to the Full Council, Regulatory and Scrutiny Panels.

The council has a good engagement framework with several examples of good practice e.g. consultation and engagement toolkit (recognized by IDEA).

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.**

During 2007/08 the council has also undertaken an audit of all the partnerships it is involved with and compiled a list of all its 'significant' partnerships.

A definition of the various types of partnerships has been established, this enabled the differing governance arrangements to be considered and developed where necessary. A strategic lead on partnerships has been assigned and a governance toolkit has been developed that should be applied as a minimum to all partnerships. The toolkit includes roles, responsibilities and accountabilities and financial and performance management arrangements. A staged approach is being adopted and the toolkit has been applied to the council's most significant partnerships first.

**Review of effectiveness**

North Lincolnshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

**External assessment**

The Comprehensive Performance Assessment (CPA) for 2007 carried out by the Audit Commission and reported in the Annual Audit and Inspection Letter issued in March 2008 showed the council is 'improving adequately and demonstrating a 4 star overall performance'. This assessment also concluded that the council provided top performing benefits services, with all six service areas being assessed at 3 (out of 4) including Use of Resources. The corporate assessment published in February 2008 provided a rating of two (out of 4).

The Audit Commission's Direction of Travel report assessed the council as 'Improving Adequately'. The council's governance arrangements were assessed as strong and it was reported that: 'Its systems of internal control operate effectively and there is a clear commitment by councillors and

officers to deliver improvements for the area'. In support of their direction of travel assessment the Audit Commission shows good examples of service delivery and performance improvements together with areas for improvement as follows:

'North Lincolnshire Council is improving adequately. Its overall rate of improvement across national priorities is lower than that for other councils. The Council has improved some local priority areas such as regeneration and crime in the last year. Outcomes for children and young people are generally good and attainment by 11-16 year olds improved from a low base. But progress on other significant priorities like health inequalities and aspects of housing is mixed. The Council successfully managed the impact of the 2007 floods although its main office was badly affected. Its priorities are not understood consistently inside and outside of the Council. This undermines the robustness of plans, as does the lack of consistently clear targets within them. Capacity for improvement is adequate whilst its approach to value for money is good. The Council's performance management approach links its various plans and strategies effectively. Partnership arrangements are not consistently effective and some roles and responsibilities are unclear. The Council has a sound financial basis on which to build and its governance arrangements are good'.

The council's external auditors carry out a programme of work each year to assess the adequacy of the control environment in place within the council. This is also reported in the Annual Audit and Inspection Letter. A key component of the CPA is the 'Use of Resources'. This includes an assessment being made on:

-  Financial reporting
-  Financial management
-  Financial standing
-  Internal control
-  Value for Money

In all five of the themes that make up Use of Resources the council are assessed as 'consistently above minimum requirements - performing well' (level 3 scores). This represents improvement for the council as component scores within each theme were maintained or improved upon compared with the results for 2006 despite the introduction of more testing criteria.

In Grant Thornton's Use of Resources: 2006/07 updated scores report (December 2007) they concluded that the council has arrangements, which are consistently above the minimum requirements. The report also identified opportunities for the development of the council's arrangements, particularly in respect of the arrangements for managing value for money (including embedding recent improvements to the council's strategic approach to external funding); as this is the only component assessed at level 2.

External Audit's data quality review reported that the council was performing well (consistently above minimum requirements) for ensuring data quality. Overall the council's data quality performance in 2006/07 has shown significant improvement from 2005/06 and has implemented enhanced procedures in order to ensure that indicators are accurately stated.

External Audit's 2005/06 and 2006/07 grants reviews highlighted the arrangements in place to ensure the timely and accurate submission of grant claims was not operating effectively in all cases. Recommendations were made to improve the timeliness and accuracy of claims and these are being implemented. It should be noted however that none of these issues resulted in loss in grant funding for the council.

The council participates in the National Fraud Initiative (NFI). The Audit Commission has commended the council's work in this area. Also the small number of frauds identified from investigation of a large number of potential matches gives some confidence around the effectiveness of internal controls.

Also, the Audit Committee receives regular reports on the implementation of External Audit recommendations. This process confirms that action is in hand to implement all recommendations made

The Chief Executive reported to Cabinet in February 2008 on the outcome of a number of inspections and judgements on the performance of the council. The results of several of the inspections fed into the Comprehensive Performance Assessment. The report also highlighted the results of the Extended Youth Inspection and Youth Offending Team Inspection. The Extended Youth Inspection rating was two, the maximum being four. The Youth Offending Team Inspection examined partnership activity in this area, not just council services. No overall grade for the service was given. Areas for development were identified in both inspection reports, the results of which are fed into the council's refreshed strategic plan.

The Standards Board annual report for 2007/08 will be published shortly and no major issues are highlighted.

#### **Internal assessment**

Internal Audit provided an opinion to the Audit Committee in June 2008 on the adequacy of internal control across all the council's activities. Internal Audit's Annual Report for 2007/2008 concludes that reasonable assurance could be given that the council's control environment was generally adequate. The only exceptions were:

- ▲ Validations between payroll / professional personnel were delayed – a full reconciliation has been carried out and no significant discrepancies have been highlighted
- ▲ Authorised signatories – the process of updating authorised signatories was not completed during 2007/08. This has now been completed for all service areas. Audit checks carried out have confirmed that all invoices examined were authorised by an appropriate officer and expenditure was valid.
- ▲ FMSIS – there has been a slow response from some secondary schools despite them achieving the standard.
- ▲ IT controls – there has been a slow response to audit recommendations – although managers are now addressing issues and good progress is now being made.

In view of the action put in place all issues highlighted are now in the process of being addressed.

A report was also prepared for the Audit Committee in June on the effectiveness of Internal Audit during 2007/2008 to fulfil the requirements of the Accounts and Audit Regulations (amendment) 2006. This showed internal audit provided an effective service based on:

- ▲ External audit's endorsement of Internal Audit's work
- ▲ Compliance with professional (CIPFA) standards
- ▲ Good customer feedback
- ▲ Achievement of most performance targets.

The risk management strategy in place during 2007/2008 was agreed by SRMG and the Audit Committee and was reviewed for 2008/2009. This sets out and monitors the council's risk management arrangements and a programme of work for the year. SRMG identifies the council's strategic risks and ensures key controls are reviewed regularly. Business Continuity Plans were tested under real emergency circumstances as a result of last summer's storm damage to Pittwood House. Despite major disruption to IT facilities overall key systems were recovered quickly and there was little effect on service delivery. The self-assessment on Use of Resources produced as part of the Comprehensive Performance Assessment included risk management arrangements. The evaluation carried out by Grant Thornton concluded that the council continues to operate a sound system of internal control and has improved its arrangements with:

- ▲ development of the Audit Committee, which has been in place for a full year, and the Strategic Risk Management Group
- ▲ the updating of the Risk Management Strategy
- ▲ improvements to risk management through training of members and inclusion of an options section (to cover risks and opportunities) in all reports to members

The council maintained its level 3 assessment – 'consistently above minimum requirements - performing well'

A review of the effectiveness of the Audit Committee was completed in April 2008 using the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on audit committees and a self-assessment 'toolkit'. The evaluation as indicated in the checklist shows the Audit Committee meets best practice in most aspects. Some opportunities for development were identified for the Committee to consider. The Audit Committee has also had the ability to raise queries with relevant officers on key issues e.g. performance. The council has a good track record of financial probity and sound governance. Nevertheless the Committee took decisive action on issues brought to their attention concerning non-compliance with FMSiS deadlines and commissioned additional work to evaluate the council's business continuity response following the summer's storm damage to Pittwood House.

Corporate governance arrangements were evaluated by internal audit against the CIPFA/SOLACE best practice framework. The council's arrangements meet with best practice in most areas. The review incorporates assurances received from internal and external review bodies, the Chief Financial Officer and Monitoring Officer. The findings and actions for improvement were reported and approved by the Audit Committee in September 2007 and a further report will be prepared for the Audit Committee on conclusion of the current review.

An audit of the council's approach to partnership working was carried out during 2007/08 and resulted in a number of positive changes to the governance arrangements for partnerships.

### **Significant governance issues**

1. The areas for improvement identified in the corporate assessment will be addressed including:
  - ▲ Communicating its vision for the area in a more effective way
  - ▲ Adding capacity within the council to provide additional leadership and impetus to partnership working
  - ▲ Providing additional support to councillors in their community and strategic leadership roles
  - ▲ Enhancing the work of scrutiny.
2. Address internal control issues highlighted in Internal Audit's Annual Report, namely:
  - ▲ Maintenance of up to date authorised signatory lists
  - ▲ Appropriate response to internal audit recommendations in respect of IT controls.
3. Implement corporate governance review recommendations

4. Address the Auditors findings on Use of Resources and Annual Audit & Inspection report by delivering improvements in
- ▲ Producing an annual report in a variety of formats
  - ▲ Integrating financial and performance management arrangements more closely for partnerships
  - ▲ Improving the timeliness and accuracy of grant claims submitted for audit
5. Areas for development in other review and inspection reports will be addressed. The results of the Extended Youth Inspection and Youth Offending Team Inspection were fed into and will be monitored through the council's strategic plan.

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

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: 

Date 22nd September 2008

Leader of North Lincolnshire Council

Signed: 

Date 22nd September 2008

Chief Executive

# Income & Expenditure Account

2006/07				2007/08	
Net	Income and Expenditure	Note	Gross	Gross	Net
Expenditure	Account		Expenditure	Income	Expenditure
£000			£000	£000	£000
26,949	Culture, Environmental & Planning Services		40,544	(11,824)	28,720
27,020	Children's and Education Services		160,938	(128,861)	32,077
3,907	General Fund Housing		32,007	(28,388)	3,619
8,831	Highways, Roads & Transport Services		18,047	(5,311)	12,736
30,563	Adult Social Care		56,735	(26,877)	29,858
(1,050)	Housing Revenue Account-Discontinued Operation	1	2,269	(2,046)	223
1,855	Central Services To The Public		13,592	(11,514)	2,078
3,314	Corporate & Democratic Core		7,388	(3,224)	4,164
(515)	Non Distributable Costs		1,248	0	1,248
<b>100,874</b>	<b>Net cost of services</b>		<b>332,768</b>	<b>(218,045)</b>	<b>114,723</b>
257,616	(Gain)/ Loss on the disposal of fixed assets	25			(1,231)
0	Capital Receipts unrelated to the sale of fixed assets	25			(1,461)
1,023	Parish Precept				1,143
(1,406)	Trading Undertakings	4			(891)
8,200	Interest Payable and similar charges	65			6,971
3,551	Housing capital receipts to Government Pool				92
(2,261)	Interest Receivable	65			(3,503)
2,856	Net Return On Pension Investments	45			2,013
(13)	De minimis Capital Receipts				(18)
1,039	Other Precepts & Levies				1,077
<b>371,479</b>	<b>Net operating expenditure</b>				<b>118,915</b>
(7,894)	Revenue Support Grant				(7,271)
(40,896)	NNDR Receipts				(43,328)
(56,947)	Council Tax				(59,007)
(170)	Collection Fund Surplus				(295)
<b>265,572</b>	<b>Deficit for the year</b>				<b>9,014</b>

