# HYNDBURN
# BOROUGH COUNCIL

# Statement of Accounts
# (Audited)

## Year Ended 31st March, 2008

BY INDUSTRY AND PRUDENCE

HYNDBURN

The place to be

an excellent council - as rated by the audit commission

# Contents



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# AUDITOR'S REPORT

## Independent auditor's report to the Members of Hyndburn Council

**Opinion on the financial statements**

I have audited the Authority accounting statements and related notes of Hyndburn Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Housing Revenue Account, the Cash Flow Statement, 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 Hyndburn 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.

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

The Responsible Financial Officer'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;

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

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. 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.

### *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.

### *Opinion*

In my opinion the Authority's 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 31March 2008 and its income and expenditure for the year then ended.

## 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. 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, Hyndburn 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**

The Councils former auditors Grant Thornton issued their statutory report on the audit of the Council's best value performance plan for the financial year 2007/08 on 12 December 2007. They did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

**Certificate**

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.

Clive Portman

District Auditor

2nd Floor Aspinall House
Aspinall Close

Middlebrook

Bolton

BL6 6QQ

24 September 2008

# EXPLANATORY FOREWORD

## Introduction

This publication is the Council's statement of accounts (SOA) for the financial year ended 31st March 2008. The main purpose of the document is to present fairly a summary of the significant financial transactions which have occurred during or for the year, and of the assets and liabilities of the authority at the balance sheet date.

The statements presented on the following pages comprise:

(a) **Statement of Accounting Policies**
This supports and explains the basis of the figures used in the accounts.

(b) **Statement of Responsibilities for the Statement of Accounts**
This sets out the respective responsibilities of the Council and the Chief Financial Officer for the accounts.

(c) **Core Financial Statements**

(i) **Income and Expenditure Account for the Authority**
In summary, the I & E account shows the resources generated and consumed by the authority in the year.

(ii) **Statement of the Movement on the General Fund Balance (SMGFB)**
This is a reconciliation statement with the I & E Account, showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising council tax.

(iii) **Statement of Total Recognised Gains and Losses (STRGL)**
This financial statement brings together all the gains and losses of the authority for the year, in relation to total movement within 'net worth' given in the bottom-half of the Balance Sheet.

(iv) **Balance Sheet**
This statement sets out the financial position of the Council at year-end 31 March. It shows a summary of fixed assets held, the current assets employed, the balances and reserves of the Council, and the Council's financial liabilities.

(v) **Cash Flow Statement**
This statement summarises the Council's inflows and outflows of cash arising from transactions with third parties during the year, for revenue and capital purposes.

(d) **Supplementary Financial Statements**

(i) **Housing Revenue Account (HRA)** - a statutory account, ring-fenced from the rest of the General Fund, and which comprises two statements:
(a) **HRA Income and Expenditure Account** - summarising revenue expenditure and income relating to this authority's (former*) housing stock; and (b) **Statement of Movement on the HRA Balance** - this takes the outturn on the HRA I & E account and reconciles it to the surplus or deficit for the year on the HRA Balance.
*'Large Scale Voluntary Transfer' (housing stock transfer) was effected at Hyndburn from 30th March, 2006.*

(ii) **Collection Fund income and expenditure account**
All the money collected from council taxpayers and non-domestic ratepayers is paid into this account and the precepts, being the money required by the borough council, the county council and the police and fire authorities to meet net spending on services provided, is distributed out of this account. The Collection Fund balance sheet is included in the Council's consolidated balance sheet.

(e) **Annual Governance Statement (AGS)**
From year 2007/08 onwards, the Annual Governance Statement has superseded the former Statement on the System of Internal Control ('SIC'). The AGS comprises mainly a policy statement; recognition of core principles of Good Governance; the Council's corporate governance arrangements; and an Annual Governance Review with associated conclusions and list of evidence files supporting the AGR. The AGS, like the former 'SIC', is a self-contained statement which is submitted to the Audit Committee for approval.

## 2. General Fund (other than the HRA)

Summary of General Fund revenue account and net movements on Balance:

| Financial Year 2007/08 | Updated Budget * £000 | Actual Outturn £000 | (Favourable) / Adverse Variance £000 |
|---|---|---|---|
| Net Expenditure & other movements in year | 14,801 | 14,017 | (784) |
| financed by: | | | |
| HBC precept on the Collection Fund | 5,001 | 5,002 | (1) |
| Local Authorities Business Growth Incentive ** | 0 | 76 | (76) |
| Revenue Support Grant | 1,387 | 1,387 | 0 |
| Business Rates (NNDR) share via the Govt's 'pool' | 8,264 | 8,264 | 0 |
| HBC Collection Fund (deficit)/surplus balance | (9) | (9) | 0 |
| *Resources total* | *14,643* | *14,720* | *(77)* |
| (Increase)/Reduction in GF Balance | 158 | (703) | (861) |

# EXPLANATORY FOREWORD

* The original budget was approved by Council on 26th February 2007, including a contribution of £89,559 from General Fund reserves. On 26th June 2007 the Council approved additional budget total of £68,115 to be met from GF reserves brought forward (with zero impact on net Budget Requirement), giving an updated budget for contribution of £157,674 from GF reserves.

** Further information on the 'LABGI' grant from the Government is at note 14 to the core financial statements.

As indicated in the above table, the final Income & Expenditure Account, together with the Statement of the Movement on the General Fund Balance, reflects a GF Balance net increase of approximately £703,000. The approved updated budget had provided for a contribution of some £158,000 from GF Balance, so there is an overall favourable variance of approximately £861,000. The £703k increases the General Reserves of the Council from approximately £1,338,000 at the end of year 2006/07 to a positive balance of some £2,041,000 at the end of 2007/08.

Thus, the outturn position marks a further significant improvement in the Council's overall financial management and forward position.

Variances against budgets have been continually reported during the year to the Council's Corporate Management Team and to the Cabinet.

The Council's Cabinet was presented with a report on the then 2007/08 GF Revenue Account provisional final outturn at the 18th June 2008 meeting.

As in previous years, while overall expenditure was contained across the Council's Budget, there were a small number of areas in which an overspend occurred. However our budgetary monitoring procedures identified these early in the year and appropriate action was taken to reduce expenditure in these areas or manage overspend across the Council.

A significant feature is that the surplus funds position envisaged by the year-end enabled the prudent financing from revenue account of a further payment being made, of approx. £476k, for reduction of the estimated liability of the Council in relation to the Local Government Pension Scheme deficit attributable to Hyndburn Homes (as part of the March 2006 housing stock transfer). This part of the Council's pension liability is also referred to in the following note on Pension Costs Liabilities in this explanatory foreword.

The intention remains to continue the sound and prudent management of finances, and taking appropriate in-year actions, in 2008/09 and onwards, in order to continue the Council's strong financial management and related achievements, and to sustain such improved position and capacity for further service improvements.

# EXPLANATORY FOREWORD

Pension Costs Liabilities

The financial statements incorporate the requirements of Financial Reporting Standard (FRS) 17. This means that pensions liabilities are recognised in the accounts when they are incurred rather than when they are paid, and better reflects the commitment to making good any shortfall in the attributable net assets of the pension fund. The balance sheet contains two balances - the pensions liability of the Council (net of its attributable share of pension fund assets), and a corresponding reserve from/to which appropriations are made to/from the Statement of the Movement on the General Fund Balance (SMGFB) to neutralise the effect of this reporting standard on the amount to be paid by Council Tax payers.

In compliance with the FRS and the statement of recommended accounting practice (the SORP), pensions liabilities are estimated for the year's accounts using an appropriate discount rate from AA corporate bonds. Further detail on this is in Note 33.

Over the course of the year the size of the net pension deficit increased from £26.5m to £37.2m. The increase in the deficit is due to the annual re-estimation of the pension fund's assets and liabilities by the Fund's Actuary in April 2008 reflecting increased pensions liabilities, including around pensioners living longer; and investments performing significantly worse over the year than had previously been assumed. However, the next year's figures should include the effect of a general rise in investment markets in April 2008.
Statutory arrangements for the funding of the pension scheme mean that the financial position of the Council remains healthy in this regard.
Further information on pension liabilities and funding is given in Note 33 to the core financial statements. It is intended that, in due course, the reported net liability will be addressed through further regular triennial reviews of the pension fund, and current or future proposed statutory amendments to the scheme.

The Council's net pensions liability embodies a liability (estimated by the pension fund Actuary, via Lancashire County Council, initially at £2.7m) for retained pension fund deficit for former HBC employees who transferred to the Hyndburn Homes company(ies) for the March 2006 Housing Stock Transfer . The Council had contributed almost £1m during 2006/07 specifically toward reducing the amount of that liability.
In taking the latter, and some upward adjustments, into account the actuary (Mercer Ltd) produced a figure in May 2008 of £2.2m for 'updated deficit amount as at 31 March 2007'.

# EXPLANATORY FOREWORD

## 3. Housing Revenue Account (HRA)

A summary of the HRA outturn and net movements on HRA Balance:

| Financial Year 2007/08 | **Actual Outturn £000** |
|---|---|
| Expenditure & other movements | 10 |
| Government Subsidy: adjustment for year 05/06 | 6 |
| (Increase)/Reduction in HRA Balance | 16 |

During the course of the year, the resolution of residual items within the HRA resulted in a reduction of the balance by approximately £16,250. The main causes of this were: £4,000 on outstanding repair costs of former properties, £13,000 on management costs, a reduction of the provision for bad debts of £7,000, and a subsidy adjustment of £6,000 in respect of financial year 2005/06. As shown within this Statement of Accounts, the in-year deficit resulted in the year ending with a HRA Balance of £55,298 surplus.

The Council's Cabinet was presented with a report on the 2007/08 HRA final outturn at the June 2008 meeting.

Within the terms of the housing stock transfer agreement between the Council and Contour Housing Group's 'Hyndburn Homes', the balance on the Major Repairs Reserve (MRR) is to be passed to Hyndburn Homes Ltd (after transferring it to the Council's General Fund reserves) provided that the MRR balance and Housing Revenue Account balance carried forward to the Council, together amount to at least £400,000. The final figure of MRR to be transferred to Hyndburn Homes, from the Council's General Fund, therefore has been determined as part of the process of final and formal closure of the HRA, which has been subject to specific approval by the Secretary of State, who has now issued a 'Consent to Close Housing Revenue Account'. The HRA has now been closed at 28th March 2008, and the Balance transferred to the Council's General Fund reserves.

# EXPLANATORY FOREWORD

## 4. Capital Expenditure

Capital expenditure in year 2007/08 totalled £10.565 m as follows:

| Scheme | Amount £'000 |
|---|---|
| Housing Market Renewal (incl'g Equity Share loans *) | 6,737 |
| Housing Improvement Grants | 1,311 |
| Bullough Park, Accrington, improvements | 251 |
| Project Phoenix | 242 |
| Vehicles & Equipment | 239 |
| Area Councils' schemes | 195 |
| King George V playing field | 117 |
| CCTV Borough Network Extension | 114 |
| Gatty Park, Acc'n, improvements | 109 |
| Foxhill Pavilion | 97 |
| Rhyddings & Memorial Parks restoration | 97 |
| Cycle Track Huncoat | 91 |
| Market Street, Church, property acquistion | 85 |
| Holgate Street, Gt Harwood, Car Park Improvements | 84 |
| Planned Asset Management | 76 |
| Project Belinda (ICT network enhancements) | 70 |
| Disability Discrimination Act | 63 |
| Council Chamber Refurbishment | 57 |
| E-Government Implementation | 38 |
| Other capital schemes | 492 |
| **TOTAL** | **10,565** |

This compares to capital expenditure of £8.468m in 2006/07. The financing of the capital expenditure is given in note 18 to the core financial statements.

Schemes' progress and any variances against budgets have been continually monitored; and overviewed during the year via the Officers / Member capital programme working group (CPWG). The Council's Cabinet, at its June 2008 meeting, was presented with a report of 2007/08 Capital Programme final outturn.

* Equity Share Loans

From year 2006/07, such ES loans have been made by the Council, per policy approved in 2006: year 2006/07 total so advanced was £682,250 comprising 21 loans; and 2007/08 is a further £473,150 (further 16 loans); cumulatively £1,155,400 (37 no.). They have related entirely to home relocations financed by central government via 'Elevate East Lancashire' housing market renewal programme.

In future, the Council may use ES loans also for appropriate instances of home improvements, such loans to be financed from available capital programme resources.

As indicated in Note 16 to the core financial statements, equity share loans have been categorised as Deferred Charges capital expenditure.

Under the circumstances of the related loan repayment conditions, it is not appropriate to include the ES loans in the Balance Sheet. If and when such loans may become due for repayment, the loan amount and the cumulative £75 per annum administration fees would then be recognised as income appropriately in the HBC financial statements. In the meantime, and on an ongoing basis, transactions relating to ES loans (including administration fees) are recorded, summarised and reconciled within the Council jointly by the departments involved. *Note 42 (Financial Instruments) also refers*.

From 2008/09, in accordance with a report approved by the Council's Cabinet in July 2007, there would be 'Purchase Assistance Loans' under such new, related policy and conditions (including for any repayment) in conjunction with 'Elevate' and loan administrator (external). In early part of year 2008/09 there are specific transitional arrangements, in that there is particular and limited scope in defined areas for further Equity Share Loans rather than PALs.

## 5. Business Improvement District (BID)

As noted in the 2006/07 Statement of Accounts, during the latter part of 2006, a successful ballot (with 'yes' majority result) of the businesses at Altham Business Park and Altham Industrial Estate caused the formal setting-up of the planned Altham BID to deliver security benefits - for a scheme period of five years (from April 2007) - under the Business Improvement Districts (England) Regulations 2004 (and the Local Government Act 2003) and in accordance with a published business plan. More information on this can be found on www.althambid.co.uk website.

The Council's financial role is to bill the annual local BID Levy to all the businesses for the relevant financial year (this was done in the latter part of year 2006/07 for the 2007/08 initial year's total of £50,100) and to collect it; and to pay over amounts collected to Altham BID Co Ltd plus VAT. In accordance with the Regulations and the 'SoRP', the levy-related amounts are not included in the Council's main financial statements of income and expenditure within this Statement of Accounts (SOA), other than any 'debtors' and 'creditors' related Levy figures and (if any) recovery costs and income.
A required memorandum account, and further information, is at Note 34.

## 6. Impact of 'SoRP' 2006 (ongoing) and 2007 further requirements (for 2007/08 onwards), together with new Capital Finance Regulations

Significant changes for local authorities' statement of accounts were introduced for and from year 2006/07 financial statements by the 2006 statement of recommended practice (SoRP). Such changes emanated, and continue to emanate, from intended further convergence with UK GAAP (generally accepted accounting principles/practice, as found in private sector organisations' published accounts). In the main:

(a) the former Consolidated Revenue Account became 'Income and Expenditure Account' (I&E account) followed by a 'Statement of the Movement on the General Fund Balance' (SMGFB); and corresponding new arrangement for the HRA;

(b) the Income & Expenditure Account for the authority:
(i) includes the contribution to the Government's housing pooled capital receipts, but no longer the corresponding credit for the transfer from usable receipts (that credit is in the SMGFB);
(ii) includes a line for gains or losses on disposal of fixed assets (a 'contra' for this is in the SMGFB);
(iii) no longer includes the (former) Notional Interest capital charges; and
(iv) reflects credits for release of grant from Govt Grants Deferred A/c now going to relevant Services;

Together with other inherent changes in content and/or presentation, it can be observed that the financial reporting via the Statement of Accounts, under the SoRP, has in-built complexities particularly in presenting the bottom-line financial position as affecting the General Fund reserves movement. The need for the Statement of the Movement on the GF Balance (SMGFB) is in order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years. Thereby the outturn on the I&E Account is reconciled to the balance established by relevant statutory requirements on local authorities (including proper regard to demand on Council Tax).

SoRP 2007 for and from 2007/08

Further changes in accounting/reporting requirements for the Statement of Accounts were brought in for 2007/08, as outlined for the Audit Committee at its 1st April 2008 meeting.

Particular impact now includes:

(i) **Inception and operation of Revaluation Reserve for fixed assets** – Note 29. This Revaluation Reserve has started with a zero balance from 1st April 2007. Unlike the former FA Restatement Reserve, downward revaluation changes cannot be included in the revaluation reserve if there are no balances built up in it by previous upward revaluations of the same assets. Therefore, the Income and Expenditure Account has to bear such 'losses' in 2007/08; correspondingly the adverse impact has been able to be neutralised via the 'SMGFB'. The I&E Account includes charges of £736k for downward value adjustments not via the revaluation reserve; and also £6,223k for the parts of capital expenditure on HBC fixed assets not enhancing their values (similarly such charge to the I&E A/c is neutralised in the SMGFB).

(ii) **Financial Instruments and 'Fair Value'**. By the 2007 SORP's adoption of Financial Reporting Standard (FRS) 25, FRS 26 and FRS 29 – which deal with recognition, measurement, disclosure and presentation of 'financial instruments' (financial assets and financial liabilities) – measurement of Borrowing Outstanding as financial liabilities carrying value(s) (Note 26) now includes accrued interest as at year-end.

In addition, for stepped-rate interest loans (e.g. the LOBOs) the new accounting requirement to smooth the 'effective rate of interest' charges over the expected life of each loan has a significant additional cost for the Income & Expenditure Account. Fortunately for the Council, all the LOBOs were entered into before 9th November 2007 – therefore the adverse impact in 2007/08 (including retrospectively from inception of the loans) is able to be neutralised via the SMGFB – in accordance with new capital finance regulations issued via Parliament in February 2008, which protect local authorities from the retrospective accounting impact.
The latter has been effected by related use of the new Financial Instruments Adjustment Account.

Where material or different from the Balance Sheet carrying values, the fair value of loans has been disclosed – note 26. *There is also a composite Note 42.*

(iii) **Local Area Agreement (LAA)**
Lancashire LAA, with particular reference to involvement of Hyndburn BC, is now the subject of an additional, required disclosure – Note 35.

(iv) **Annual Governance Statement (AGS)**
The Statement on the System of Internal Control has been superseded by the Annual Governance Statement - as explained briefly at 1 (e) in the Introduction to this Explanatory Foreword.

# EXPLANATORY FOREWORD

Minimum Revenue Provision (MRP) arrangements

Local Authorities are normally required each year to set aside some of their revenues as provision (ie MRP) for debt - in respect of capital expenditure financed by borrowing or credit arrangements. The system has been revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 – the relevant parts of which became operative on 31st March 2008 (i.e. applicable for year 2007/08 and subsequent years). The former rules on MRP have been replaced with a new duty to make *prudent provision*. Coupled with that change, and under a 2007 power of the Secretary of State to issue guidance (as well as or instead of regulations) on accounting practices, statutory MRP Guidance has been issued to LAs by the Department for Communities & Local Government (DCLG) in conjunction with the particular 2008 amending regulation. Regard to the guidance must be given at LAs by 2008/09.

In the statutory guidance, LAs are asked to prepare an Annual MRP Statement – of policy on making MRP, for submission to full Council. For year 2007/08, the intended and prudent option of Hyndburn BC continuing with the former (regulatory) calculation is being implemented in the 2007/08 Accounts - as reflected in Note 7 (£282k net of commutation adjustment) - and being confirmed in an early recommendation for approval at Council 26th June 2008.

For year 2008/09, also with regard to the statutory guidance, a review of Hyndburn BC policy for MRP in 2008/09 is to be determined by the Council by 31st March 2009. In the meantime, the Council's Budget 2008/09 deliberately had provided for MRP to be on the regulatory basis – i.e. continuation option (1) below as appropriate and prudent.

Options on MRP calculation can be used provided that they are fully consistent with the statutory duty to make prudent revenue provision. *Four* particular options are included in the DCLG guidance:-

(1) **Regulatory option** (as if the former regulation(s) had not been revoked) – as deliberately reflected at HBC for 2007/08 and initially for 2008/09, inclusive of the existing feature of commutation adjustment.

(2) **CFR option** – still based on the concept of the Capital Financing Requirement, but may result in a higher level of provision.

(3) **Asset Life option** (provision over the estimated life of the asset for which the borrowing is undertaken) – for new borrowing (if any) under the Prudential system for which no Government support is being given and is therefore self-financed; there are two alternatives included for this option in the statutory guidance:

- equal instalment method
- annuity method

(4) **Deprecation option** – alternatively for new borrowing (if any) under the Prudential system for which no Government support is being given. If/where this option may be applicable, LAs will normally need to follow standard procedures for calculating depreciation provision but with some exceptions according to the guidance.

## 7. Balance Sheet

The most significant changes now reflected in the Council's balance sheet, are as follows.

(a) The previous negative position of £2.2m as at 31st March 2007 for Total Assets less Total Liabilities (financed by 'Net Worth') has increased by some £7.7m to a greater negative position of £9.9m as at 31st March 2008. The negative movement of £7.7m is attributable mostly to a net increase of £10.7m in the Pensions Liability (as summarised at the end of Note 33 to the core financial statements and referred to earlier in this Explanatory Forward). On the balance sheet, that is offset by approximately £3m improvement (comprising £2m increase in Fixed Assets net values and £1m net decrease in Liabilities other than the pensions liability (particularly reductions in both creditors and bank overdraft position)).

(b) Debtors and Creditors overall balances have reduced markedly from the previous year-end. Debtors overall balance (at note 24) has reduced by 14.2% year-on-year, and Creditors has reduced by 19.3%.

The Council has Total Assets, less current liabilities, of £39.2m and Long Term Borrowings' balance of £9.9m, with other liabilities of £2.0m, giving an overall net positive position of £27.3m - apart from the Pensions Liability shown.

Referred to earlier in part 2 of this Explanatory Foreword under 'Pension Costs Liabilities', the Net Pensions Liability continues to be reported primarily under Financial Reporting Standard (FRS) 17; and the statutory arrangements mean that the financial position of the Council remains healthy in that regard.

Unapplied capital grants and contributions. To reflect CIPFA's published 2007/08 SoRP Guidance Notes, and CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 73 issued in April 2008, the Council's balance sheet (top half) now has a separate line for Grants and Contributions Unapplied, with comparative prior year figures causing a restatement, particularly for Creditors.

# EXPLANATORY FOREWORD

## 8. Acknowledgement

I wish to record my thanks to colleagues in Finance services and in other service areas for their hard work and commitment in completing this Statement of Accounts and all the supporting information.

## 9. Approval of the financial statements

The whole Statement of Accounts (SOA) was presented to, for approval by, the full Council on 26th June 2008 – via prior report and any recommendation(s) of the Audit Committee meeting on 24th June.
This was subject to subsequent inclusion of any necessary and agreed adjustments after the Council meeting, including such adjustments (if any) arising in or from the external audit of the accounts - as reported if significant or material to the Audit Committee on 18th September 2008.

## 10. Further information

If required, further information about the accounts would be available from the Head of Accountancy Services, Hyndburn Borough Council, Scaitcliffe House, Ormerod Street, Accrington, BB5 0PF. This is part of the Council's policy of providing full information about the Council's affairs. The availability of the accounts for inspection is advertised in the local press. The Statement of Accounts, initially before audit completion and subsequently afterwards, is also placed on the Council's website www.hyndburnbc.gov.uk.

## 11. Appointed Auditors

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton.

As part of periodic changes to external audit appointments, the Audit Commission announced that for and from 2007/08 accounts this Council's external auditor will be the Audit Commission.

J.V. McIntyre CPFA
Executive Director (Chief Financial Officer)

# STATEMENT OF ACCOUNTING POLICIES

## 1. General

The accounts follow the appropriate and prescribed accounting standards as required by the Code of Practice on Local Authority Accounting in the UK: a statement of recommended practice (the SoRP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
In accordance with the SoRP, the accounts have been prepared using the historic cost convention except in relation to fixed assets where the accounting treatment varies depending on the type of asset (see accounting policy 3) and present value of pensions estimated liabilities (see within accounting policy 14). Requirements for applicable recognition, measurement, disclosure and reporting for financial instruments have been reflected where appropriate.