## Statement of Movement on the General Fund Balance

2006/07	Statement of Movement on the General Fund	Note	2007/08
£000	Balance		£000
265,572	Surplus or deficit for the year on the Income and Expenditure Account (I&E)		9,014
(275,622)	Amounts included in the I&E but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	19	(11,782)
4,574	Amounts not included in the I&E but required to be included by statute when Fund Balance for the year determining the Movement on the General Fund	19	4,801
5,035	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Balance for the year Movement on the General Fund	19	(3,945)
<u>(441)</u>	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year		<u>(1,912)</u>
(7,293)	General Fund Balance brought forward		(7,734)
<u>(441)</u>	(Surplus)/deficit for the year		<u>(1,912)</u>
<u>(7,734)</u>	General Fund Balance carried forward	38	<u>(9,646)</u>
	<b>Analysis of the movement on the General Fund Balance for the year between the amount generally available to the authority and the net amount held by schools under local management schemes.</b>		
(73)	Balance generally available to the Authority (surplus)/deficit for the year		(1,548)
<u>(368)</u>	General Fund Balance held by schools (surplus)/deficit for the year		<u>(364)</u>
<u>(441)</u>			<u>(1,912)</u>

## Statement of Total Recognised Gains & Losses 2007/08

2006/07 £000	<u>Statement of Total Recognised Gains and Losses</u>	<u>Note</u>	2007/08 £000
265,572	(Surplus) or deficit on the Income and Expenditure Account for the year		9,014
(21,533)	(Surplus) or deficit arising on revaluation of fixed assets	38(a)	(16,307)
(28,146)	Actuarial (gains) and losses on pension fund assets and liabilities	45	(34,454)
(446)	Any other gains and losses required to be included in the STRGL	62	(193)
<b><u>215,447</u></b>	<b>Total recognised (gains)/losses for the year</b>		<b><u>(41,940)</u></b>

# Balance Sheet 2007/08

31st March 2007		Note	31st March 2008	
Restated £'000	£'000		£'000	£'000
662		Intangible Fixed Assets	30	331
		Tangible Fixed Assets		
372,514		Operational Assets	20	383,957
40,726		Non Operational Assets	20	44,576
	<b>413,902</b>	<b>Total Fixed Assets</b>		<b>428,864</b>
1,495		Long Term Investments	33	1,495
1,636	3,131	Long Term Debtors	54	1,482
	<b>417,033</b>	<b>Total Long Term Assets</b>		<b>431,841</b>
		Current Assets		
728		Stocks Stores and Work in Progress	55	466
40,372		Temporary Investments	49/56	37,479
20,467		Debtors	57	23,428
184	61,751	Cash and bank	49	200
		Less Current Liabilities		
(33,353)		Creditors	58	(31,194)
(5,361)		Short Term Borrowing	35/49/59	(2,705)
(2,636)	(41,350)	Bank overdraft	49	(1,087)
	<b>20,401</b>	<b>Net Current Assets</b>		<b>26,587</b>
	<b>437,434</b>	<b>Total Assets less Current Liabilities</b>		<b>458,428</b>
		Less Long Term Liabilities		
(108,251)		Long Term Borrowing	35/49	(118,818)
(750)		Deferred Liabilities	63	(500)
(145,088)		Pensions Liability	45	(104,806)
(27,334)		Government Grants Deferred	64	(46,806)
(108)		Deferred Credits	17	(76)
(1,149)	(282,680)	Provisions	36/37	(1,360)
	<b>154,754</b>	<b>Total Assets Less Liabilities</b>		<b>186,062</b>
		Financed By:		
0		Revaluation Reserve	38	16,307
278,597		Capital Adjustments Account	38	249,890
2,677		Capital Receipts Reserve	38	7,839
(145,088)		Pensions Reserve	38/45	(104,806)
5,120		General Fund Balance	38	6,668
1,414		Housing Revenue Account Balance	38	0
420		Collection Fund Balance	38	717
2,614		Schools Balances	38	2,978
9,000		Earmarked Reserves	38	6,469
	<b>154,754</b>			<b>186,062</b>

Chief Financial Officer, Service Director Finance



22nd September 2008

# Cashflow Statement 2007/08

Actual 2006/07		Actual 2007/08
£'000	Note	£'000
	<b>Revenue Activities</b>	
	<b>Cash Outflows</b>	
(173,536)	Cash paid to and on behalf of employees	(173,236)
(121,577)	Other operating cash payments	(112,859)
(10,269)	Housing benefit paid out	(25,674)
(63,763)	National non-domestic rates to national pool	(63,061)
(3,551)	Payments to the Capital Receipts Pool	(92)
(10,410) (383,106)	Precepts paid	(11,001) (385,923)
	<b>Cash Inflows</b>	
12,912	Rents (after rebates)	3,887
57,117	Council Tax receipts	59,006
40,896	NNDR Receipts from National Pool	43,328
64,009	National Non-domestic Rate(NNDR) Receipts	63,306
7,894	Revenue Support Grant	7,271
10,271	DWP grants for benefits	25,577
160,814	Other Government grants	149,309
33,110	Cash received for goods and services	28,747
32,203	Other operating cash receipts	8,670
<u>419,226</u>		<u>389,101</u>
36,120	Net cash inflow/(outflow) from revenue activities	3,178
	<b>Returns on investments and servicing of finance</b>	
	<b>Cash Outflows</b>	
(8,185)	Interest paid	(6,937)
	<b>Cash Inflows</b>	
2,375	Interest received	3,264
(5,810)	Net cash outflow from investments and servicing of finance	(3,673)
	<b>Capital Activities</b>	
	<b>Cash Outflows</b>	
(37,284)	Purchase of Fixed Assets	(28,462)
(426)	Other capital cash payments	(1,084)
	<b>Cash Inflows</b>	
7,213	Sale of fixed assets	5,086
8,533	Capital grants received	14,868
458	Other capital cash receipts	467
<u>(21,506)</u>	Net cash outflow from capital activities	<u>(9,125)</u>
8,804	Net cash inflow/(outflow) before financing	(9,620)
	<b>Management of liquid resources</b>	
(28,600)	Net (increase)/decrease in short term deposits	3,588
(28,600)		3,588
	<b>Financing</b>	
	<b>Cash Outflows</b>	
(1,609)	Repayments of Amounts Borrowed	(5,403)
	<b>Cash Inflows</b>	
15,000	New loans raised	13,000
<u>13,391</u>		<u>7,597</u>
<u>(6,405)</u>	Net Increase/(Decrease) in Cash	<u>1,565</u>

# The Notes to the Core Financial Statements

## 1. Discontinued Operations

On the 26th February 2007 the Council transferred its Council Housing to North Lincolnshire Homes (NLH). This new organisation is a completely separate company as a Registered Social Landlord (RSL).

The financial effects of this transfer in 2007/08 can be summarised as:-

- The council and NLH entered into a VAT tax shelter agreement. A VAT tax shelter is an agreement, approved by HM Revenues and Customs, which will allow NLH to reclaim up to £44.5m of VAT it incurs on specific enhancements to its housing stock over ten years. Under this agreement the council will receive 17% of any recovered VAT. In 2007/08 payments to the Council under this agreement totalled £2.9m (The first year of the agreement).
- The council incurred costs of £318k in 2007/08 and £1,356k in prior years in arranging the transfer. The prior year costs were accrued and all these costs have now been offset from the capital receipt.
- At the point of transfer the council was liable to pay the pensions deficit of £2.5m for housing staff for the period prior to transfer. It was decided to pay £1.5m in 2007/08, funded by use of a reserve earmarked for this purpose. The remaining £1m liability has been included in the council's overall pensions deficit and will result in the council paying increased employer contributions.

In 2007/08 the Council decided to cease the operation of the disabled workshop, known as B-Line. The B-Line operation relied heavily on supplying UPVC windows and doors to Council Dwellings. During the transfer process North Lincolnshire Homes tendered for this supply and B-Line were not successful. The operation was no longer viable and the decision to close it was taken. The costs of B Line have been consolidated with Trading Undertakings in the income and expenditure account.

## 2. Prior Year Adjustments, Exceptional and Extraordinary Items

There are no exceptional or extraordinary items in this year's accounts.

The council had been working towards full compliance with the SORP requirements for the treatment of capital grants, with a target completion date of 31<sup>st</sup> March 2009. In 2007/08 it made an adjustment of £10.6m to the Capital Adjustment Account and Government Grants Deferred Account to achieve full compliance.

### 3. Long Term Contracts

The council's long term contracts with an estimated annual value of £1m or more are summarised below:-

Contract Title	Contract Start Date	Contract End Date	Est. Annual Value	Contractor(s)
Residential Care Homes	16-Sep-02	Ongoing	£21,000,000	Estimated 70 Care Homes
Waste Disposal Services	07-Dec-99	31-Mar-11	£3,500,000	SITA North Lincs
Highways Alliance	01-Apr-04	14-Jun-09	£3,400,000	Clugston Construction
Specialist Vehicle Framework	26-Sep-07	25-Sep-11	£3,000,000	Various
Electricity	01-Oct-07	30-Sep-09	£2,000,000	Npower + Scottish & Southern
Light Commercial Vehicles	22-Dec-07	21-Dec-11	£1,470,000	Hartwell Ford

The residential care homes contract represents contracts with several providers for residential care for the elderly.

### 4. Trading Undertakings

The Council operates a range of trading undertakings. Their financial performance is presented below.

2006/07 (Surplus)/ Deficit £'000	Trading Undertaking	2007/08 (Surplus)/ Deficit £'000	Turnover £'000
(430)	Fleet Management/Maintenance	(379)	5,124
225	Building Cleaning/ Maintenance	101	1,732
460	Catering	(15)	5,236
6	Markets	(44)	628
(1,982)	Property Trading Account	(1,851)	2,764
329	B Line Industries (Discontinued)	1,047	572
22	Digital Print Services (Reprographics)	222	242
(36)	Building Control	28	456
<b>(1,406)</b>		<b>(891)</b>	<b>16,754</b>

### 5. Local Government Act 1972 section 137

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The council's expenditure under this power was £271k mainly on grants to voluntary bodies working in the local area (£261k in prior year).

## 6. Local Government Act 1986 section 5

As per the requirements of section 5(1) of the Local Government Act 1986, the council's spending on publicity was:

	2006/07	2007/08
	£'000	£'000
Staff Recruitment Advertising	137	208
Other Advertising	157	145
Other Publicity	95	65
<b>Total</b>	<b>389</b>	<b>418</b>

## 7. Building Control Account

From the 1st April 1999 Building Control services have been required to supply their services in competition with providers from the private sector. To achieve this fees and charges are no longer set nationally but are subject to local control and the service is required to break even over a three year period. In 2007/08 Building Control made a deficit of £28k (£36k surplus prior year) on a turnover of £456k. This balance is maintained in an earmarked reserve.