## 2. Fundamental Accounting Concepts

i) The revenue and capital accounts are maintained on an accruals basis. *This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned (ie when goods/services/work are received, or when income is due), not as money is paid or received.* Income is also matched with associated costs and expenses as far as the relationship can be established or justifiably assumed.

ii) Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.

iii) Income has only been recognised in the accounts where there is reasonable certainty, and proper allowances have been made for foreseeable losses and liabilities.

iv) The accounts have been prepared on a going concern basis.

v) The accounting statements have been prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than their formal legal character.

vi) As allowed under the SORP, the concept of materiality has been utilised in the process of preparing the accounts, such that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.

## STATEMENT OF ACCOUNTING POLICIES

vii) Where estimating techniques are required to enable the accounting practices adopted to be applied, then the techniques which have been used are, in the Authority's view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change, and, if practicable, the effect on the results for the current period are separately disclosed.

viii) In accordance with the SORP, where an accounting treatment is prescribed by law, then it has been applied, even if it contradicts accounting standards or generally accepted accounting concepts. The following legislative accounting requirements have been applied when compiling these accounts;

- Capital receipts from the disposal of assets are treated in accordance with the provisions within Part 1 of the Local Government Act 2003, applicable from 1st April 2004.

- Legislation covering the amounts chargeable to Council Tax and the Local Government Pension Scheme specify the amounts which should be charged to revenue in respect of pension costs. Local Authorities therefore account for the difference between the FRS17 charge, and contributions, through the Pensions Reserve.

- In accordance with the requirements of legislation the authority is required to set aside a minimum revenue provision for repayment of debt.

- The Collection Fund account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988.

- The Housing Revenue Account is compiled following proper practice, which had been defined in section 66(4) of the Local Government and Housing Act 1989.

# STATEMENT OF ACCOUNTING POLICIES

## 3. Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis where deemed to be significant. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefit to the authority and the services it provides, for a period of more than one year.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Valuations in year 2007/08, as part of the Council's rolling programme of required revaluations, were carried out in accordance with RICS standards as applicable, and certified, by Mr A T Snape BA MRICS of the Valuation Office - an executive agency of HM Revenue & Customs.

The principal valuation bases used for tangible fixed assets are as follows:

a) Operational land and properties are valued on the basis of current value in existing use, unless they are of a specialist nature in which case they are valued on a Depreciated Replacement Cost basis, or Market Value (formerly 'open market value') as applicable.
b) Vehicles, plant and equipment values are based on historical cost less depreciation.
c) Infrastructure and Community assets are included at historical cost, less any applicable depreciation.
d) Non-operational properties in full commercial use are valued by reference to their Market Value on the basis of net realisable value. Investment properties are valued on the basis of Market Value.

In accordance with the SORP all valuations are subject to review as part of a five year rolling revaluation programme.

Intangible Fixed Assets are defined in FRS 10 as 'non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights'. They are valued at cost and written off on a straight-line basis for and from the year after acquisition, over an appropriate period of years (eg using a relevant period of licence(s) for purchased software).

# STATEMENT OF ACCOUNTING POLICIES

## 4. Depreciation

Depreciation is provided for on fixed assets, where appropriate, with a finite useful life. In general (with the exception of vehicles & plant as from acquisitions in year 2007/08), the depreciation is calculated and applied following the year after acquisition, on a straight-line method over the remaining estimated useful life of the asset, as detailed below - and no depreciation is charged in financial year of acquisition. Vehicles and plant are depreciated from the 1st of the month following acquisition.

| Asset | Period (years) |
|---|---|
| Operational Buildings | 30 * |
| Vehicles & Plant (see also note above) | 2-10 |
| Infrastructure | 10 |
| Community Assets | 15-30 * |
| Non-Operational Buildings | 30 |

* As part of the Council's five-year rolling revaluation programme, a revised estimated useful life of the asset (if applicable) may be applied, up to a maximum of 60 years.

## 5. Capitalisation

In 2003/04, the Council revised how it estimates its contribution to Capital Projects. The revision ensures the Council now charges an appropriate amount of staff time to capital projects in line with the Council's policy and application of the SORP (and accounting policy 19 below also refers); this amounted to £321,555 in 2007/08 (£228,935 in 2006/07) against a capital programme spend of £10.565m in 2007/08 (3.04%).

## 6. Deferred Charges

Deferred charges are payments of a capital nature where no fixed asset of the Council is created. Such expenditure has been primarily in relation to improvement grants and, from year 2006/07, also includes equity share loans in relation to private sector housing .

Under the SORP, deferred charges are written off in the year of expenditure. In order to prevent such charges impacting on taxpayers, the charges are reversed out via the Statement of the Movement on the General Fund Balance, to the capital financing account.

# STATEMENT OF ACCOUNTING POLICIES

## 7. Basis of Charges for Capital

General fund service revenue accounts, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The aggregate charge to individual services is determined on the basis of the capital employed in each service. Prior to the 2006 SORP, the charge comprised a provision for depreciation (where appropriate) and a notional interest charge. From the 2006/07 Accounts onwards the Notional Interest capital charge has been removed.

External interest payable is charged to the Income & Expenditure account for the authority; and the Statement of the Movement on the GF Balance (SMGFB) is credited with capital charges to services. Capital charges, therefore, have a neutral impact on the amounts required to be financed from local taxation and/or (formerly at HBC) Council house rents.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves, are disclosed separately in the SMGFB.

## 8. Leases

Rentals paid under operating leasing agreements have been accrued and accounted for through the Revenue Accounts in the period to which they relate. Finance lease(s), as defined by 'SSAP 21', are accounted for as deferred liabilities (within Long Term Liabilities on the Balance Sheet); and the finance charges (ie interest element) and principal element, respectively, are charged to service(s) revenue account and the long-term liability.

## 9. Capital Receipts

Capital receipts from the disposal of assets are held until such time as they are used to finance other capital expenditure or to repay debt. The proportion of capital receipts that is available to finance new expenditure is held in the capital receipts unapplied account, whilst the proportion set aside under statutory requirements for debt repayment is held in the capital financing account.

## 10. Debtors and Creditors

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to or from the Council during the financial year, where deemed to be significant, are included whether or not the cash has actually been received or paid in the year.

# STATEMENT OF ACCOUNTING POLICIES

## 11. Stocks and Work in Progress

Stocks are valued at their purchase price, and are issued on a "First In First Out" basis.

## 12. Provisions (defined as amounts set aside for specific future losses and liabilities that are uncertain in amount and date)

Provisions have been recognised in the accounts when there is a legal or constructive obligation to transfer economic benefits that can be estimated with a degree of certainty as a result of a past event.
A summary of these are given in note 28 to the core financial statements.

Provision for Bad and Doubtful debts has been made in respect of General Fund and Collection Fund debts. These have been netted off Debtors value in the Balance Sheet (see note 24).

## 13. Reserves (in general, amounts set aside to meet expenditure which may be incurred in future periods)

Any amounts set aside for purposes falling outside the definition of provisions have been accounted for as reserves. As from 2006/07 and where appropriate, transfers to and from reserves have been shown in the Statement of the Movement on the General Fund Balance (and not within service expenditure in the Income & Expenditure A/c). Subsequent relevant expenditure is charged to Services respective revenue account(s) and/or capital programme, with financing from the applicable, specified reserve(s). Earmarked reserves are summarised in note 32 to the core financial statements.

## 14. Pensions

From 2003/04, the SORP governing local authority accounting (referred to in Accounting Policy 1) has required authorities to account for their pension costs in accordance with FRS17 Retirement Benefits. The authority has accounted for its pension costs arising from the Local Government Pension Scheme, and for all unfunded discretionary benefits which it has granted.

The 'SORP' has required local authorities, in applying a discount rate for present value of defined benefit scheme liabilities, to use with effect from 2004/05 financial statements the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities.

Further information, for the subject financial year's statements, is given in the Explanatory Forward and in note 33 to the core financial statements.

## STATEMENT OF ACCOUNTING POLICIES

In December 2006 the Accounting Standards Board (ASB) made a number of changes to the FRS 17 accounting standard. In the main, these changes related to the presentation of the figures and the disclosures (to bring disclosures notes closer into line with IFRS (International Financial Reporting Standards)) rather than the underlying calculations themselves, although they did include a requirement for assets to be valued at bid value rather than mid-market value. The changes are not required to be implemented until year 2008/09; and the local authorities' SoRP retains the existing form of disclosure for 2007/08. The ASB also issued, in January 2007, a new 'best practice reporting statement' for FRS17; at this stage, via the pension fund actuary, disclosure of all possible figures is awaiting a consensus to emerge on how the 'statement' will be adopted in practice. *The changes mentioned in this paragraph are expected to come in via the 2008 SoRP for LAs' accounting, for and from year 2008/09 financial reporting.*

### 15. Government Grants

Revenue grants are credited to income in the same period in which the related expenditure is charged.
Government grants and contributions relating to fixed assets are credited to a government grants deferred account and released to the relevant Services in line with the depreciation of the asset. Where an asset is not depreciated, the grant or contribution is transferred to the capital adjustment account. Grants and contributions received in advance of the capital expenditure are credited to Grants and Contributions Unapplied account.

### 16. Investments

Investments are shown in the Balance Sheet at cost less a provision, where appropriate, for any unrealised loss in the value of the investment.
The largest investment consists of a loan to GEL joint venture company (Globe Enterprises Ltd). Further details are in note 23 to the core financial statements.

### 17. Repurchase / early settlement of loan debt

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Income and Expenditure Account in the period during which the repurchase or early settlement is made. Where, however, the repurchase of borrowing has been coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses have been recognised over the life of the replacement borrowing.
SoRP 2007, for year 2007/08 onwards, provides that any premiums (losses) or discounts (gains) arising on early repayment of debt that are required (by the SoRP) to be carried forward on the Balance Sheet, should be used to adjust the carrying amount of the replacement or modified loan debt.

# STATEMENT OF ACCOUNTING POLICIES

## 18. Accounting for Interest

The Council accounts for interest payable in the year on an accruals basis, in accordance with 'FRS 4' principles, supplemented by applicable requirements of Financial Reporting Standards 25, 26 and 29. *Note 42 also refers*.

## 19. Allocation of costs

Central Support Services are recharged to front-line services, trading undertakings, capital accounts and other support services. The costs of service management are apportioned to the accounts representing the activities managed. All the bases of apportionment are adopted consistently for all heads to which apportionment should be made. The costs of the Corporate and Democratic Core and of Non Distributed Costs are not charged or apportioned to services and are separately classified on the Income and Expenditure Account.

## 20. Group Accounts

Group financial statements are required if and where an authority has substantial or material interest in subsidiary or associated companies - the aim being to provide a fuller picture of such authority's overall financial position. The SORP had brought in changes to the requirements, from the 2004/05 accounts disclosures onwards.
As far as relationships and/or involvement with other organisations is concerned, the group accounts requirements for financial statements demonstrably do not apply to this Council.

## 21. Revaluation Reserve (Fixed Assets)

The Council have included a Revaluation Reserve from 1st April 2007, in accordance with the SoRP, with a starting balance of zero. *Note 29 refers*.

## 22. Capital Adjustment Account

In accordance with the SoRP: (a) the (previous) Capital Financing Account has been re-named 'Capital Adjustment Account' from 1st April 2007; and (b) the balance brought forward from the Fixed Asset Restatement Account as at 31st March 2007 has been transferred, as an initial entry into the 2007/08 Capital Adjustment A/c. *Note 30 refers*.

## 23. Financial Instruments and Financial Reporting Standards

From SoRP 2007, coverage of accounting for Financial Instruments is based on Financial Reporting Standard 26 (recognition and measurement), FRS 25 (presentation) and FRS 29 (disclosures). *Note 42 also refers*.

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The following responsibilities are placed upon the Authority and the Chief Financial Officer in relation to the Authority's financial affairs.

**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 Authority that officer is the Chief Finance Officer;

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- to approve the Statement of Accounts.

Peter Britcliffe

Date: 18th September 2008 Signature: P Britcliffe
Leader of the Council

**The Chief Financial Officer's Responsibilities**

As Chief Financial Officer, I am responsible for the preparation of the Authority's Statement of Accounts. This is required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2008.

In preparing the Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code.

I have also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents fairly the financial position of the authority as at 31st March 2008 and its income and expenditure for the financial year 2006/07.
Date: 18th September 2008 Signature:

Joe McIntyre

J. V. McIntyre CPFA,
Executive Director / section 151 officer

# INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the authority during the last financial year.

| 2006/07 Net £'000 | Outturn for the year for the authority | Note | 2007/08 Gross Expend. £'000 | 2007/08 Income £'000 | 2007/08 Net Expend. £'000 |
|---|---|---|---|---|---|
| | Services to the Public | | | | |
| 1,094 | - Central Services | | 12,649 | (3,296) | 9,353 |
| 7,070 | - Cultural, Environmental and Planning Services | | 13,703 | (5,899) | 7,804 |
| 1,515 | - Highways, Roads and Transport Services | | 1,947 | (332) | 1,615 |
| 781 | - Housing Services, including 'discontinued services' | 1 | 31,982 | (31,127) | 855 |
| 1,582 | Corporate and Democratic Core net costs | | 738 | (9) | 729 |
| (8) | Non Distributed Costs | | 1,181 | (16) | 1,165 |
| 12,034 | **NET COST OF SERVICES** | | 62,200 | (40,679) | 21,521 |
| | **CORPORATE INCOME AND EXPENDITURE:** | | | | |
| (1,030) | (Gain) or loss on disposal of fixed assets | 5 | | | (932) |
| 0 | Unattached capital receipt (GEL) | 23 | | | (53) |
| 0 | Precepts of local precepting authorities: Altham Parish Council | | | | 9 |
| 64 | (Surplus) / Deficit on Trading Undertakings | 2 | 2,416 | (2,463) | (47) |
| 708 | Interest Payable and similar charges | | | | 1,020 |
| 20 | Contribution to Govt Housing 'Pooled' Capital Receipts | 31 | | | 26 |
| 685 | Pensions Interest Costs and Expected Return on Assets | 33 | | | 574 |
| (378) | Interest and Investment Income | | | | (643) |
| **12,103** | **NET OPERATING EXPENDITURE** | | | | **21,475** |
| | **PRINCIPAL SOURCES OF FINANCE:** | | | | |
| (4,749) | Precept on Collection Fund for council tax, incl'g parish precept | | | | (5,011) |
| 49 | Collection Fund (surplus) / deficit transfer | | | | 9 |
| (1,578) | General Government Grant(s) | 14a | | | (8,580) |
| (7,725) | Non-Domestic Rate Income from national pool | 14b | | | (8,264) |
| **(14,003)** | | | | | **(21,846)** |
| (1,900) | **NET I & E ACCOUNT (SURPLUS) / DEFICIT FOR YEAR** | | | | (371) |

## STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

| | | | | | |
|---|---|---|---|---|---|
| (1,900) | (Surplus) or deficit for the year on the Income and Expenditure Account, from the summary account above | | | | (371) |
| 1,321 | Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the GF Balance for the year *– analysed at (A) to (C) on next page* | | | | (332) |
| **(579)** | **(Increase) or decrease in GF Balance for the Year** | | | | **(703)** |
| (759) | General Fund Balance brought forward | | | | (1,338) |
| **(1,338)** | **General Fund Balance carried forward** | | | | **(2,041)** |

To complement the following Analysis page, an explanation of the purpose of the 'SMGFB' is given within sections 1(c) & 6 of the Explanatory Foreword

# STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

| 2006/07 £'000 | STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE (continued): Analysis | Note | 2007/08 £'000 |
|---|---|---|---|
| | **Analysis of the above net additional amount required to be debited or (credited) to the General Fund Balance for the year:** | | |
| | **(A) Amounts included in the I&E Account but required by statute to be excluded when determining the Movement on the GF Balance for the year** | | |
| (0) | Amortisation of intangible fixed assets | 15 | (10) |
| (1,029) | Depreciation of fixed assets | 7 | (984) |
| 115 | Govt Grants Deferred amortisation, via Capital Adjustment A/c | 30 | 173 |
| 0 | Deferred Charges of in-year capital expenditure,written-out (contra) | 16 | 0 |
| 1,030 | Contra to net gain on sale of fixed assets, and unattached receipt | | 985 |
| (2,305) | Net (charges) made for retirement benefits and liabilities in accordance with FRS 17: appropriation (from)/to Pensions Reserve | | (2,309) |
| 0 | Contra to Fixed Assets values adjustments | | (6,957) |
| 0 | Contra to Financial Instruments Adjustment A/c | 26 &42 | (229) |
| | Grants & contributions used in capital financing: enhancing assets | | 7,117 |
| | non-enhancing | | 275 |
| **(2,189)** | *Total (A)* | | **(1,939)** |
| | **(B) Amounts not included in the I&E Account but required to be included by statute when determining the Movement of the GF Balance for the year** | | |
| 158 | Minimum Revenue Provision for capital financing, net of grants commutation adjustment | 7 | 282 |
| (20) | Transfer from Usable Capital Receipts to meet payments to the Govt Housing capital receipts 'pool' | 31 | (26) |
| 3,089 | Employer's contributions payable to Pension Fund | | 2,033 |
| **3,227** | *Total (B)* | | **2,289** |
| | **(C) Transfers to or from the GF Balance that are required to be taken into account when determining the Movement on the GF Balance for the year** | | |
| (35) | Contribution to / (from) HRA Reserve | | (526) |
| 0 | Financing of capital expenditure by Direct Revenue Finance | | 4 |
| 318 | Contribution(s) to / (from) earmarked GF reserve(s) | | (160) |
| **283** | *Total (C)* | | **(682)** |
| 1,321 | **Total net additional amount required to be debited or (credited) to the GF Balance for the year** | | (332) |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

As indicated in the Explanatory Foreword this core statement brings together all the gains and losses of the authority for the year, and relates to the aggregate of the authority's net worth compared with the previous year-end.

| 2006/07 * restated £000 | STRGL : description of (gains) or losses for the year | Notes | 2007/08 £000 |
|---|---|---|---|
| (1,900) | (Surplus)/deficit for the year on the Income and Expenditure A/c for the authority | | (371) |
| (1,074) | (Surplus) or deficit arising on revaluation of fixed assets ** | | (2,593) |
| (4,158) | Actuarial (gains)/losses on pension fund assets and liabilities, in accordance with FRS17 | 33 | 10,365 |
| | Other (gains) and losses: | | |
| (181) | movement on Collection Fund | | 263 |
| * (74) | other movements in Net Worth | | 0 |
| *** (7,387)** | Total recognised (gains) / losses for the year | | **7,664** |

** From the 2007 SoRP, it is possible for authorities to have a line in the STRGL for '(Surplus)/deficit arising on revaluation of available-for-sale financial assets'. This authority has no such financial assets as at 31 March 2008 - note 42 refers.

| 2006/07 restated * | | | Summary of Movement in Net Worth (additional Table ) | Notes | 2007/08 | | |
|---|---|---|---|---|---|---|---|
| **Opening Balance** £000 | **Net Change** £000 | **Closing Balance** £000 | | | **Opening Balance** £000 | **Net Change** £000 | **Closing Balance** £000 |
| (33,353) | (6,056) | (39,409) | Fixed Asset Restatement A/c *to 1/4/07* | *29* | (39,409) | 39,409 | 0 |
| 0 | 0 | 0 | Revaluation Reserve for Fixed Assets | *29* | 0 | 2,596 | 2,596 |
| 51,254 | 5,618 | 56,872 | Capital Adjustment Account *(ex CFA)* | *30* | 56,872 | (39,520) | 17,352 |
| 0 | 0 | 0 | Financial Instruments Adjustment A/c | *42* | 0 | (229) | (229) |
| * 1,310 | * 1,840 | 3,150 | Usable Capital Receipts Reserve | *31* | 3,150 | 984 | 4,134 |
| (31,467) | 4,942 | (26,525) | Pensions Reserve | *33* | (26,525) | (10,641) | (37,166) |
| 470 | 0 | 470 | Major Repairs Reserve (HRA) | *HRA 5* | 470 | (470) | 0 |
| | | | *Fund Balances:* | | | | |
| 759 | 579 | 1,338 | General Fund | | 1,338 | 703 | 2,041 |
| 107 | (35) | 72 | Housing Revenue Account | | 72 | (72) | 0 |
| (301) | 181 | (120) | Collection Fund | | (120) | (263) | (383) |
| | | | *Earmarked Reserves:* | | | | |
| 1,498 | 419 | 1,917 | Hyndburn Borough Council | *32* | 1,917 | (161) | 1,756 |
| 101 | (101) | 0 | LEP/LEP Ltd specific reserves | | 0 | 0 | 0 |
| * (9,622) | *** 7,387** | (2,235) | Total Net Worth: positive/(negative) position | | (2,235) | **(7,664)** | (9,899) |

As given in the Explanatory Foreword, part 7 (a), the negative movement of £7.7m in Net Worth is mostly attributable to a net increase of £10.7m in the Pensions Liability (and therefore also the Notional Pensions Reserve).

# BALANCE SHEET

| 2006/07 restated* £'000 | Balance Sheet for the Authority as at year ended 31st March | Note | 2007/08 £'000 |
|---|---|---|---|
| | **LONG TERM ASSETS** | | |
| 30 | Intangible fixed assets | **15** | 103 |
| 25,355 | Tangible Operational fixed assets | **15** | 25,571 |
| 6,916 | Tangible Non-operational fixed assets | **15** | 8,808 |
| 32,301 | Total Fixed Assets | | 34,482 |
| 646 | Long Term Investments | **23** | 593 |
| 28 | Long Term Debtors | **21** | 25 |
| 32,975 | | | 35,100 |
| | **CURRENT ASSETS** | | |
| 69 | Stocks & Work in progress | **22** | 38 |
| 11,161 | Debtors | **24** | 8,869 |
| 6,031 | Investments | **23** | 7,967 |
| 0 | Bank balance: cash at bank | | 0 |
| 5 | Cash in hand | | 6 |
| 17,266 | | | 16,880 |
| | **CURRENT LIABILITIES** | | |
| 0 | Short Term borrowing | **26** | (6,725) |
| * (528) | Grants and Contributions Unapplied | | (668) |
| * (5,706) | Creditors | **25** | (4,607) |
| (1,960) | Bank (overdraft) | | (740) |
| (8,194) | | | (12,740) |
| **42,047** | TOTAL ASSETS LESS CURRENT LIABILITIES | | **39,240** |
| | **LONG TERM LIABILITIES** | | |
| (16,288) | Long Term borrowing | **26** | (9,896) |
| (11) | Deferred Capital Receipts | **27** | (11) |
| (299) | Provisions | **28** | (985) |
| (1,159) | Govt Grants Deferred Account (receipts in advance) | | (1,069) |
| 0 | Deferred Liabilities | **20** | (12) |
| (26,525) | Net Pensions Liability | **33** | (37,166) |
| (44,282) | | | (49,139) |
| **(2,235)** | **TOTAL ASSETS LESS LIABILITIES financed by:** | | **(9,899)** |
| | **CAPITAL ACCOUNTS & RESERVES** | | |
| (39,409) | Fixed Asset Restatement Account | **29** | 0 |
| 0 | Revaluation Reserve – for Fixed Assets | **29** | 2,596 |
| 56,872 | Capital Adjustment Account | **30** | 17,352 |
| 0 | Financial Instruments Adjustment Account | **42** | (229) |
| 3,150 | Usable Capital Receipts Reserve | **31** | 4,134 |
| 470 | Major Repairs Reserve | **HRA 5** | 0 |
| | **NOTIONAL RESERVES** | | |
| (26,525) | Notional Pensions Reserve | **33** | (37,166) |
| | **BALANCES** | | |
| 1,917 | Earmarked Reserves | **32** | 1,756 |
| 1,338 | Balances - General Fund *(page 27)* | | 2,041 |
| 72 | - Housing Revenue Account *(page 68)* | | 0 |
| (120) | - Collection Fund *(page 72)* | | (383) |
| **(2,235)** | **TOTAL RESERVES AND BALANCES = Equity or Net Worth** | | **(9,899)** |