2007/08	Chargeable	Non-Chargeable	Total Building Control
	£'000	£'000	£'000
<b>Expenditure</b>			
Employee Expenses	324	154	478
Transport	15	6	21
Supplies and Services	55	9	64
Central and support service charges	90	53	143
<b>TOTAL EXPENDITURE</b>	<b>484</b>	<b>222</b>	<b>706</b>
<b>Income</b>			
Building Regulations charges	(412)	0	(412)
Miscellaneous income	(44)	(2)	(46)
<b>TOTAL INCOME</b>	<b>(456)</b>	<b>(2)</b>	<b>(458)</b>
<b>(Surplus)/Deficit for Year</b>	<b>28</b>	<b>220</b>	<b>248</b>
<b>2006/07 Comparators</b>	<b>(36)</b>	<b>220</b>	<b>184</b>

## 8. Agency Income & Expenditure

The Council does not have any significant Agency agreements.

## 9. Transport Act 2000 Schemes

The Council does not have any schemes under the Transport Act 2000.

## 10. Business Improvement District Schemes

The Council does not have a Business Improvement District.

## 11. Local Government Act 1970 Income

The council is empowered by this Act to provide goods and services to other public bodies. The authority provided a Mobile Library service to North East Lincolnshire Council. Income from this service amounted to £25k in 2007/08 (£25k in the prior year) and the related expenditure was £25k (£25k in prior year).

## 12. Pooled Budgets

North Lincolnshire Council and North Lincolnshire Primary Care Trust are involved in two formal Pooled Budget Schemes. The Pooled Funds are for Learning Disability and Mental Health. The purpose of the pools is to deliver strategic national and local objectives for a modern service and improving service user and carer experiences.

2006/07			2007/08	
Learning Disability	Mental Health		Learning Disability	Mental Health
£'000	£'000		£'000	£'000
<u>6,432</u>	<u>14,495</u>	<b>Expenditure</b>	6,377	15,181
		<b>Income</b>		
3,797	1,681	North Lincs Council	4,063	2,147
2,445	12,614	North Lincs PCT	2,453	13,287
<u>6,242</u>	<u>14,295</u>		<u>6,516</u>	<u>15,434</u>
<b>190</b>	<b>200</b>	<b>Net Overspend/(Underspend)</b>	<b>(139)</b>	<b>(253)</b>

## 13. Members' Allowances

The Council paid £597k in allowances to Members during 2007/08 (£581k in prior year).

#### 14. Officers' Remunerations

In accordance with the Accounting Code of Practice the numbers of employees whose remuneration during the year was in excess of £50,000 are shown in bands of £10,000 below:

Remuneration bands	2006/07	2007/08
50 to 60	71	84
60 to 70	12	20
70 to 80	14	15
80 to 90	4	4
90 to 100	0	3
100 to 110	1	0
110 to 120	0	1
120 to 130	2	0
130 to 140	0	1
	<u>104</u>	<u>128</u>

Due to the annual pay award an additional twenty employees now have a remuneration just above the minimum threshold.

#### 15. Related Parties

The council does not have any material transactions with related parties that are not disclosed elsewhere in the accounts. For more information on transactions related to officers' and members' interests please see note 44.

#### 16. Audit Fees

	2006/07	2007/08
	£'000	£'000
Audit of Accounts	83	85
Use of Resources	110	113
Inspection	20	125
Grant Claims	70	70
	<u>283</u>	<u>393</u>

The additional cost of inspection relates to the corporate assessment.

#### 17. Deferred Credits

These credits are deferred capital receipts. They represent deferred income from mortgages relating to the sale of council houses

#### 18. General Fund Balance

The General Fund Balance is made up of two elements, one which is generally available to the Council to spend and one which is ring fenced for the use of schools. The overall general fund balance increased by £1,912k in 2007/08. The balance on the generally available element has increased by £1,548k to £6,668k. The balance available to schools has increased by £364k to £2,978k.

## 19. Analysis of the Statement of Movement on the General Fund Balance

This note provides additional analysis of the statement of movement on the general fund balance.

2006/07 £000		Note	2007/08 £000
<b>265,572</b>	Deficit for the year on the Income and Expenditure Account		<b>9,014</b>
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>		
(8,217)	Depreciation and impairment of fixed assets	38(b)	(19,747)
(1,730)	The excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy		0
513	Government Grants Deferred amortisation matching depreciation and impairments	38(b)	4,025
(589)	Amortisation of Intangible Assets	38(b)	(331)
(3,820)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute	21	(1,724)
(257,616)	Net gain or (loss) on sale of fixed assets & other capital gains	25	1,231
0	Net capital gain unrelated to sale of fixed assets	25	1,461
(4,163)	Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations	45	3,303
			<b>(11,782)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>		
4,640	Statutory provision for repayment of debt	38(b)	4,854
3,485	Capital expenditure charged to the General Fund Balance	38(b)	39
(3,551)	Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool		(92)
			<b>4,801</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
852	Statutorily required transfer of the surplus or deficit for the year on the Housing Revenue Account calculated in accordance with statute to the HRA Balance		(1,414)
4,183	Net transfer to or from earmarked reserves	38	(2,531)
			<b>(3,945)</b>
<b>(266,013)</b>	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year		<b>(10,926)</b>
<b>(441)</b>	(Surplus)/deficit for the year		<b>(1,912)</b>
(7,293)	General Fund Balance brought forward		(7,734)
(441)	(Surplus)/Deficit for the year		(1,912)
<b>(7,734)</b>	General Fund Balance carried forward		<b>(9,646)</b>
	<b>Analysis of the movement on the General Fund Balance for the year between the amount generally available to the authority and the net amount held by schools under local management schemes.</b>		
(73)	Balance generally available to the Authority (surplus)/deficit for the year		(1,548)
(368)	General Fund Balance held by schools (surplus)/deficit for the year		(364)
<b>(441)</b>			<b>(1,912)</b>

## 20. Summary of Capital Expenditure and Fixed Asset Disposals

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles Plant & Equip £'000	Infrastructure £'000	Community £'000	Operational Assets £'000	Investment Properties £'000	Assets under Construction £'000	Surplus £'000	Non- Operational Assets £'000
<b>Valuation</b>										
<b>01.04.2007</b>	31,346	358,517	9,074	47,174	2,910	<b>449,021</b>	32,958	6,017	1,751	<b>40,726</b>
<b>Accounting Adjustments restated 01/04/2007</b>		(3,186)				<b>(3,186)</b>	(245)			<b>(245)</b>
	<u>31,346</u>	<u>355,331</u>	<u>9,074</u>	<u>47,174</u>	<u>2,910</u>	<u><b>445,835</b></u>	<u>32,713</u>	<u>6,017</u>	<u>1,751</u>	<u><b>40,481</b></u>
<b>Additions</b>	0	10,335	3,223	5,852	0	<b>19,410</b>	631	5,835	0	<b>6,466</b>
<b>Disposals</b>	0	0	0			<b>0</b>	(2,203)		(1,533)	<b>(3,736)</b>
<b>Reclassifications</b>	0	1,518	0	0	0	<b>1,518</b>	(4)	(3,025)	1,511	<b>(1,518)</b>
<b>Impairment</b>		(8,064)	(104)	(2,483)		<b>(10,651)</b>	(629)		(116)	<b>(745)</b>
<b>Revaluations</b>		12,675	0	0	4	<b>12,679</b>	382	0	3,246	<b>3,628</b>
<b>31.03.2008</b>	<b>31,346</b>	<b>371,795</b>	<b>12,193</b>	<b>50,543</b>	<b>2,914</b>	<b>468,791</b>	<b>30,890</b>	<b>8,827</b>	<b>4,859</b>	<b>44,576</b>
<b>Depreciation</b>										
<b>01.04.2007</b>	(31,346)	(32,366)	(4,549)	(8,246)	0	<b>(76,507)</b>	0	0	0	<b>0</b>
<b>In year</b>	0	(5,619)	(1,380)	(1,328)	0	<b>(8,327)</b>	0	0	0	<b>0</b>
<b>31.03.2008</b>	<b>(31,346)</b>	<b>(37,985)</b>	<b>(5,929)</b>	<b>(9,574)</b>	<b>0</b>	<b>(84,834)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Book Value</b>										
<b>01.04.2007</b>	<b>0</b>	<b>326,151</b>	<b>4,525</b>	<b>38,928</b>	<b>2,910</b>	<b>372,514</b>	<b>32,958</b>	<b>6,017</b>	<b>1,751</b>	<b>40,726</b>
<b>31.03.2008</b>	<b>0</b>	<b>333,810</b>	<b>6,264</b>	<b>40,969</b>	<b>2,914</b>	<b>383,957</b>	<b>30,890</b>	<b>8,827</b>	<b>4,859</b>	<b>44,576</b>

An analysis of total spending on fixed assets and deferred charges in year is shown below. A creditor has been created on the balance sheet for capital accruals where works had been carried out but not paid for at 31 March. These accruals total £1.25m in 2007/08 (£0.53m in prior year). Government grants and other contributions are likewise recorded on an accruals basis where there is reasonable certainty that the grant or contribution will be received.

### Spend per Service Area

2006/07 Capital Cash £000		2007/08 Capital Cash £000
<b>Service Area</b>		
211	Adult Social Care	176
2,393	Asset Management & Culture	6,205
434	Children, Strategy & Partnership	477
23	Corporate	362
11,944	Education Learning & Achievement	6,379
5,258	Highways & Planning	7,402
3,785	Neighbourhood & Environment	6,589
5,698	Community Planning & Resource	108
0	LAA	1,048
8,109	Public Sector Housing HRA	0
<b>37,855</b>		<b>28,746</b>

### Capital Financing

Financing £'000		Financing £'000
15,000	Loans	13,000
11,331	Grants and Contributions	14,783
3,353	Capital Receipts	924
5,623	Major Repairs Reserve	0
2,548	Revenue Reserves and Balances	39
<b>37,855</b>		<b>28,746</b>

### Spend per asset type

2006/07 Capital Cash £'000	Expenditure by Category	2007/08 Capital Payments £'000	2006/07 Capital Accruals £'000	2007/08 Capital Accruals £'000	2007/08 Capital Cash £'000
8,108	Council Housing	(5)	2		(3)
11,016	Other Land & Buildings	10,335	426	(494)	10,267
1,265	Vehicles Plant & Equipment	3,223	80		3,303
5,042	Infrastructure	5,852	0	(588)	5,264
0	Non-operational		0		0
453	Intangible Assets	21	0	(62)	(41)
3,782	Investment Properties	631	10	(8)	633
4,380	Assets Under Construction	5,835		(100)	5,735
3,809	Deferred Charges	3,578	10		3,588
<b>37,855</b>	<b>Total for Financing</b>	<b>29,470</b>	<b>528</b>	<b>(1,252)</b>	<b>28,746</b>

## 21. Deferred Charges

	Opening Balance 01/04/2007 £'000	Additions £'000	Written off to Income & Exp A/c £'000	Closing Balance 31/03/2008 £'000
Improvement Grants	0	1,997	(1,997)	0
Other	0	1,581	(1,581)	0
	<b>0</b>	<b>3,578</b>	<b>(3,578)</b>	<b>0</b>

Improvement grants are paid by the council to home owners in North Lincolnshire, who meet certain criteria, to carry out home improvements.