# CASH FLOW STATEMENT

| 2006/07 £000 | Description | 2007/08 £000 | 2007/08 £000 | 2007/08 £000 |
|---|---|---|---|---|
| | **REVENUE ACTIVITIES** | | | |
| | CASH OUTFLOWS | | | |
| 12,778 | Cash paid to and on behalf of employees | 12,051 | | |
| 27,409 | Precepts paid | 29,331 | | |
| 17,453 | National non-domestic rate payments to national pool | 17,647 | | |
| 18,337 | Housing Benefit paid out | 18,994 | | |
| 310 | Payments to the Capital Receipts Pool | 44 | | |
| 21,683 | Other operating payments | 10,265 | | |
| 97,970 | | | 88,332 | |
| | CASH INFLOWS | | | |
| (26,515) | Council Tax receipts | (27,756) | | |
| (17,058) | Non-domestic rate receipts | (16,907) | | |
| (7,710) | National non-domestic rate receipts from national pool | (8,264) | | |
| (1,529) | Revenue Support Grant | (1,387) | | |
| (18,121) | DWP grants, for housing benefit paid out as Rent Allowances | (19,733) | | |
| (11,676) | Other government grants - Note 40 | (10,652) | | |
| (19,069) | Cash received for goods and services | (4,943) | | |
| (101,678) | | | (89,642) | |
| **(3,708)** | See also Note 39 | | | **(1,310)** |
| | **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | | |
| | CASH OUTFLOWS | | | |
| 1,405 | Interest paid | 786 | | |
| 1,405 | | | 786 | |
| | CASH INFLOWS | | | |
| (370) | Interest received | (637) | | |
| (370) | | | (637) | |
| **1,035** | | | | **149** |
| | **CAPITAL ACTIVITIES** | | | |
| | CASH OUTFLOWS | | | |
| 7,398 | Purchase of fixed assets | 7,502 | | |
| 1,202 | Capital Grants | 2,572 | | |
| 682 | Equity Share Loans | 473 | | |
| 9,282 | | | 10,547 | |
| | CASH INFLOWS | | | |
| (1,899) | Sale of fixed assets | (1,089) | | |
| (8,422) | Capital Grants received | (11,342) | | |
| (51) | Other Capital cash payments / (income) | (79) | | |
| (10,372) | | | (12,510) | |
| **(1,090)** | | | | **(1,963)** |
| **(3,763)** | **NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING** | | | **(3,124)** |
| | **MANAGEMENT OF LIQUID RESOURCES** | | | |
| 4,700 | Net increase/(decrease) in short term deposits | | | 1,900 |
| **937** | | | | (1,224) |
| | **FINANCING** | | | |
| | CASH OUTFLOWS | | | |
| 3,100 | Net decrease in temporary borrowings | | | |
| 0 | Repayments of long term loans | 5,100 | | |
| 0 | Finance Lease | 3 | 5,103 | |
| 3,100 | | | | |
| | CASH INFLOWS | | | |
| (1,600) | New long term loans raised | | | |
| 0 | Net increase in temporary borrowings | (5,100) | | |
| (1,600) | | | (5,100) | |
| **1,500** | | | | **3** |
| **2,437** | (Increase)/decrease in cash and cash equivalents | | | **(1,221)** |

## NOTES TO CORE FINANCIAL STATEMENTS

### 1. Housing Services - within the Income & Expenditure Account

The figures relating to Housing Services, in the I & E Account, can be further analysed as follows:

| 2006/07 | | | | 2007/08 | | |
|---|---|---|---|---|---|---|
| Income £'000 | Exp. £'000 | (Surplus) / Deficit £'000 | | Income £'000 | Exp. £'000 | (Surplus) / Deficit £'000 |
| (26,627) | 26,888 | 261 | Housing Benefits | (27,241) | 27,486 | 245 |
| (2,602) | 3,087 | 485 | General Fund Housing Services | (3,876) | 4,486 | 610 |
| (109) | 144 | 35 | Housing Revenue Account * | (10) | 10 | 0 |
| **(29,338)** | **30,119** | **781** | TOTAL | **(31,127)** | **31,982** | **855** |

* Housing Revenue A/c (HRA) relates to HBC discontinued operations: Housing Stock Transfer of 30th March, 2006.

As also indicated in the Explanatory Foreword, following the Housing Stock Transfer of 30th March 2006 the Housing Revenue Account was required to remain open for at least a further financial year, in order to resolve any further relevant and residual transactions, which in 2007/08 have been residual and relatively minimal. Subject to specific approval by the Secretary of State, who has now issued a 'Consent to Close Housing Revenue Account', the HRA has now been closed at 28th March 2008, and the Balance transferred to the Council's General Fund reserves - *notes 5 & 8 to the separate Housing Revenue Account, within this SOA, refer.*

### 2. Trading Accounts within the I & E Account

The Council operates the covered markets in Accrington and Great Harwood, its Industrial Estates and MOT testing station, and associated other activities, as external / internal trading accounts.

| 2006/07 | | | | 2007/08 | | |
|---|---|---|---|---|---|---|
| Income £'000 | Exp. £'000 | (Surplus)/ Deficit £'000 | | Income £'000 | Exp. £'000 | (Surplus)/ Deficit £'000 |
| (650) | 498 | (152) | Markets | (634) | 462 | (172) |
| (218) | 303 | 85 | Industrial Estates | (550) | 594 | 44 |
| (1,560) | 1,691 | 131 | MOT / Stores / Depot | (1,279) | 1,360 | 81 |
| **(2,428)** | **2,492** | **64** | TOTAL | **(2,463)** | **2,416** | **(47)** |

## NOTES TO CORE FINANCIAL STATEMENTS

### 3. Agency Services & Local Authority (Goods and Services) Act 1970

The Council carried out certain work on an agency basis for which it was reimbursed. The principal areas of work are:

- as Highways agent for Lancashire County Council, the Council supervised work carried out on the district's highways including general maintenance on roads and streets and general improvement schemes. The Council had entered into a highways partnership agreement with Lancashire County Council on 1st July 2003 (Lancashire Highways Partnership). This agreement terminated on 30th June, 2006, after notice given by LCC.

Total expenditure and income for the year (2006/07 = part year) was as follows:-

| | Lancashire County Council | |
|---|---|---|
| | **2006/07 £000** | **2007/08 £000** |
| Expenditure | 436 | 0 |
| (Income) | (431) | 0 |
| **Net Cost/(Surplus)** | **5** | **0** |

Therefore there was no net cost of such Agency work in financial year 2007/08 (2006/07 part-year net cost was £4,744).

### 4. Publicity expenditure (disclosure under Section 5 of 1986 Act)

In accordance with the Local Government Act 1986, section 5(1), a local authority is required to disclose its expenditure on publicity. The Act defines publicity as "any communication, in whatever form, addressed to the public at large or to a section of the public". In year 2007/08 the authority spent a total of £47,975 on publicity; and this was mainly on advertising job vacancies and Council services and promotions. This compares with £57,614 for 2006/07.

# NOTES TO CORE FINANCIAL STATEMENTS

## 5. Gains and Losses on Disposal of Fixed Assets

This is a disclosure requirement introduced by the 2006 SORP, applicable to the year 2006/07 financial statements onwards, and thereby requires corresponding inclusion in the Income & Expenditure Account.

The total net gains for the year(s) are in essence from a comparison of the relevant capital receipts with the 'carrying value' (if / where applicable and appropriately updated where necessary) of the fixed assets concerned.

Housing stock transfer (LSVT) related items shown are quarterly payments to HBC as per the 30/3/06 Transfer Agreement, arising from sales of former HRA properties by Hyndburn Homes Ltd post-transfer.

As there will be no direct net impact on the revenue balance, the items in the I&E Account are reversed out by matching entries in the Statement of Movement on the General Fund Balance.

| Description of (gains)/losses | 2006/07 £000 | 2007/08 £000 |
|---|---|---|
| Miscellaneous non-housing asset disposals | (31) | (3) |
| Housing Large Scale Voluntary Transfer (LSVT) related | (999) | (929) |
| Contra in Statement of Movement on GF Balance | 1,030 | 932 |
| Net Impact on General Fund Balance | 0 | 0 |

## 6. Leasing

The Council utilises assets through operating leases. The amount paid in respect of operating leases in year 2007/08 amounted to £368,358 (£569,616 in 2006/07). The amount of rentals paid in 2007/08 are in respect of the following items:

| Description | 2007/08 £'000 |
|---|---|
| IT-related items | 45 |
| Vehicles | 193 |
| Equipment | 130 |
| Total | 368 |

The amounts outstanding in respect of future years is £860,250 at 31st March 2008, comprising the following elements:

| Leases expiring | Land & Buildings | Other Operating Leases |
|---|---|---|
| | £000 | £000 |
| In financial year 2008/09 | 0 | 0 |
| Between 2009/10 and 2013/14 | 0 | 478 |
| After financial year 2014/15 | 0 | 382 |
| TOTAL | 0 | 860 |

There is a separate note on Finance Lease(s) - note 20.

## 7. Minimum Revenue Provision

The Authority is required to set aside a minimum revenue provision (MRP) for the redemption of external debt. As outlined in the Explanatory Foreword, part 6, the method of calculating the provision was defined by statute (regulations) up to March 2008, when new 'statutory guidance' was finalised and introduced by the DCLG for 2007/08 onwards.
The authority has charged 4% MRP in 2007/08. All 2007/08 capital expenditure has been supported from the authority's own resources (ie not by borrowing).
In relation to a Finance Lease a MRP charge has been made, equivalent to the amount of principal payable for the year under the lease - note 20 also refers.
The gross MRP provision is adjusted for any losses made on the commutation of grants. The difference between the minimum revenue provision and the depreciation charged is shown as adjustment(s), within the Statement of the Movement on the General Fund Balance, from the Capital Adjustment Account.

| Description | 2006/07 £000 | 2007/08 £000 |
|---|---|---|
| Non Housing Amount | | |
| - 4% of Capital Financing Requirement | 573 | 567 |
| - Finance Lease (life of asset) | | 3 |
| Less loss on Grant Commutation | (415) | (288) |
| Total Minimum Revenue Provision | 158 | 282 |
| Less amount charged as general fund depreciation | (1,029) | (994) |
| **Inclusion in Statement of Movement on GF Balance** | **(871)** | **(712)** |

## 8. Employees Remuneration

The number(s) of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were as follows:-

| | 2006/07 | 2007/08 |
|---|---|---|
| £50,000 - £59,999 | 1 | 0 |
| £60,000 - £69,999 | 1 | 1 |
| £70,000 - £79,999 | 1 | 0 |
| £80,000 - £89,999 | 0 | 1 |
| £90,000 - £99,999 | 1 | 0 |
| £100,000 - £109,999 | 0 | 0 |
| £110,000 - £119,999 | 0 | 1 |

## 9. Related Party Transactions

In relation to Financial Reporting Standard 8 (FRS 8), it is a requirement that the financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Council may have been affected by the existence of related parties and by material transactions with them. Related parties are individuals or organisations that have the potential to control or influence the Council or be controlled and influenced by the Council or are subject to common control; and include the following:-

(a) Central Government - details of receipts from central government are shown in the Cash Flow Statement and, especially for Formula Grant share, the Income and Expenditure Account.

(b) Precepting Authorities - details of precepts in respect of Lancashire County Council, Lancashire Police Authority and Lancashire Combined Fire Authority are shown in the Collection Fund Accounts.