In 2007/08 £1.854m of deferred charges were financed from grants the remaining £1.724m was financed from council resources.

## 22. Commitments under Capital Contracts

The Council has approved expenditure in future years (2008/09 to 2010/11) of £185.85.m under its capital programme, of which £2.12m has been contracted. No expenditure in respect of these contracts is shown in the accounts. The remaining £183.73m relates to approved schemes that were not contracted at that date. Schemes approved to commence after 31 March 2008 will only proceed if financing is available at that time. These commitments include the following significant schemes:-

	Contracted at 31.3.2008 £'000	Not Contracted at 31.3.2008 £'000
Baysgarth Pool Redevelopment	1,117	0
Worlaby Primary	663	0
Adult Social Care	0	479
Asset Management & Culture	185	43,591
Children, Strategy & Partnership	0	458
Corporate	0	492
Education Learning & Achievement	157	96,424
Highways & Planning	0	24,797
Neighbourhood & Environment	0	17,289
Community Planning & Resource	0	20
LAA	0	183
	<b>2,122</b>	<b>183,733</b>

## 23. Tangible Fixed Assets

The Council has the following fixed assets: -

### **Operational Land and Buildings**

The Council owns or has an interest in a wide range of properties for the provision of its services in a number of locations. These include 81 schools, 6 Leisure Centres and Sports Halls, 1 theatre, 11 libraries, 1 golf course and 2 museums. Normanby Hall is not owned by the Authority but is leased from the Sheffield Family on a 99-year lease.

### **Offices**

Various office buildings on a wide range of sites. Included in this heading is one listed building, Pittwood House on Ashby Road in Scunthorpe.

### **Other Properties**

These include 48 car parks, 21 public conveniences, various depots and stores, a crematorium and a mobile home site.

### **Infrastructure & Community Assets**

The Council owns over 600 acres of parks and public open space, with a further 77 acres of allotments, 32 acres of land for highways purposes and 10 cemeteries on 8 sites. There are also a number of museum exhibits and civic regalia. Community assets are held in perpetuity, they have no determinable useful life, examples include museum exhibits.

Infrastructure assets inherited from Humberside County Council were initially valued at the value of outstanding debt as a proxy to establish historic cost. Since then any new assets are recognised at historic cost.

### **Vehicles and Plant**

The Council now purchases the majority of its vehicles.

### **Investment Property**

The Council holds various industrial plots and industrial units.

### **Listed buildings**

Included in the above categories of asset are 15 listed buildings including Pittwood House, Frodingham Infants School and St. John's Church in Scunthorpe which is part of the 20-21 Arts Centre, Baysgarth House and 51 Fleetgate in Barton, The Buttercross and part of St. John Nelthorpe School in Brigg, Normanby Hall and Epworth Youth Centre.

## 24. Leases

### a) Lessees

In 2007/08 the council spent £1.37m on operating lease rentals (£1.68m in prior year).

The Council does not have any finance leases.

Future commitments are : -

-  Within 1 year                      £0.71m (£0.99m prior year)
-  More than 1 year                      £0.98m (£1.45m prior year)
-  More than 5 years                      £0.03m (£0.11m prior year)

All leased assets are vehicles, plant and machinery.

#### b) Lessors

The Authority acted as lessor on assets with a gross value of £21.7m. Income received from these leases was £3.7m.

#### 25. Gains and losses on fixed assets

2006/07		2007/08	
(Gains) / Losses on disposal of fixed assets			
£'000		£'000	
264,949	Value of Asset disposals	3,736	
(7,333)	Capital Receipts	(4,967)	
257,616	(Gain)/ Loss on the disposal of fixed assets	(1,231)	

In addition the council received £1.461m of other capital receipts that are not related to the sale of fixed assets in 2007/08. The largest single element of this figure is the capital receipt from North Lincolnshire Homes referred to in note 1.

#### 26. Private Finance Initiative (PFI)

The council has no PFI schemes.

#### 27. Valuation of Assets

All asset valuations are subject to review as part of a five-year rolling revaluation programme, carried out by an in-house team in accordance with RICS standards.

#### 28. Depreciation of Assets

Depreciation is provided for on all fixed assets with a finite useful life, which is determined at the time of acquisition or revaluation, according to the following policies:

-  The calculation uses the straight-line method based on their expected useful lives.
-  The remaining useful life of these assets is reviewed annually.
-  No depreciation is provided on land, community assets, non-operational investment property assets and assets in the course of construction.

 No depreciation is provided on any asset in the year of acquisition.

## 29. Changes in Method of Depreciation

There have been no material changes to either the methods of depreciation or estimated remaining useful life in 2007/08.

## 30. Intangible Assets

The council has only capitalised software licenses under this heading. These assets are amortised on a straight line basis over the useful life of the asset.

	Software Licences £'000
Original Cost	993
Amortisations to 31 March 2007	<u>(331)</u>
	662
Expenditure in Year	21
Revaluations in year	(21)
Written off to Income & Expenditure A/c in year	<u>(331)</u>
Balance at 31st March 2008	<b>331</b>

## 31. Changes in the method of Amortisation of Intangible Assets

There have been no changes to the method of amortisation of Intangible assets in 2007/08.

## 32. Analysis of net assets

The analysis of net assets employed by the General Fund and the Housing Revenue Account is given below.

Net Assets Employed	31st March 2007	31st March 2008
General Fund	(82,417)	186,062
Housing Revenue Account	<u>237,171</u>	<u>0</u>
	154,754	186,062

## 33. Associated Companies-Humberside Airport

The only long-term investment the council holds is its shares in Humberside International Airport. The value of the investment is shown at Fair Value. This is judged to be the cost of the Authority's share of the Airports share capital, £1.495m (17.288% of £8.65m). The net worth of the Airport at 31<sup>st</sup> March 2007 was £2.4m.

The company was set up under the Airports Act 1986 and started trading on 2nd November 1987. The principal activity of the company is to operate Humberside International Airport. On 1st April 1996, share capital held by the former Humberside County Council was apportioned between the four new authorities on the basis of their tax bases. The sale of Humberside International Airport Limited to Manchester Airport Plc was completed in June

1999. However, North Lincolnshire Council has retained its shareholding and as a shareholder remains ultimately responsible for its share of any profits or losses made by the company.

Agreements have been entered into with Humberside International Airport Limited to ensure the repayment of loans made by the council to the company. These agreements provide a level of exposure, which is acceptable to the council.

Accounts for Humberside Airport are available from: -

Humberside Airport
Humberside International Airport Ltd, Kirmington, North Lincolnshire, DN39 6YH.

### 34. Capital Instruments

The council does not hold any capital instruments. All temporary investments are cash deposits with financial institutions and long term borrowing is mainly through the Public Works Loans Board (PWLB).

### 35. Borrowing

	Range of Interest Rates Payable	Debt at 31.3.2007 £'000	Loans Raised £'000	Loans Repaid £'000	Accrued Interest £'000	Debt at 31.3.2008 £'000
Public Works Loan Board (PWLB)	4.25 - 11.25%	107,524	13,000	(5,277)	104	115,351
Money Market Lenders	9.6875- 12.125%	6,282	0	0	31	6,313
		<b>113,806</b>	<b>13,000</b>	<b>(5,277)</b>	<b>135</b>	<b>121,664</b>

Accounting practice now requires the Council to disclose the Fair Value of its borrowing portfolio. The PWLB figure in the table below has been calculated by reference to the 'premature repayment' rates in force on that day. The Money Market Lenders figure has been calculated on the basis of the present value for the future cash flows due under the instrument, discounted at the rate available on that day, in relation to the same loan from a comparable lender.

	Fair Value Debt at 31.3.2008 £'000
Public Works Loan Board	127,677
Money Market Lenders	8,211
	<b>135,888</b>

Maturity (Years)	2006/07		2007/08	
	£000	£000	£000	£000
< 1	5,361		2,705	
<b>Short Term</b>		5,361		2,705
1 – 2	2,618		1,298	
2 – 5	8,259		8,759	
5 – 10	10,844		18,227	
10 – 15	12,404		5,086	
15 <	74,320		85,589	
<b>Long Term</b>		<u>108,445</u>		<u>118,959</u>
<b>Total</b>		<b>113,806</b>		<b>121,664</b>

In accordance with current accounting standards, premiums of £141k (£194k in prior year) paid on the premature repayment of debt incurred before 2006 have been combined with long term borrowing. This means the Balance Sheet value of long term borrowing is shown as £118,818k (£108,251k in prior year).

### 36. Provisions

The council maintains the following provisions:-

Provisions	2006/07	Contbn to/ (from)	2007/08
	£'000		£'000
Insurance Provisions	967	155	1,122
Inter Agency Adoption	0	84	84
Social Services	<u>182</u>	<u>(28)</u>	<u>154</u>
<b>Total</b>	<b>1,149</b>	<b>211</b>	<b>1,360</b>

The Social Services provision is held to enable refunds to be made to clients who were charged under Section 117 of the Mental Health Act 1983.

The Inter Agency Adoption provision is held to meet the costs of adoptions that are certain to take place during the following financial year.

### 37. Insurance Provisions

The council provides for all its known liabilities for insurance claims relating to current policies for employer's liability, public liability and property and policies previously with Independent Insurance. The provision is valued at the level advised by our loss adjustors. For clarity the movement on this provision is included in the preceding note.