(c) Joint Venture and Joint Venture Partners - the Council's interest in Globe Investments Ltd is given in *Note 23*. In relation to external grants received by the Council, the Council acts as the accountable body for the distribution of eg Single Regeneration Budget (SRB); and details of grants received, where material, are in *the Cash Flow Statement note 3*. For 2007/08 some external grants were received as 'LAA' grant (given in total at *Note 35*).

(d) Members and Chief Officers - some Council Members and Officers act in a number of capacities for related parties. This may include being employed by other local authorities, acting as a trustee or serving on the management board of companies and voluntary organisations. Members of the Council have direct control over the Council's financial and operating policies. Members' interests in related parties have been included, where applicable, in the Register of Members Interests comprising completions of a statutory form - which is open to public inspection. There are no Related Party issues.

## NOTES TO CORE FINANCIAL STATEMENTS

### 10. Discretionary Expenditure (disclosure under Section 137 of 1972 Act, as amended)

As a consequence of the Local Government Act 2000 granting new powers to local authorities to promote well-being in their areas, the majority of the provisions of s137 of the Local Government Act 1972 were repealed with effect from October 2000 for 'principal' authorities (including district councils).

However, principal authorities are to continue to disclose any expenditure under s137, subsection 3, comprising expenditure on contributions to: (a) funds of any charitable body in furtherance of its work in the United Kingdom; or (b) funds of any body which provides any public service in the UK; or (c) any fund raised in connection with a particular event affecting UK residents on behalf of whom there is a mayoral appeal. There is no specific statutory limit on s137(3) expenditure. The Council's expenditure under this power was £36,814 (£40,542 in 2006/07).

This is broken down as follows:

| **2006/07 £** | Contributions under s137(3), Local Govt Act 1972 | **2007/08 £** |
|---:|---|---:|
| 22,459 | (a) to charitable bodies | 21,488 |
| | (b) to not-for-profit bodies providing public services: | |
| 2,675 | grant to Altham Parish Council | 2,675 |
| 15,408 | other bodies | 12,651 |
| 0 | (c) to mayoral appeals | 0 |
| **40,542** | Total | **36,814** |

## NOTES TO CORE FINANCIAL STATEMENTS

### 11. Building Control Regulations

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control functions. However, certain activities performed by the Building Control Service cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below is a summary of the income received and expenditure incurred in respect of the above regulation.

| | 2006/07 | | 2007/08 | |
|---|---|---|---|---|
| | Fee Earning £'000 | Non-Fee Earning £'000 | Fee Earning £'000 | Non-Fee Earning £'000 |
| **Income** | | | | |
| Admin Fees | (2) | | (1) | |
| Building Regulation Fees | (172) | | (172) | |
| Sub-Total | **(174)** | | **(173)** | |
| **Expenditure** | | | | |
| Employees | 220 | 141 | 145 | 62 |
| Transport | 15 | 5 | 9 | 4 |
| Supplies & Services | 8 | 10 | 24 | 10 |
| Agency & Contracted | | | 2 | 1 |
| Central Support | 54 | 31 | 39 | 17 |
| Sub-Total | **297** | **187** | **219** | **94** |
| (Surplus)/Deficit | 123 | 187 | 46 | 94 |

### 12. Members Allowances

The Council is required to disclose the total value of members' allowances paid in the year. For year 2007/08 the total was £269,836 (for 2006/07 it was £246,378).

# NOTES TO CORE FINANCIAL STATEMENTS

## 13. Audit Fees

Hyndburn Borough Council incurred the following fees relating to audit and inspection.

| | 2006/07 £'000 | 2007/08 £'000 |
|---|---|---|
| Fees payable with regard to external audit services carried out by the appointed auditor | 98 | 98 |
| Fees payable in respect of statutory inspection | 4 | 6 |
| Fees payable for the certification of grant claims and returns | 40 | 25 |
| Fees payable in respect of other services provided by the appointed auditor | 0 | 1 |
| | 142 | 130 |

In order to comply with the UK generally accepted accounting practice (UK GAAP), the fees shown and included in each financial year represent the actual fee to be charged for the audit of that financial year.

For 2007/08 accounts and this disclosure note, the audit fee reflects the audit fee to be charged for 2007/08 financial year. The fees payable for the certification of grant claims and returns includes residual adjustments relating to previous year's costs amounting to a saving of £15,505.

Audit fees charged to Lancashire Economic Partnership, wholly in respect of grant claims/returns, are excluded from this table. LEP was part of HBC up to Oct 2006.

## 14. General Government Grants and share of NNDR national pool

(a) General Government Grants - this line in the Income and Expenditure account comprises:

| 2006/07 £000 | Description | 2007/08 £000 |
|---|---|---|
| 1,491 | Revenue Support Grant | 1,387 |
| 87 | LABGI grant * | 76 |
| | Grants and contributions used in capital finance ** | 7,117 |
| **1,578** | Total per the I&E Account 'GGG' line | **8,580** |

* Local Authorities Business Growth Incentive scheme - during 2007/08 the Council received (in Sep 2007) £38,580 additional LABGI grant for Year 2 of the scheme (2006/07). The Council was notified by the Government in April 2008 of a provisional allocation for Year 3 (2007/08) of £31,993 - based in general on the annual increase in Hyndburn in total rateable value,

applicable to National Non-Domestic Rate (business rates), from end-December 2006 to end-Dec 2007, as a measure of business growth. In addition, HBC are to receive a further payment of £5,697 for Year 2.

The £76,270 LABGI income in the 2007/08 accounts therefore comprises £38,580 received and £37,690 accrued as due, to 31 March 2008. The additional retrospective amounts have arisen from the Government widening the basis of relevant changes affecting the grant calculation.

** A 'contra' line for this is in the SMGFB (ie no impact on the GF movement for the year), and within the Capital Adjustment Account.

(b) Formula Grant - the table below shows the National Non-Domestic Rate income share allocated by Central Government which, together with the Revenue Support Grant (RSG), comprises the 'Formula Grant' settlement for this local authority for the financial year.

From 2006/07, Formula Grant included for the then extended Concessionary Bus Travel Scheme from 1st April 2006.

| **2006/07 £000** | Description | **2007/08 £000** |
|---|---|---|
| 1,491 | Revenue Support Grant - as in table (a) above | 1,387 |
| 7,725 | NNDR share | 8,264 |
| ****9,216** | Total Formula Grant | **9,651** |

** Excluded here was a one-off net gain of £23,546 arising from ODPM/ DCLG's Amending Reports 2004/05 (+£32,742 net for RSG & NNDR) and 2005/06 (-£9,196 for RSG) - the £23,546 net income was required to be included in Net Expenditure 2006/07 - included at Hyndburn in Central Services income. No such 'Amending Report' 2006/07 was applicable in 07/08.

# NOTES TO CORE FINANCIAL STATEMENTS

## 15. Fixed Assets Values

| | Tangible Operational Assets | | | | | Tangible Non-Operational Assets | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Land & Buildings £000 | Vehicles/ Plant/Equip £000 | Infra-structure £000 | Community Assets £000 | SUB TOTAL £000 | Investment Properties £000 | Assets under Construc'n £000 | Surplus Assets held for disposal £000 | SUB TOTAL £000 | Intangible Assets £000 | GRAND TOTAL £000 |
| **Gross Book Value** | | | | | | | | | | | |
| Value b/f as at 01.04.07 | 18,312 | 1,430 | 4,171 | 5,936 | 29,849 | 6,916 | 0 | 0 | 6,916 | 30 | 36,795 |
| Asset Register adjustments | (2) | (2) | 0 | (1) | (5) | 1 | 0 | 0 | 1 | 0 | (4) |
| Restated Cost GBV b/f as at 01.04.07 | 18,310 | 1,428 | 4,171 | 5,935 | 29,844 | 6,917 | 0 | 0 | 6,917 | 30 | 36,791 |
| Additions | 347 | 436 | 22 | 1,172 | 1,977 | 8 | 114 | 5,360 | 5,482 | 83 | 7,542 |
| Disposals | 0 | (32) | 0 | 0 | (32) | 0 | 0 | 0 | 0 | 0 | (32) |
| Written Out | (353) | (96) | (55) | (1,289) | (1,793) | (478) | 0 | (4,871) | (5,349) | 0 | (7,142) |
| Revaluations | 390 | 43 | 0 | 194 | 627 | 620 | 0 | 1,138 | 1,758 | 0 | 2,385 |
| Re-categorise | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Book Value as at 31.03.08 | 18,694 | 1,779 | 4,138 | 6,012 | 30,623 | 7,067 | 114 | 1,627 | 8,808 | 113 | 39,544 |
| **Depreciation** | | | | | | | | | | | |
| Accum Depreciation b/f as at 01.04.07 | 1,253 | 603 | 2,421 | 217 | 4,494 | 0 | 0 | 0 | 0 | 0 | 4,494 |
| Asset Register adjustments | (2) | (1) | (2) | 0 | (5) | 0 | 0 | 0 | 0 | 0 | (5) |
| Restated Depreciation b/f as at 01.04.07 | 1,251 | 602 | 2,419 | 217 | 4,489 | 0 | 0 | 0 | 0 | 0 | 4,489 |
| Charge for the year | 370 | 147 | 414 | 53 | 984 | 0 | 0 | 0 | 0 | 10 | 994 |
| Disposals | 0 | (28) | 0 | 0 | (28) | 0 | 0 | 0 | 0 | 0 | (28) |
| Written Out | (31) | (29) | (19) | (103) | (182) | 0 | 0 | 0 | 0 | 0 | (182) |
| Revaluations | (215) | 12 | 0 | (8) | (211) | 0 | 0 | 0 | 0 | 0 | (211) |
| Re-categorised | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accum'd Depreciation as at 31.03.08 | 1,375 | 704 | 2,814 | 159 | 5,052 | 0 | 0 | 0 | 0 | 10 | 5,062 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Book Value** | | | | | | | | | | | |
| As at 31.03.07 | 17,059 | 827 | 1,750 | 5,719 | **25,355** | 6,916 | 0 | 0 | **6,916** | **30** | **32,301** |
| As at 31.03.08 | 17,319 | 1,075 | 1,324 | 5,853 | **25,571** | 7,067 | 114 | 1,627 | **8,808** | **103** | **34,482** |

# NOTES TO CORE FINANCIAL STATEMENTS

## Note 15 continued

Intangible Fixed Assets - from the 2004 SORP, Intangible Assets were added to LAs' balance sheets, as a separate heading for such value(s).
If / when applicable, there could be up to three broad categories:

(a) Development Expenditure, covered by SSAP 13 (accounting for research & development);
(b) Goodwill, covered by FRS 10 (goodwill and intangible assets);
(c) Other intangible assets - specifically (i) purchased software licence, (ii) licences, trademarks & artistic originals, and (iii) patents.

With regard to the to the applicability to this local authority of (c)(i) above, the following table gives the assessed value of software acquisition in the year and carried forward. As indicated in HBC Accounting Policy 3 (Fixed Assets), the relevant cost is amortised, or written-off, over an appropriate period.

| Intangible Fixed Assets 2007/08 | **Software £000** |
|---|---|
| Opening Balance as at 1st April | 30 |
| Written-off in year (over 3 years, amended from 4yrs) | (10) |
| Expenditure in year (given below) | 83 |
| Closing Balance as at 31st March | **103** |

1. PARIS – Cash Receipting System £5.7k – To be written off over 4 years.
2. Groupwise 7 Update £29.6k – To be written off over 4 years.
3. Limehouse Publishing Software £38.1k – To be written off over 8 years.
4. GGP Planning Software £9.3k – To be written off over 8 years.