### 38. Movement on Reserves

Reserve	Balance 1st April 2007	Net Movement in Year	Balance 31st March 2008	Purpose of Reserve	Further Detail of Movement
General Fund Balance	5,120	1,548	6,668	Resources available to meet future running costs for non-housing services	
Schools Balances	<u>2,614</u>	<u>364</u>	<u>2,978</u>	Resources available to meet future running costs for the education service	
Total General Fund Balance	7,734	1,912	9,646		
Revaluation Reserve	0	16,307	16,307	Store of gains on revaluation of fixed assets.	See below (a)
Capital Adjustments Account	278,597	(28,707)	249,890	Store of capital resources set aside to meet past expenditure	See below (b)
Capital Receipts Reserve	2,677	5,162	7,839	Proceeds of fixed asset sales available to meet future capital investment	See below (c)
Pensions Reserve	(145,088)	40,282	(104,806)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Defined Benefit Scheme Note
Housing Revenue Account Balance	1,414	(1,414)	0	Resources available to meet future running costs for council houses	
Collection Fund Balance	420	297	717	-	
Earmarked Reserves	9,000	(2,531)	6,469	-	See below (d)
	<u>154,754</u>	<u>31,308</u>	<u>186,062</u>		

a) Revaluation Reserve

Assets included in the balance sheet at current value are revalued every five years or when a material change occurs. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

2006/ 07		2007/ 08
£'000		£'000
352,465	Opening Balance	0
(5,413)	Property disposals in year	0
(290,623)	LSVT disposal	0
(77,962)	FARA write off in 06/07	0
21,533	Revaluations in year	(16,307)
<b>0</b>	<b>Closing Balance</b>	<b>(16,307)</b>

b) Capital Adjustment Account

From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account has been replaced by a Revaluation Reserve and a Capital Adjustment Account. This is a change of accounting policy that would normally require prior year adjustments, which in this case would comprise determining opening balances on the Revaluation Reserve and Capital Adjustment Account. However, over the period since the intention to make the changes to accounting for revalued fixed assets was announced, it became clear that local authorities do not have the information to enable them to determine a reliable opening balance on the Revaluation Reserve. The new requirements have therefore been applied prospectively. The 2006/07 comparative figures have been restated as follows. On the Balance Sheet, the balance on the Revaluation Reserve at 31 March 2007 should be shown as nil. The balance on the Capital Adjustment Account should be shown as the combined total of the Fixed Asset Restatement Account and Capital Financing Account.

2006/07 £000		2007/08 £000
171,232	<b>Balance brought forward at 1 April</b>	278,597
(8,217)	Depreciation	(8,327)
0	Impairment	(8,407)
0	Revaluation	(3,013)
<b>(8,217)</b>		<b>(19,747)</b>
0	Prior year adjustment	(10,632)
0	Sale of Tangible Fixed Assets	(3,736)
4,640	Minimum Revenue Provision	4,854
(589)	Intangible Assets - Amortised	(331)
0	ERDF Grants set aside	794
513	Government Grants Deferred - Amortised	4,025
(3,819)	Deferred Charges written down	(1,724)
	Capital Financing:	
3,485	Capital expenditure charged to revenue	39
3,602	Capital Receipts	1,174
5,623	HRA Capital Financed from MRA	0
31,087	Applied to repay debt	0
77,962	FARA write off in 06/07 and error corrections in 07/08	(3,423)
(6,922)	HRA Contribution to MRR	0
<b>278,597</b>	<b>Balance Carried Forward at 31st March</b>	<b>249,890</b>

#### c) Capital Receipts Reserve

The movement in the usable capital receipts reserve is shown below:

2006/2007 Total £'000		2007/2008 Total £'000
2,497	Balance at 1 April	2,677
257,869	Amounts received in year	6,336
(257,689)	Amounts applied to finance new capital investment	(1,174)
<b>2,677</b>	<b>Balance at 31 March</b>	<b>7,839</b>

The assets sold in year include plots of land at Smith Street and Phoenix Parkway in Scunthorpe, Glebe Road, Brigg and Martins Close, Ulceby. They also include various plots on the council's industrial estates and land at Lakeside.

#### d) Earmarked Reserves

The council holds a number of reserves that are earmarked for specific purposes. The details of which, including the reason they are held, are given below:

Other Earmarked Reserves	2006/07	Contbn to/ (from)	2007/08
	£'000	£'000	£'000
Insurance	1,399	297	1,696
Building Control	436	(28)	408
Property Trading Account	1,111	(20)	1,091
Carry Forwards	167	187	354
Revenue Support	2,111	370	2,481
LSVT Residual Costs	1,512	(1,512)	0
LATS	338	(338)	0
Housing Revenue Account	610	(260)	350
Dedicated Schools Grant	685	(666)	19
Other	631	(561)	70
<b>Total</b>	<b>9,000</b>	<b>(2,531)</b>	<b>6,469</b>

#### **Insurance**

This reserve is held to meet claims insured internally.

#### **Building Control**

This is the accumulated surplus from the operation of the Authority's Building Control Section. See note 7 for further information.

#### **Property Trading Account**

This reserve is earmarked for use in managing the Council's stock of commercial properties and promoting economic growth.

#### **Carry Forward Reserve**

This reserve is earmarked for use by services whose budget under spends were used to create the reserve. See the foreword for more details.

#### **Revenue Support Reserve**

This reserve, formerly titled the Local Authority Business Growth Initiative (LABGI) Reserve, has been set aside to fund specific spending in future years as part of the council's medium term financial plan.

### **LSVT Residual Costs**

Following the transfer of the council's housing stock to North Lincolnshire Homes (NLH) some revenue costs remain to be borne by the council. The largest is £2.5m deficit on the East Riding Pension Fund for the council's employees who transferred to NLH. Whilst the council will receive capital receipts from the RSL over the next ten years they cannot be used to meet these costs. This reserve has therefore been established, it has been used to meet a proportion of these costs in 2007/08.

### **Landfill Allowance Trading Scheme (LATS)**

The Council has not used all of its Landfill Allowances in any of the years since the scheme began. In previous years the resulting income of £338k had been set aside to fund any future losses on this scheme. Due to the lack of trading activity all currently held LATS have been valued at zero.

### **Housing Revenue Account (HRA)**

Although the Housing Revenue Account closed on the 31<sup>st</sup> March 2008, this reserve has been maintained to meet the residual costs that the Council will have to bear. This includes the costs relating to the closure of the B Line operation.

### **Dedicated Schools Grant (DSG)**

The council has set aside its unspent dedicated schools grant in an earmarked reserve. This may be used to support the Education Service in 2008/09 or 2009/10.

## **39. Contingent Assets and Liabilities**

As part of the agreement with North Lincolnshire Homes, an arrangement was entered into known as a VAT tax shelter. This arrangement entitles NLH to recover VAT on works enhancing its housing assets, which it would otherwise be unable to recover. The council will receive 17% of these receipts, equating to £7.6m, over the next ten years. The council will only receive its share if NLH undertakes this enhancement work. As such this is a contingent asset.

Also, as part of the transfer agreement the council will be paid the receipts NLH receive under the right to buy scheme, after deduction of NLH's reasonable expenses.

A further contingent asset that has been identified is the LPSA 2 reward grant. Its receipt is contingent on a series of performance indicators, currently in production, and their validation and acceptance by central government. If the council achieves the required level of performance across all areas it could be entitled to grant of up to £2.2m. The latest estimate of entitlement is £1.6m but some areas are not yet finalised and most require Audit.

The council does not have any known contingent liabilities.

#### 40. Authorisation of Accounts

The accounts were authorised for release on the 22nd September 2008 by the council's chief financial officer, the Service Director Finance.

#### 41. Post Balance Sheet Events

There were no material post balance sheet events.

#### 42. Trust Funds

The Council administers the Alderman Robinson Endowment Fund on behalf of Baysgarth School. While these funds do not form part of the Authority's Consolidated Balance Sheet they are reported here for information purposes.

2006/07		2007/08
£		£
173	Balance at Start of Year	169
167	Investment Income	167
0	Other Income	0
0	Funds Invested in Year	0
(170)	Disbursements	(150)
169	Balance Carried Forward	186

As at the 31st March 2008 the market value of investments totalled £2,969 (£2,978 at 31st March 2007).

#### 43. Schools Balances

Schools operate under the Local Management of Schools framework. They are able to carry forward any surplus or deficit funding to the next financial year. In 2007/08 North Lincolnshire schools carried forward a surplus of £364k.

These balances are committed to be spent on the Education service.

#### 44. Transactions with Related Parties

In 2007/08 payments to companies with whom members were a related party totalled £22k. One member rented land from the council for £700 per annum.

In 2007/08 payments to companies or individuals with whom officers were a related party totalled £3k.

Other declarations are listed below:-

Councillor	Organisation
Councillor Susan Armitage	Member of Humberside Fire Authority
Councillor Sandra Bainbridge	Member of Humberside Fire Authority
Councillor John Briggs	Member of Humberside Fire Authority
	Member of North Lincolnshire Homes Board
Councillor Linda Cawsey	Member of North Lincolnshire Homes Board
Councillor Peter Clark	Member of North Lincolnshire Homes Board
Councillor Tony Ellerby	Member of North Lincolnshire Homes Board
Councillor Len Foster	Member of North Lincolnshire Homes Board
Councillor Jawaid Ishaq	Member of Humberside Police Authority
Councillor Mark Kirk	Director of Humberside International Airport
Councillor Stephen Swift	Member of Humberside Fire Authority
Simon Driver (Chief Executive)	Director Connexions Humber Ltd
	Director Correct Compliance Ltd

#### 45. Defined Benefits Scheme

The Local Government terms and conditions require the council to offer retirement benefits to its employees. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The scheme to which the council's non-teaching employees belong is the Local Government Pension Scheme, administered by East Riding Council. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The fund is subject to a triennial valuation by independent actuaries. The last valuation took place in March 2007.

Local Government Pension Scheme		
	2006/07	2007/08
	£'000	£'000
<b>Net Cost of Services</b>		
· Current Service Cost	15,781	13,180
· Past service costs	3,038	337
· Settlements/Curtailments	(1,033)	784
<b>Net Operating Expenditure</b>		
· Interest cost	21,505	23,218
· Expected return on assets in the scheme	<u>(18,649)</u>	<u>(21,205)</u>
	2,856	2,013
<b>Amounts required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>		
· Movement on Pensions Reserve	(4,163)	3,303
	<b><u>16,479</u></b>	<b><u>19,617</u></b>
<b>Actual Amount charged against council tax for pensions in the year:</b>		
· Employer's contributions payable to scheme	14,471	17,565
· Contributions in respect of Unfunded Benefits	2,008	2,052
	<b><u>16,479</u></b>	<b><u>19,617</u></b>

	Year to 31 Mar 2008	Year to 31 Mar 2007	Year to 31 Mar 2006	Year to 31 Mar 2005	Year to 31 Mar 2004	Year to 31 Mar 2003
	£(000)	£(000)	£(000)	£(000)	£(000)	£(000)
Difference Between the Expected and Actual Return on Assets	(35,274)	2,276	38,500	9,300	25,000	(47,300)
Value of Assets	290,440	283,977	265,990	206,100	177,900	139,600
Percentage of Assets	(12.1)%	0.8%	14.5%	4.5%	14.1%	(33.9)%
Experience Gains / (Losses) on Liabilities	(3,533)	960	(530)	(7,700)	200	(11,300)
Total Present Value of Liabilities	395,246	429,065	435,000	360,500	272,700	231,500
Percentage of the Total Present Value of Liabilities	(0.9)%	0.2%	(0.1)%	(2.1)%	0.1%	(4.9)%
Actuarial Gains / Losses Recognised in STRGL	34,454	28,146	(11,680)	(59,000)	25,200	(58,600)
Total Present Value of Liabilities	395,246	429,065	435,000	360,500	272,700	231,500
Percentage of the Total Present Value of Liabilities	8.7%	6.6%	(2.7)%	(16.4)%	9.2%	(25.3)%

Local Government Pension Scheme		
Actuarial Assumptions	2006/07	2007/08
Rate of inflation	3.2%	3.6%
Rate of increase in salaries	4.7%	5.1%
Rate of increase in pensions	3.2%	3.6%
Rate for discounting scheme liabilities	5.4%	6.9%

Pension Fund Assets analysis	Long Term Return	31st March 2007	31st March 2008
	%	%	%
Equity investments	7.7	81.3	80.1
Bonds	5.7	8.1	9.0
Property	5.7	6.0	6.0
Cash	4.8	4.6	4.9
		100.0	100.0

Net Pension Asset as at	31st March 2007	31st March 2008
Estimated Employer Assets (A)	283,977	290,440
Present Value of Scheme Liabilities	400,640	365,901
Present Value of Unfunded Liabilities	28,425	29,345
Total Value of Liabilities (B)	429,065	395,246
<b>Net Pension Asset (A-B)</b>	<b>(145,088)</b>	<b>(104,806)</b>

#### 46. Defined Contribution Scheme

The council does not participate in a defined contribution scheme.

#### 47. Teacher's Pension Scheme

In 2007/08 the Council paid £6.5 million (£6.1 million in prior year) to the Teachers' Pensions Agency in respect of teachers' pensions costs which represents 14.1% (13.65% in prior year) of teachers' pensionable pay.

#### 48. Reconciliation between the I&E and Cashflow

2006/07		2007/08	
£'000		£'000	£'000
(265,572)	I&E Surplus/(Deficit) for the Year	(9,014)	
275,622	Amounts required by statute to be excluded	11,782	
(4,574)	Amounts required to be included by statute	(4,801)	
(5,035)	Transfers to or from the General Fund Balance	3,945	1,912
852	Housing Revenue Account	(1,414)	
446	Collection Fund	297	
			(1,117)
	Non-cash items		
10,088	Capital Charges	4,854	
(257)	Provisions	211	
(3,551)	Appropriation from capital receipts	(92)	
3,485	Capital Financed from Revenue	39	
4,183	Contribution to/(from) Reserves	(2,531)	2,481
	Items on an Accruals Basis		
217	(increase)/decrease in stock	262	
13,344	(increase)/decrease in debtors	(2,290)	
1,063	increase/(decrease) in creditors	(1,743)	
	Items included in another classification		(3,771)
5,810	Servicing of finance	3,673	3,673
<b>36,121</b>	<b>Net Cash Inflow From Revenue Activities</b>		<b>3,178</b>

#### 49. Reconciliation of the movement in cash to net debt

Balance Sheet	2006/07 £'000	Movement £'000	2007/08 £'000
Long Term Borrowing	(108,251)	(10,567)	(118,818)
Short Term Borrowing	(5,361)	2,656	(2,705)
Short Term Investments	40,372	(2,893)	37,479
Cash in Hand	184	16	200
Bank Overdraft	(2,636)	1,549	(1,087)
	<b>(75,692)</b>	<b>(9,239)</b>	<b>(84,931)</b>
<u>Non cash adjustments</u>			
Amortisation of deferred premium		53	
Accrual of interest paid		135	
Accrual of interest received		(695)	
Accrued repayment		126	
<b>Total</b>		<b>(9,620)</b>	
<hr/>			
Cashflows		2007/08 £'000	
Revenue		3,178	
Servicing of Finance		(6,937)	
Interest and Dividends		3,264	
Capital		(9,125)	
<b>Total</b>		<b>(9,620)</b>	

## 50. Reconciliation of Financing and related balance sheet items

	2006/07	New loans	Loans repaid	Accrued Interest	Amortisation of deferred premiums	Repayment Accrual	2007/08
	£000	£000	£000	£000	£000	£000	£000
Borrowing	(113,612)	(13,000)	5,403	(135)	(53)	(126)	(121,523)

## 51. Liquid Resources

The only assets included in this section are the short-term investments that the Authority makes with various financial institutions.

	2006/07	Movement	Interest Accrual	2007/08
	£'000	£'000	£'000	£'000
Short Term Investments	40,372	(3,588)	695	37,479

## 52. Further narrative on the Cash Flow

The main movements on the cash flow statement show:

-  a net inflow from revenue activities
-  a net cash outflow from capital activities
-  a net increase in borrowing
-  increased short term investments
-  an increase in cash balances

### 53. Government Grants included in the Cash Flow

	2006/07	2007/08
	£'000	£'000
Awards for all	0	84
Arts Council	99	108
Connexions	0	222
DCSF (was DfES)	106,277	111,227
DEFRA	316	1
Department of Health General	5,103	5,101
Department for Transport	967	1,410
Department for Work and Pensions	396	487
DTI	0	112
DWP	22,627	11,556
English Heritage	24	0
English Nature	11	0
ESF	33	0
FSA	17	6
Home Office	263	282
Learning & Skills (DCSF)	3,500	3,234
Learning Support	0	37
Lottery Fund	60	144
Museums, Libraries & Archives Council	48	35
Music Support	0	32
New Opportunities Fund	776	0
NL Goole NHS (PCT)	4,456	4,056
DCLG (was ODPM)	14,350	9,461
Other	2	96
Rural Payments Agency	18	16
Sports Council	114	0
Teacher Training Agency	690	756
Yorkshire Forward	0	172
Youth Justice Board	667	674
<b>Total Revenue Grants</b>	<b>160,814</b>	<b>149,309</b>

### 54. Long Term Debtors

Long Term Debtors	2006/07	2007/08
	£'000	£'000
Mortgages	113	78
Airport	1,272	1,214
Car Loans	251	190
<b>Total</b>	<b>1,636</b>	<b>1,482</b>

## 55. Stock and Work in Progress

Stock & Work in Progress	2006/07	2007/08
	£'000	£'000
Neighbourhood & Environment	219	190
B Line Industries	253	0
Highways Stock	138	118
Leisure Services	56	50
Other Stocks and Stores	62	108
<b>Total</b>	<b>728</b>	<b>466</b>

## 56. Temporary Investments

The council's temporary investments are all short term cash deposits with various financial institutions.

## 57. Debtors

Other Debtors	2006/07	2007/08
	£'000	£'000
HM Revenues & Customs	1,347	1,526
Government Departments	5,091	7,580
Other Local Authorities	1,030	1,065
Local Taxpayers & NNDR	5,891	5,973
Other Debtors	11,335	11,210
Less Provision for Bad Debts	(4,227)	(3,926)
<b>Total</b>	<b>20,467</b>	<b>23,428</b>

## 58. Creditors

Creditors	2006/07	2007/08
	£'000	£'000
HM Revenues & Customs	(3,206)	(3,103)
Government Departments	(6,571)	(5,380)
Other Local Authorities	(1,639)	(1,801)
Capital Grants-Deferred	(5,745)	(7,070)
Other Creditors	(16,192)	(13,840)
<b>Total</b>	<b>(33,353)</b>	<b>(31,194)</b>

## 59. Short Term Borrowing

The only short term borrowing shown on the balance sheet is the element of long term borrowing that is repayable within the next 12 months.

## 60. Local Area Agreement

On the 1<sup>st</sup> April 2007 a Local Area Agreement (LAA) was setup for the North Lincolnshire area. It was an agreement between local partners in North Lincolnshire and with central Government. The agreement contained priority outcomes for the four blocks of the LAA:-

Block 1 Children and Young People  
Block 2 Safer and Stronger Communities  
Block 3 Healthier Communities and Older People  
Block 4 Economic Development and Enterprise

These blocks include 12 LPSA2 projects with 'stretch' targets attracting additional Government grant if they are delivered. See note 39 for more information on this reward grant.

North Lincolnshire Strategic Partnership (NLSP) intended this LAA to be the main driver for the delivery of its Sustainable Community Strategy, 'Many Faces, One Community'.

The NLSP, "working together to make a better future for the people of North Lincolnshire," has a range of partners. These include:

- Black and Minority Ethnic Communities
- Children's Board
- Citizen's Advice Bureau
- Community Safety Partnership
- Corus
- HANWaG
- Humber Economic Partnership
- Humber and Wolds Rural Community Council
- Humberside Police
- Job Centre Plus
- Kimberly Clark
- Learning and Skills Council
- Multi-faith Partnership
- North Lincolnshire Council
- North Lincolnshire Learning Partnership
- North Lincolnshire Primary Care Trust
- North Lincolnshire Rural Partnership
- The Children and Young People's Strategic Partnership
- Humberside Fire and Rescue Service
- Safer Neighbourhoods Partnership
- Scunthorpe Telegraph Group
- Voluntary Action North Lincolnshire
- Yorkshire Forward

This LAA was replaced on the 1st April 2008 with another LAA which set out priorities for North Lincolnshire over the next three years.

The Council is the accountable body for the LAA and received the following grant:-

LAA Allocation 2007/08		
Revenue	Capital	Total
£2,480,495	£1,194,292	£3,674,787

## 61. Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services, provided on an authority-wide basis, and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and under spends on the two elements are required to be accounted for separately. The council is able to supplement the Schools Budget from its own resources but has not done so in this financial year.

Details of the deployment of DSG receivable for 2007/08 are as follows:

	Central Budgets	Individual Schools Budgets	Total
	£'000	£'000	£'000
DSG receivable for the year	(8,723)	(80,802)	(89,525)
DSG brought forward	(315)	(370)	(685)
Actual expenditure for the year	8,599	81,228	89,827
Over/(Under) spend for year	<b>(439)</b>	<b>56</b>	<b>(383)</b>
Closing Schools	420	(420)	0
Schools balances c/w/d		364	364
DSG (Surplus)/Deficit for year	<b>(19)</b>	<b>0</b>	<b>(19)</b>

## 62. Any other gains or losses required to be included in the Statement of Total Recognised Gains and Losses

2006/07	Analysis of any other gains and losses required to be included in the STRGL	2007/08
£'000		£'000
0	Exceptional items due to correction of revaluation errors	3,423
(446)	Movement in Collection Fund Balance	(297)
0	Adjustments to the Capital Adjustment Account opening balance	(794)
0	Adjustment for HRA pensions liability	(2,525)
(446)		(193)

Due to a prior year adjustment of £10.6m the STRGL does not agree to the movement on the balance sheet.

	2007/08
	£'000
Balance Sheet Movement	31,308
Prior year adjustment to Government Grants deferred and Capital Adjustment Account	10,632
<b>STRGL Movement</b>	<b>41,940</b>

### 63. Deferred Liabilities

In 1989 Scunthorpe Borough Council entered into a deferred purchase agreement with Morgan Grenfell relating to works on Market Hill flats, in Scunthorpe. North Lincolnshire Council inherited this agreement following the 1996 Local Government Reorganisation. The £3.0m principal element of this agreement was due to be repaid in 1998. Following negotiations it was agreed that the agreement could be extended and repaid in twelve £0.25m instalments. At the end of 2007/08 £0.50m remained to be repaid.