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## NOTES TO CORE FINANCIAL STATEMENTS

### 16. Deferred Charges

| | 2006/07 restated* | | 2007/08 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance as at 1st April | | 0 | | 0 |
| Expenditure in year: | | | | |
| - Improvement Grants | 1,364 | | 2,544 | |
| - Equity Share Loans – referred to in Explanatory Foreword | 682 | | 473 | |
| - Other | 0 | 2,046 | 28 | 3,045 |
| less | | | | |
| - Disabled Facility Grants received | (280) | | (110) | |
| - Regional Housing Pot Grant received | * (1,766) | | (1,633) | |
| - Elevate Grant received | 0 | (2,046) | (1,302) | (3,045) |
| | | 0 | | 0 |
| Amounts written out to Services, in the Income and Expenditure Account | | * 0 | | 0 |
| | | **0** | | **0** |

### 17. Information on Assets Held

Tangible Fixed Assets held by the Council, with reference to Balance Sheet and the Asset Register, include the following:-

| 31st March 2007 (Nos.) | | 31st March 2008 (Nos.) |
|---|---|---|
| 3 | Cemeteries | 3 |
| 1 | Crematorium | 1 |
| 28 | Parks & Recreation Grounds | 32** |
| 1 | Museums & Art Galleries | 1 |
| 1 | Theatre | 1 |
| 3 | Public Halls | 3 |
| 3 | OAP Centres | 3 |
| 4 | Community Centres | 4 |
| 2 | Markets | 2 |
| 2 | Leisure Centres | 2 |
| 1 | Athletics Tracks | 1 |
| 2 | Swimming Pools | 2 |
| 1 | Town Halls | 1 |
| 4 | Council Offices | 4 |
| 4 | Industrial Estates | 4 |
| 3 | Depots | 3 |

** The identification and numbers of these assets had been re-assessed and rationalised in updating this table.

# NOTES TO CORE FINANCIAL STATEMENTS

## 18. Sources of finance for the Capital Programme

The capital expenditure was financed as follows:-

| | Restated 2006/07 * £000 | 2007/08 £000 |
|---|---|---|
| **Capital Expenditure:** | | |
| Fixed Asset Additions | 6,422 | 7,520 |
| Deferred Charges | 2,046 | 3,045 |
| Total expenditure | **8,468** | **10,565** |
| **Financed by:** | | |
| Loan finance | 0 | 0 |
| Usable Capital Receipts | * 0 | 49 |
| Grants | 8,397 | 10,233 |
| Contributions, incl'g use of s106 moneys | * 71 | 279 |
| Direct Revenue Finance | 0 | 4 |
| Movement in Capital Creditors | 0 | 0 |
| Total financing | **8,468** | **10,565** |

## 19. Capital Commitments

As at 31st March 2008 the Council is contractually committed to capital payments which are estimated at £312,909 (was £472,576 as at 31st March 2007).

## 20. Finance Leases

Assets held under finance leases were for equipment and had a gross book value (GBV) of £24,874 at 31st March 2008 (£9,989 GBV at 31st March 2007).
The Authority has accounted for these leases as part of Tangible Fixed Assets

| | Other Land & Buildings £ | Vehicles, Plant & Equipment £ |
|---|---|---|
| GBV at 1st April 2007 | 0 | 9,989 |
| Additions | 0 | 14,885 |
| Depreciation (cumulative) | 0 | (9,989) |
| Net Value at 31st March 2008 | **0** | **14,885** |

# NOTES TO CORE FINANCIAL STATEMENTS

Outstanding obligations to make payments under the Finance Lease (excluding finance costs) at 31st March 2008, and accounted for as part of long term liabilities, are as follows:

| | Other Land & Buildings £ | Vehicles, Plant & Equipment £ |
|---|---|---|
| In Financial Year 2008/09 | 0 | 2,977 |
| Between 2009/10 and 2013/14 | 0 | 8,931 |
| After Financial Year 2014/15 | 0 | 0 |
| Deferred Liabilities - per Balance Sheet | **0** | **11,908** |

Finance charges in 2007/08 amounted to £204.56 and have been charged directly to the revenue account

## 21. Long Term Debtors

| 2006/07 £000 | Description | 2007/08 £000 |
|---|---|---|
| 11 | Mortgages on RTB sales | 11 |
| 17 | Other Housing advances | 14 |
| **28** | | **25** |

The Council has not restructured any long term debt in year 2007/08.

## 22. Stocks and Work in Progress

| 2006/07 £000 | | 2007/08 £000 |
|---|---|---|
| 37 | General Fund - Stock | 37 |
| 32 | WIP | 1 |
| **69** | Total | **38** |

# NOTES TO CORE FINANCIAL STATEMENTS

## 23. Investments

The investments consist of:-

| 2006/07 £000 | Summary of Balance Sheet carrying values | 2007/08 £000 |
|---|---|---|
| | **Long term:** | |
| 628 | Globe Enterprises Limited (2) | 575 |
| 10 | ADC Debenture | 10 |
| 8 | Other | 8 |
| **646** | | **593** |
| | **Short Term** | |
| **6,031** | Temporary Investments | (1) **7,967** |
| 6,677 | | 8,560 |

(1) Further information on the carrying value, and also Fair Value, is given in Note 42.

(2) GEL - Since 1996/97, the Council has invested in Globe Enterprises Limited. Globe Enterprise Limited is a property development and investment company based in Accrington, Lancashire. It owns a number of properties in the local area and undertakes property development as opportunities arise.

Its current portfolio of properties include a large office complex developed for Office Space and an entertainment / leisure facility situated in Accrington Town Centre.

The company held fixed assets valued at over £8.7 million at 31st December 2006, with Net Assets of £3.8m, as given in that latest available year-end's Audited Financial Statements.

Surpluses on trading have been historically re-invested in the business. The Council owns one-third of the share capital of the company. The Council has also invested £710,000 of cash and £250,000 of land in the form of loans into Globe Enterprises to provide working capital to the Company. In return, the Council received a repayment of these loans of £332,000 as a contribution to the costs of developing its new Council Offices at Scaitcliffe House.
This left the Council with a net investment in Globe Enterprises Limited of £628,000.

Part (£52,872) of the loan investment was repaid to the Council in June 2007.

# NOTES TO CORE FINANCIAL STATEMENTS

## 24. Debtors

As at year-ended 31st March the following amounts were owed to the Council:-

| 2006/07 £000 | Description | 2007/08 £000 |
|---|---|---|
| | Amounts falling due in one year: | |
| 2,696 | Government Departments, other than HMRC | 2,127 |
| 294 | HM Revenue and Customs | 277 |
| 2,274 | Other Local Authorities | 1,052 |
| 8,344 | Collection Fund | 8,001 |
| 2,804 | Sundry Debtors | 2,572 |
| 957 | Housing Benefit debtors | 905 |
| 17,369 | | 14,934 |
| | Amount falling due after one year: | |
| 205 | Car Loans to Employees | 151 |
| 17,574 | | 15,085 |
| (6,413) | Less Provisions for Bad and Doubtful Debts at 31 March | (6,216) |
| **11,161** | Net Total as at 31 March | **8,869** |

## 25. Creditors

As at year-ended 31st March the following amounts were owed by the Council:-

| 2006/07 restated * £000 | Description | 2007/08 £000 |
|---|---|---|
| * (1,195) | Government Departments, other than HMRC | (264) |
| (307) | HM Revenue and Customs | (256) |
| | Receipts received in advance: | |
| (351) | - Council Tax | (456) |
| (297) | - NNDR - Business Rates | (226) |
| (1,480) | Collection Fund Creditors | (1,119) |
| (313) | Other Local Authorities | (337) |
| (1,763) | Sundry Creditors | (1,949) |
| *** (5,706)** | Total as at 31 March | **(4,607)** |

* Note on Grants and Contributions Unapplied A/c, in Explanatory Foreword part 7 (Balance Sheet), refers.

## 26. Borrowing

**LONG TERM**

| Source of Loans | Range of Interest Rates % | Outstanding at 31.3.07 £000 | Carrying Value at 31.3.08 £000 | (1)Fair Value at 31.3.08 £000 |
|---|---|---|---|---|
| Public Works Loan Board | 5.45% - 5.65% | 1,600 | 0 | 0 |
| Money Market (2) | 1.90% to 4.90% | 14,620 | (3)(4) 9,828 | 10,639 |
| Individuals | 5.00% | 68 | 68 | 68 |
| | | **16,288** | **9,896** | **10,707** |

**SHORT TERM**

| Source of Loans | Range of Interest Rates % | Outstanding at 31.3.07 £000 | Carrying Value at 31.3.08 £000 | (1) Fair Value at 31.3.08 £000 |
|---|---|---|---|---|
| Public Works Loan Board | 5.45% - 5.65% | 0 | (3) 6,725 | 6,766 |
| | | **0** | **6,725** | **6,766** |

An analysis of loans by maturity is:-

| | 2006/07 £000 | 2007/08 £000 | Fair Value 2007/08 £000 |
|---|---|---|---|
| Within 12 months | 0 | 6,725 | 6,766 |
| 1-2 years | 1.668 | 68 | 68 |
| 2-5 years | 0 | 0 | 0 |
| 5-10 years | 0 | 0 | 0 |
| over 10 years | 14,620 | 9,828 | 10,639 |
| | **16,288** | **16,621** | **17,473** |

(1) The fair value of an instrument is determined by calculating the net present value of future cashflows. The discount rate used is equal to the current rate available in relation to the same instrument from a comparable lender.
To evaluate PWLB debt the new borrowing rate has been used, as opposed to the repayment rate, as the discount factor.

(2) A number of these loans are provided on a stepped basis, with an initial low rate for 1 to 2 years, followed by an increase to the standard rate.
Such 'LOBO' loan(s) refers to Lender Option Borrower Option, where an interest rate is set up to a specified date at which point the lender can change various conditions of the loan.

The borrower (Hyndburn BC) can either agree to these changes and continue to repay the loan up to the maturity date or reject the new terms and repay the loan in full.

(3) As outlined in the Explanatory Foreword, part 6, under further Financial Instruments reporting requirements via the 2007 SORP, accrued interest attributable to loans has been included in the Balance Sheet carrying value for the Council's borrowing.
(4) In addition, further interest charges in accounting for the Effective Rate of Interest applicable to stepped-interest loans (LOBOs) has also been charged to the 2007/08 Income & Expenditure Account – and retrospective impact of £229k net is neutralised using Financial Instruments Adjustment A/c.

Note 42 (Financial Instruments) also refers to the Carrying Value and Fair Value.

## 27. Deferred Capital Receipts

Deferred Capital Receipts are amounts derived from sales of assets which will be received in instalments over agreed periods of time. Currently they had arisen wholly from mortgages on sales of Council houses.

## 28. Provisions - are amounts set aside for specific future losses and liabilities that are uncertain in amount and date.

The Council maintains certain provisions which are used to provide for specific expenditure - accounting policy 12 refers.

At the 31st March 2008 the Council had the following provisions:

| Provisions Summary | As at 1.4.07 £000 | Transfers in £000 | Utilised £000 | As at 31.3.08 £000 |
|---|---|---|---|---|
| Industrial Units bonds | (14) | | | (14) |
| Insurance 'Excess' provision | (127) | | 17 | (110) |
| Insurance costs provision | (47) | | 47 | 0 |
| Planning liability & advance * | (104) | (5) | | (109) |
| Section 38 highway adoption | (2) | | 2 | 0 |
| Well being & Health Equality | | (192) | | (192) |
| Communities for Health | | (165) | | (165) |
| Dilapidations provision | | (250) | | (250) |
| ERDF potential clawback | | (99) | | (99) |
| ICT replacement items | | (40) | | (40) |
| Others ** | (5) | (1) | | (6) |
| Total | (299) | (752) | 66 | (985) |

* This balance of approx. £109.4k relates to s106 (Town & Country Planning Act 1990) from the Lower Barnes Street C-le-M development, in which agreement HBC has a financial liability within or after a specified period. Note 32 includes other s106 balances.

** Rounding adjustment in year.

## 29. Revaluation Reserve (Fixed Assets)

From 1st April, 2007 the former Fixed Asset Restatement Account has been superseded by this new 'Revaluation Reserve'; and the then net balance brought forward from the FARA has been transferred to the 'Capital Adjustment Account' - *see note 30*. Therefore the new Revaluation Reserve has started with a zero balance.