### 64. Government Grants Deferred

When received, government grants and similar contributions made to finance capital schemes are credited to the government grant deferred account. They are then amortised to revenue on the same basis as the assets that they financed are depreciated. Grants received for the financing of an asset which is not depreciated are amortised to revenue immediately.

In 2007/08 the council made a prior year adjustment of £10.6m to this account and to the Capital Adjustment Account to achieve full compliance with SORP requirements.

Government Grants Deferred	2006/07	2007/08
	£'000	£'000
Brought Forward	(17,453)	(27,334)
Amortised in year	513	4,025
Prior year adjustment	0	(10,632)
Received in year	(10,394)	(12,865)
Carried Forward	(27,334)	(46,806)

### 65. Financial Instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

## Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they are on the council's approved list. The list is based on independent advice and an investment limit is set for every organisation. Further restrictions were put into effect following the difficulties in the US housing market and Northern Rock.

Customers are assessed, taking into account their financial position, past experience and other factors.

## Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The council has set the following maturity schedule of borrowing to mitigate against this risk:-

### Maturity structure of borrowing

	Upper Limit	Lower Limit
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

## Market risk

### Interest rate risk

The authority faces a risk in terms of its exposure to interest rate movements on its investments and to a lesser extent borrowings. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The authority has a number of strategies for managing interest rate risk. Firstly the risk of loss is ameliorated by the fact that a proportion of government grant payable on

financing costs will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs. Secondly the treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and is tracked through monthly budget monitoring reports and periodic budget reviews.

#### Price risk

The authority does not generally invest in equity shares but does have shareholdings to the value of £1.495m in Humberside Airport. The authority is consequently exposed to losses arising from movements in the prices of the shares.

Financial Instruments Balances	Long term		Current	
	2006/07 £'000	2007/08 £'000	2006/07 £'000	2007/08 £'000
Financial liabilities at amortised cost	(109,001)	(119,318)	(41,350)	(34,986)
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Total Borrowings</b>	<b>(109,001)</b>	<b>(119,318)</b>	<b>(41,350)</b>	<b>(34,986)</b>
Loans and receivables	1,636	1,482	61,023	61,107
Available for sale financial assets	1,495	1,495	0	0
<b>Total Assets</b>	<b>3,131</b>	<b>2,977</b>	<b>61,023</b>	<b>61,107</b>

Gains and Losses on Financial Instruments	Financial Liabilities	Financial Assets		Total £'000
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for sale assets £'000	
Interest Expense	6,971	0	0	6,971
Losses on Derecognition	0	0	0	0
Impairment Losses	0	0	0	0
<b>Interest payable and similar charges</b>	<b>6,971</b>	<b>0</b>	<b>0</b>	<b>6,971</b>
Interest income	0	(3,503)		(3,503)
Gains on derecognition	0	0	0	0
<b>Interest and Investment Income</b>	<b>0</b>	<b>(3,503)</b>	<b>0</b>	<b>(3,503)</b>
Gains on revaluation	0	0	0	0
Losses on revaluation	0	0	0	0
Amounts recycled to the I&E account after impairment	0	0	0	0
<b>Surplus arising on revaluation of financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net gain/(loss) for the year</b>	<b>6,971</b>	<b>(3,503)</b>	<b>0</b>	<b>3,468</b>

## Housing Revenue Account 2007/08

2006/07 £'000	Description	Note	2007/08 £'000
<b>Income</b>			
(22,206)	Dwelling Rents (gross)		0
(358)	Non Dwelling Rents (gross)		(6)
(632)	Charges for services and facilities		(11)
(83)	Contributions towards expenditure		0
0	Housing Revenue Account subsidy receivable	10	(85)
(461)	Government Grant		0
<b>(23,740)</b>	<b>Total Income</b>		<b>(102)</b>
<b>Expenditure</b>			
5,791	Repairs and Maintenance		83
6,667	Supervision and Management		191
124	Rents, rates, taxes and other charges		(2)
2,497	Negative housing revenue account subsidy payable	10	0
603	Stock Transfer Costs	1	0
6,922	Depreciation & Impairment of fixed assets	5	0
86	Debt Management Costs		52
0	Increase in bad debt provision	11	0
<b>22,690</b>	<b>Total Expenditure</b>		<b>324</b>
<b>(1,050)</b>	<b>Net Cost of HRA Services</b>		<b>222</b>
1,481	Interest payable and similar charges		0
(49)	Interest and investment income		(58)
<b>382</b>	<b>(Surplus) or deficit for the year on HRA services</b>		<b>164</b>

2006/07 £'000	Description	Note	2007/08 £'000
382	(Surplus) or deficit for the year on the HRA Income and Expenditure Account		164
(1,234)	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	2	1,250
(852)	Increase or decrease in the Housing Revenue Account Balance		1,414
(562)	Housing Revenue Account surplus brought forward		(1,414)
<b>(1,414)</b>	<b>Housing Revenue Account surplus carried forward</b>		<b>0</b>

## Notes to the Housing Revenue Account 2007/08

### 1. Stock Transfer

With effect from 26th February 2007 the Councils housing stock was transferred to North Lincolnshire Homes Ltd, a registered social landlord (RSL) with charitable status.

Please see note 1 to the core financial statements for more information.

Consent to close the Housing Revenue Account was received on 5th February 2008 from the Department for Communities and Local Government with effect from 31st March 2008.

### 2. Note to the movement on the Housing Revenue Account Balance

2006/07 £'000		2007/08 £'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>	
(34)	Net charges made for retirement benefits in accordance with FRS 17	0
	<b>Items not included in the HRA Income or expenditure Account but included in the movement on the HRA Balance for the year</b>	
(1,730)	Transfer to/from Major Repairs Reserve	0
530	Appropriations to / from reserves	(260)
0	Appropriation to General Fund balance	1,510
0	Capital expenditure funded by the HRA	0
	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	1,250

### 3. HRA Assets

2006/07		2007/08
0	Bungalows	0
3	Houses	0
0	Maisonettes	0
2	Flats	0
0	Multi Storey Flats	0
5	Total	0

2006/07 £'000		2007/08 £'000
	Operational Assets:	
194	Dwellings	0
0	Other Land & Building	0
0	Vehicles Plant & Equipment	0
0	Investment Properties	0
0	Surplus Assets	0
0	Infrastructure	0
0	Community Assets	0
194	Total	0

Under the transfer agreement the council retained a small number of assets. In the main these assets are in areas in need of regeneration. Approval to transfer these residual assets has been granted by the DCLG.

### 4. Vacant Possession Valuations at 1<sup>st</sup> April 2007

The vacant possession value of dwellings within the Council's HRA as at 1 April 2007 is zero (2006/07 £612.81m).

The vacant possession value and balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rents.

### 5. Major Repairs Reserve

2006/07 £'000		2007/08 £'000
(431)	Balance at 1 April 2007	0
	Transfers to MRR	
(6,922)	Appropriation from CFA	0
1,730	Transfer from HRA	0
	Transfers from MRR	
5,623	Debits to MRR re capital expenditure on HRA assets	0
0	Balance at 31 March 2008	0

## 6. HRA Capital Expenditure

There was no capital expenditure on Housing Revenue Assets in 2007/08.

2006/07 £'000		2007/08 £'000
2,485	Borrowing	0
0	Revenue Contributions	0
5,623	Major Repairs Reserve	0
8,108	Total	0

## Summary of Capital receipts from disposals of HRA property and land

This is net of deductions which have been made for administering the RTB process. Included in these figures is £0.1m (£3.5m prior year) of capital receipts that are subject to pooling arrangements and have been paid over to the government.

2006/07 £'000		2007/08 £'000
1,219	Land	0
3,888	Houses	0
103	Other	0
119	NLC share of Right to Buy receipts from NLH	1,813
0	VAT tax shelter arrangement with NLH	1,090
0	Costs incidental to the transfer	(1,674)
5,329	Total	1,229

## 7. Depreciation charged to the Housing Revenue Account

Depreciation has been charged on all HRA properties and calculated in accordance with proper practices.

2006/07 £'000		2007/08 £'000
28	Operational Assets	0
6,873	Dwellings	0
21	Equipment	0
0	Other Land & Buildings	0
0	Non Operational Assets	0
6,922	Total	0

## 8. Impairment Charges

There were no impairment charges in 2007/08.

## 9. Deferred Charges

There were no deferred charges in 2007/08.

## 10. HRA Subsidy

HRA subsidy is paid to meet any shortfall between expenditure and income on a model of the council's HRA (the notional HRA). The HRA subsidy is based on annual assumptions covering the rents each council will charge (guideline rents), allowances for management and maintenance (M & M), the HRA's share of debt financing and management costs, calculated in accordance with a formula and other specific items of expenditure and income.

2006/07 £'000		2007/08 £'000
12,401	Management & Maintenance Allowance	0
5,192	Major Repairs Allowance	0
1,769	Charges for Capital	0
286	Rental Constraints Allowance	0
50	Other Reckonable Expenditure	41
(22,187)	Rent Income	0
(8)	Interest on Receipts	(7)
<b>(2,497)</b>	<b>Gross Subsidy Entitlement</b>	<b>34</b>
0	Prior Years Adjustments	51
<b>(2,497)</b>	<b>Gross Subsidy Received / (Paid) in year</b>	<b>85</b>

## 11. Rent Arrears and Provision for bad debts at 31<sup>st</sup> March 2008

2006/07 £'000		2007/08 £'000
646	Current Tenant Arrears at transfer date	0
427	Former Tenant Arrears at transfer date	0
<b>(1,073)</b>	<b>Balance Transfer to North Lincolnshire homes Ltd</b>	<b>0</b>
0	<b>Total</b>	<b>0</b>

2006/07 £'000		2007/08 £'000
872	Brought Forward	0
(48)	Write Offs	0
0	Adjustment to Provision	0
<b>(824)</b>	<b>Balance Transfer to North Lincolnshire homes Ltd</b>	<b>0</b>
0	<b>Aggregate Balance sheet provision for bad debt</b>	<b>0</b>

## 12. Earmarked Reserves

In 2006/07 an earmarked reserve was setup to meet HRA closedown costs. In 2007/08 £260k of this reserve was used. A balance of £350k remains and will be used to meet any remaining costs of the HRA and B-Line closures.

## 13. Pension Contribution to Reserves

Pension contributions to / from the pension reserve have been calculated in accordance with the requirements of FRS17.

## Collection Fund Account 2007/08

2006/07 £'000	COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT	Note	2007/08 £'000
<b>INCOME</b>			
58,097	Income from Council Tax (net of benefits)		60,729
	Transfer from General Fund		
10,157	Council Tax Benefits		10,318
64,009	Income collectable from non-domestic rate payers	CFA2	63,306
<u>132,263</u>			<u>134,353</u>
<b>EXPENDITURE</b>			
	Precepts and Demands		
56,947	North Lincolnshire Council (including parish and town council precepts)	CFA3	59,006
7,077	Humberside Police Authority	CFA3	7,479
3,333	Humberside Fire Authority	CFA3	3,522
	Non-Domestic Rates		
63,763	Payment to national pool	CFA2	63,061
246	Costs of collection	CFA2	245
	Bad and doubtful debts		
201	Write offs		597
49	Provisions		(204)
	Contributions		
170	North Lincolnshire Council's precept for estimated collection fund surplus	CFA3	296
21	Humberside Police Authority share of collection fund surplus		37
10	Humberside Fire Authority share of collection fund surplus		17
<u>131,817</u>			<u>134,056</u>
(446)	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>		(297)
26	<b>(Surplus)/Deficit brought forward at 1 April 2007</b>		(420)
<u>(420)</u>	<b>(SURPLUS)/DEFICIT CARRIED FORWARD AT 31 MARCH 2008</b>		<u>(717)</u>

## Notes to the Collection Fund Account 2007/08

### 1. Council Tax Base

Council tax charges are raised on residential properties, which are allocated into eight bands based on their value as at 1st April 1991. Prior to each financial year, an estimate is made of the amount of income to be taken from the Collection Fund by the Council, the Humberside Police Authority and the Humberside Fire and Rescue Service. This amount is divided by the Council Tax base to arrive at a charge per Band D equivalent property. The Council Tax base is calculated by taking the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) and converting this to an equivalent number of Band D dwellings. For 2007/08, the Council Tax base was calculated as follows:

Property Type	Band D Equivalents
Band A	19,461.9
Band B	9,528.3
Band C	8,607.6
Band D	6,339.8
Band E	3,670.9
Band F	1,671.2
Band G	656.2
Band H	16.0
Ministry of Defence	45.9
<b>Total</b>	<b>49,997.8</b>

### 2. National Non Domestic Rates (NNDR)

Local businesses pay non-domestic rates, which are calculated by taking their rateable value and multiplying it by the amount specified by the Government for that year, then deducting any relief and allowances that may be applicable. The total non-domestic rateable value at the 31<sup>st</sup> March 2008 was £158.11m (£157.53m prior year) and the NNDR multiplier for the year was 44.1p for small businesses and 44.4p for other businesses (42.6p for small businesses and 43.3p for other businesses in the prior year).

The Council collects the rates due from ratepayers in its area and, after deducting any allowances for the costs of collection and various allowable discounts, pays the proceeds into the NNDR pool administered by the government. The relationship between gross rateable value and actual payments to the Government is shown in the table below.

2006/07 £000	National Non-Domestic Rates (NDR / NNDR)	2007/08 £000
67,677	Gross Amount Due	67,671
(1,728)	Charity, etc, Relief	(1,852)
1,801	Transitional Relief	1,271
(3,030)	Empty and Part Occupation Relief	(3,445)
(370)	Bad Debts, provision and write offs	(229)
(340)	Interest on Overpayments	(109)
64,009	Net Amount Collectable	63,306
(246)	Cost of Collection Allowance Payable to General Fund	(245)
<b>63,763</b>	<b>Amount Payable to NNDR Pool</b>	<b>63,061</b>

### 3. Precepts and Demands

The Council's demand on the collection fund was £59.0m (£56.9m prior year). This included precepts from parish councils and town councils totalling £1,143k (£1,023k prior year). A share of the estimated Collection Fund Surplus for 2007/08 of £296k (£170k prior year) was also allocated.

In addition, the Humberside Police Authority levied a precept of £7.5m (£7.1m prior year) and were allocated their £37k (£21k prior year) share of the estimated Collection Fund surplus. The Fire Authority levied a precept of £3.5m (£3.3m prior year) and were allocated a £17k share of the estimated surplus (£10k prior year).

# Glossary of Financial Terms

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by the council that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

## **Accruals**

This is the concept of recognising income and expenditure when earned or incurred, not as money is received or paid.

## **Amortisation**

The writing off of a balance over a period matching the consumption of its economic benefit.

## **Balances**

Reserves held by the Council at the end of the financial year.

## **Capital Adjustments Account**

This account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them

## **Capital Expenditure**

This is expenditure on the acquisition, creation or enhancement of a fixed asset.

## **Capital Expenditure charged to a Revenue Account (CERA)**

This is a method of financing capital expenditure directly from revenue.

## **Capital Receipts**

Income received from the sale of capital assets. Housing capital receipts from the sale of Council houses are now subject to a pooling arrangement and 75% are paid to the Department of Communities and Local Government (DCLG).

## **Collection Fund**

This is a statutory fund for the receipt of Council Tax and Non-Domestic Rates collected by the Council and the payments made from these funds including precepts and payments to and from the NNDR pool.

## **Community Assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Consistency**

This is the principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Balance Sheet (BS)**

Summary of the overall financial position of the Council at the end of the financial year.

**Contingent Liabilities**

A contingent liability is either:

- (i) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- (ii) A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**Creditors**

Amounts owed by the Council for goods and services, where payment has not been made at the end of the financial year.

**Curtailments (Pension)**

A curtailment is an event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples might include a redundancy programme as a result of e.g. closing a factory or the introduction of a defined contribution pension arrangement covering all employees for future service.

**De minimis**

An immaterial amount or balance.

**Debtors**

Amounts owed to the Council for goods and services, where the income has not been received at the end of the financial year.

**Dedicated Schools Grant (DSG)**

From 2007/08, school funding for local authorities in England is provided by a ring fenced grant called Dedicated Schools Grant (DSG), rather than as part of the Revenue Support Grant settlement.

**Deferred Charges**

Deferred Charges are expenditure that may properly be capitalised, and results in an asset that is not owned by the Council. Examples are expenditure on items such as improvement grants and the purchase of some assets under the Local Area Agreement.

**Deferred Credits**

These consist of deferred capital receipts, which are amounts derived from the sales of assets that will be received in instalments over agreed periods of time and deferred government grants that are grants received in advance.

**Deferred Liabilities**

These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time. Examples include debt taken over from former Councils on reorganisation where the loan rests with another body or Council and discounts written back as a result of loan rescheduling.

**Depreciation**

Measure of the wearing out, consumption, or other reduction in the useful life of a fixed asset, whether arising from use, over time or obsolescence through technological or other changes.

**Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation to the accounts.

**Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include any prior period items merely because they relate to a prior period.

**Fees and Charges**

Income arising from the provision of services.

**Financial Reporting Standards (FRSs)**

Statements prepared by the Accounting Standards Board. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

**Financial Year**

This is the period of time to which a Statement of Accounts relates. The financial year of the Council runs from 1st April to 31st March.

**Fixed Assets**

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

**Formula Spending Share (FSS)**

Government assessment of the appropriate amount of revenue expenditure which would allow authorities to provide a standard level of service, consistent with the Government's view of the appropriate amount of revenue expenditure for all authorities. FSSs are calculated each year for all authorities and are used to determine the amount of Revenue Support Grant to be provided by Government to local authorities.

**General Fund**

This is the main revenue account of a local authority, from which day to day spending on its services is met.

**Going Concern**

Accounting concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

**Government Grants**

Assistance by government and inter-government agencies and similar bodies, in the form of cash or transfer of assets to a Council in return for past or future compliance with certain conditions relating to the activities of the Council.

**Housing Revenue Account (HRA)**

Account showing the income and expenditure relating to Council housing.

**Impairment**

Impairment represents the clear consumption of economic benefits (e.g. storm damage). Impairment losses are also chargeable where there is no accumulated revaluation gain for an asset that can absorb any loss due to general changes in prices.

**Income and Expenditure Account (I&E)**

Report of the net costs for the year of all the functions for which the Council is responsible.

**Intangible Asset**

Assets that have a useful life of over one year but are not material or physical.

**Infrastructure Assets**

Infrastructure assets can be defined as groups of assets that together form an integrated system. Such a system could not be effectively operated if individual components were removed. Examples of such assets are highways and footpaths.

**Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential with any rental income being negotiated at arm's length.

**Leasing**

Method of financing the provision of various capital assets, usually in the form of operating leases which tend not to provide for title in the asset to transfer to the Council.

**Liquid Resources**

Current asset investments that are readily disposable by the Council without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

**Long Term Borrowing**

Amounts repayable in more than 12 months.

**Long Term Investments**

Long-term investments are investments intended to be held for use on a continuing basis in the activities of the Council. They should be so classified only where an intention to hold the asset for the long term can clearly be demonstrated or where there are restrictions as to the investor's

ability to dispose of the investment. Where investments are not classified as long term investments, they are classified as current assets.

**Minimum Revenue Provision (MRP)**

Minimum amount which must be charged to a Council's revenue account each year for the repayment of principal.

**National Non-Domestic Rate (NNDR)**

Amounts payable to the Council from non-domestic properties. The rate poundage is set nationally and amounts collected by local authorities are pooled and then redistributed by the Government to authorities based on the local resident population.

**Net Book Value (NBV)**

Amount at which fixed assets are included in the balance sheet, i.e., their historical cost or current value less the cumulative amounts provided for depreciation.

**Net Current Replacement Cost**

Cost of replacing or recreating the particular asset in its existing condition and in its existing use.

**Net Realisable Value**

Open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**Non-Operational Assets**

Non-operational assets are tangible fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Post Balance Sheet Events**

Events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

**Precept**

Demands made upon the collection fund by the authorities which it directly funds, i.e North Lincolnshire Council, Humberside Police and Humberside Fire and Rescue Service for the services they provide. Parish Councils also raise precepts which are paid by North Lincolnshire Council and included within the Precept it levies on the collection fund.

**Provisions**

Amounts set aside to meet liabilities or losses which are likely to be incurred but where the amount remains uncertain.

**Prudence**

Accounting concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. Proper allowance must be made for all known and foreseeable losses and liabilities.

**Public Works Loan Board (PWLB)**

Central Government Agency, which lends money to local authorities usually at interest rates which are more favourable than those found elsewhere.

**Reserves**

Sums set aside to meet future expenditure. Some reserves are earmarked for specific purposes only. Others are general reserves.

**Revaluation Reserve**

This is an account containing any surpluses arising from the revaluation of fixed assets. It replaces the Fixed Asset Restatement Account.

**Revenue Expenditure**

Expenditure on the day-to-day running of the Council, including employee costs, running expenses and capital financing costs.

**Tangible Fixed Assets**

These are assets that have a useful life of over one year and are material or physical.

**Revenue Support Grant (RSG)**

Grant paid to local authorities by Central Government to help finance its general expenditure. It is determined under the Formula Spending Share system.

**Settlement (Pension)**

A settlement is an irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the assets and liabilities in respect of that obligation. Examples would include purchasing annuities in respect of pensioner liabilities or making a bulk transfer payment to another arrangement.

**Short Term Borrowing**

This is borrowing repayable on demand or within 12 months.

**Statement of Recommended Practice (SORP)**

This is a document issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). All English and Welsh Local Authorities must comply with the SORP in compiling their financial statements.

**Useful Life**

This is the period over which the Council will derive benefits from the use of a fixed asset.