Under arrangements required for local authorities' capital accounting, this 'reserve' represents the balance of surpluses and deficits arising from the revaluation of fixed assets. Within the revaluation reserve for fixed assets, revaluation gains are recorded at the level of individual assets (or appropriate groups of assets where assets are grouped, corresponding to structure of the fixed asset register). Any downward revaluation of an asset has to be written off to the Income & Expenditure A/c as a loss where there are no accumulated gains for that asset in the Revaluation Reserve.

The 'reserve' is not available to support capital or revenue spending.

| summary | **Total £000** |
|---|---|
| Balance at 1st April 2007 | **0** |
| Fixed Asset valuation movements | (2,596) |
| Disposal of fixed assets | 0 |
| **Balance at 31st March 2008** | **(2,596)** |

## 30. Capital Adjustment Account

Under arrangements required for local authorities' capital accounting, the Capital Adjustment Account (which was called the Capital Financing Reserve prior to 2004/05 and then the Capital Financing Account (CFA) up to and including 2006/07), contains the amounts which have been required by statute to be set aside from capital receipts for the repayment of external loans and the amount of expenditure financed from revenue and from capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

The account is not available to support capital or revenue spending.

| summary for year(s) | 2006/07 restated * £000 | 2007/08 £000 |
|---|---|---|
| 'CFA' Balance at 1st April | 51,254 | |
| 1.04.07 balance transfer from CFA to CAdjA | | 56,872 |
| Fixed Asset Restatement A/c balance b/f ** | 0 | (39,408) |
| Sub total | 51,254 | 17,464 |
| Capital receipts set aside | 0 | 0 |
| Capital Financing - Capital Receipts *** | * 0 | (4) |
| - Direct Revenue Financing | * 0 | 4 |
| - Grants & Contributions | * 6,374 | 7,385 |
| - Amortised Deferred Grant | 115 | 172 |
| Minimum revenue provision (less total depreciation) | (871) | (712) |
| Less write down of deferred charges | 0 | 0 |
| Fixed Assets Revaluation Losses | 0 | (736) |
| Fixed Assets Non-Enhancing expenditure | 0 | (6,223) |
| Fixed Assets value adjustments | 0 | 2 |
| **Balance at 31st March** | **56,872** | **17,352** |

** A one-off transaction in 2007/08 is the transfer to the account of the whole 'FARA' balance brought forward. This transfer relates to the inception from 1st April 2007 of the Fixed Assets Revaluation Reserve - *see note 29*.

*** 2007/08 figure comprises £49k used in capital financing, less £53k repayment from Globe Enterprises Ltd – *note 23 refers.*

## 31. Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the capital receipts which have not yet been used to finance capital expenditure and which are available for use in future financial years.

Since 2004/05 there has been a new requirement, via Govt Regulations, to 'pool' (ie to pay over to the ODPM / DCLG) 75% of the relevant net capital receipts (in this instance for HBC, entirely relating to Right To Buy receipts). In 2007/08 this amounted to £26,360.24 and related solely to repayments to the Council of former RTB discount (2006/07 was £20,212.24).

Corresponding items for this are in the Income and Expenditure Account (the payment due to the DCLG) and the Statement of Movement on the General Fund Balance (a contra, equivalent item for transfer from Usable Capital receipts Reserve), in accordance with the SORP.

## NOTES TO CORE FINANCIAL STATEMENTS

| UCRR summary for year(s) | 2006/07 restated * £000 | 2007/08 £000 |
|---|---|---|
| Balance at 1st April | * 1,310 | 3,150 |
| Capital receipts in Year | * 1,860 | 1,059 |
| Less | | |
| - Capital Receipts applied | * 0 | (49) |
| - Capital Receipts set aside | 0 | 0 |
| - Capital Receipts to DCLG ('pooled') | (20) | (26) |
| **Balance at 31st March** | **3,150** | **4,134** |

## 32. Earmarked Reserves

Reserves are amounts set aside to meet expenditure which may be incurred in future periods. Earmarked Reserves are allocated to a specific area of spending.

| summary for year | Balance as at 1st Apr 2007 £000 | Payments, ie used £000 | Receipts £000 | Balance as at 31st Mar 2008 £000 |
|---|---|---|---|---|
| **General Fund:** | | | | |
| Planning obligations under s106, Town & Country Planning Act 1990 - *note (a) below* | (787) | 210 | (73) | (650) |
| Planning Delivery Grant reserve | (372) | 278 | (221) | (315) |
| Other earmarked reserves(note b) | (758) | 238 | (271) | (791) |
| **Total Earmarked Reserves** | **(1,917)** | **726** | **(565)** | **(1,756)** |

(a) At the year end all amounts received for such planning obligations were in connection with, wholly or partly, envisaged capital and/or revenue projects, in accordance with respective agreements. In addition, a separate s106 amount received in yr2005/06 (approx. £98.4k), plus accrued interest to date of £10.9k added by HBC, is included in Provisions as a particular liability for potential return to provider after a specified period - see note 28.

(b) The £791k 'Other' (£791,428) comprises at year-end, to the nearest £:
(1) balances of £99,114 remaining from reserves which had been created on the March 2006 housing stock transfer (Large Scale Voluntary Transfer), now consisting of (i) balance of the LSVT residual costs reserve £36,075 (to be paid over to Hyndburn Homes Ltd in 2008/09); and (ii) loans redemption reserve £63,069;

(2) a reserve for LSVT-related Environmental Warranties of £515,783. This includes a balance of £15,783 arising on the former LSVT E W Insurance reserve (£238,315 of that reserve was used in 2007/08 on insurance premium cost (including I P Tax) and external fees). The Environmental Warranties reserve is to be continue to be increased by £250,000 annually over future years to provide the Council with prudent financial cover for any claims arising over and above the limits of the respective liability of Hyndburn Homes Ltd - the initial and future such contributions to this reserve were and are are budgeted in line with the Council's medium term financial strategy;

(3) a reserve of £100,000 created in 2006/07 for future asset(s) disposal transition costs and/or potential income loss; and

(4) a reserve of £76,501 in respect of the 'LPSA1' Local Public Service Agreement with the Government in conjunction with the county council, this amount being 50% which Hyndburn BC is to allocate wholly to future capital resources in accordance with Schedule 4 of the Lancashire LPSA. The total LPSA performance reward grant received for HBC (£153,003) related mainly to achievement of performance targets over and by the 3-year period 2003/04 to 2005/06. Tranche 1 of £74,824.75 was received toward the end of 2006/07; and tranche 2 of £78,178.24 was received in March 2008. The latter and final instalment has been accounted for in 2007/08 income via HBC Income & Expenditure Account (except for £25,000 which had been accrued by HBC in 2003/04); and a contribution of £1,677 to the Earmarked Reserve (contribution within the Statement of the Movement on the General Fund Balance) has brought the treatment of the grant to 50% as capital grant and 50% as revenue grant.

Expected future LAA performance reward grant (LPSA2) is referred to at the end of Note 35.

## 33. Pensions liabilities and funding

As stated in the Explanatory Forward, and at Accounting Policy 14, the authority is required under the SORP to fully implement FRS 17, on Retirement Benefits, into its accounts. The object of FRS17 is to ensure that the Authority's financial statements reflect at fair value the future pension liabilities which have been incurred, and the extent to which assets have been set aside to fund them. This means that FRS17-based pensions assets and liabilities transactions are included in the Council's Income and Expenditure Account and Balance Sheet, rather than merely being disclosed as additional notes to the accounts.

The inclusion of net pensions liabilities and the corresponding pensions reserve in the Council's Balance Sheet, however, does not represent a reduction in the cash reserves held by the authority and does not impact on Council Tax levels.

## NOTES TO CORE FINANCIAL STATEMENTS

The Lancashire County Pension Fund is treated as a defined benefit under FRS17, since the authority's liabilities to its current and former employees can be identified within the fund, and the authority will be liable to meet these, irrespective of the future performance of the fund.

The last full actuarial review of the fund was carried out as at 31st March 2007 and was completed during 2007/08.

In calculating the authorities' (including this authority's) assets and liabilities, the fund's actuaries have to make a number of assumptions about events and circumstances in the future, meaning that the results of actuarial calculations are subject to uncertainties within a range of possible values.

The following actuarial assumptions were made and given after the year-end:

**Actuarial Assumptions**

| 2006/07 % | | 2007/08 % |
|---|---|---|
| | **Financial Assumptions as at end of year** | |
| 3.1 | Rate of Inflation | 3.6 |
| 4.85 | Rate of increase in salaries | 5.35 |
| 3.1 | Rate of increase in pensions | 3.6 |
| 5.4 | Discount Rate * | 6.1 |
| | **Expected Rate of Return on Assets at end of year** | |
| 7.5 | Equities | 7.5 |
| 4.7 | Government Bonds | 4.6 |
| 5.4 | Other Bonds | 6.1 |
| 6.5 | Property | 6.5 |
| 5.25 | Cash / Liquidity | 5.25 |
| 7.5 | Other | 7.5 |

* The SORP (as applicable to 2004/05 Accounts onwards) requires local authorities to use 'AA corporate bond' rate of return as the discount rate when determining the net present value of estimated pensions liabilities. This rate was lower than the rate previously specified in the 2003 SORP (the Government Actuarial Department (GAD) rate).

Rather than the discount rate chosen by the fund actuaries as at 31 March 2007 balance sheet date (ie the redemption yield on iBoxx Sterling AA corporate bond over 15 years index - considered to be a relatively long-dated index and broadly appropriate for the majority of employers), there is, instead, a more sophisticated approach in the opinion of the actuaries for 31 March 2008. The discount rate has now been calculated as a weighted average of "spot yields" on AA rated corporate bonds, to reflect more accurately the duration of the pension liabilities of the typical LGPS employer.

## NOTES TO CORE FINANCIAL STATEMENTS

Assets in the fund are valued at fair value, principally market value for investments and consist of the following categories:

| 2006/07 | | Value of Assets | 2007/08 | |
|---|---|---|---|---|
| £'000 | % | | £'000 | % |
| 46,585 | 64.3 | Equities | 39,617 | 62.2 |
| 15,142 | 20.9 | Bonds | 14,076 | 22.1 |
| 10,723 | 14.8 | Other | 10,000 | 15.7 |
| 72,450 | 100.0 | Total Value | 63,693 | 100.0 |

As at 31st March 2008, the fund's actuaries estimated that the Authority had the following assets and liabilities relating to pensions payable through the fund:

| 2006/07 £'m | Assets and Liabilities | 2007/08 £'m |
|---|---|---|
| 72.5 | Fair Value of Assets, per the previous table | 63.7 |
| (99.0) | Estimated present value of Liabilities | (100.9) |
| (26.5) | Net Liability | (37.2) |

## NOTES TO CORE FINANCIAL STATEMENTS

The movement in the deficit in the scheme during 2007/08 is analysed as follows:

| | 2006/07 £000 | 2007/08 £000 |
|---|---|---|
| **Deficit at 1st April** | **(31,467)** | **(26,525)** |
| **SERVICE EXPENDITURE** | | |
| Current Service Cost (see note on following page) | (1,620) | (1,267) |
| Past Service Gain / (Cost) | 0 | (468) |
| Curtailment Gain / (Loss), Settlement Gain / (Loss) | 0 | 0 |
| Less Employer Contributions (see note on following page) | 3,089 | 2,033 |
| | 1,469 | 298 |
| **FINANCE GAINS & LOSSES** | | |
| Net Interest / Return on Assets | (685) | (574) |
| **ACTUARIAL GAINS & LOSSES *** | | |
| Actuarial Net Gain or (Loss) | 4,158 | (10,365) |
| **Deficit at 31st March** | **(26,525)** | **(37,166)** |

* The actuarial gains and losses included above for the subject financial year (2007/08) represent the extent to which actual outcomes during 2007/08 differed from the assumptions used in calculating the estimated assets and liabilities at 31st March 2007. The table below shows these changes as percentages of the respective assets and liabilities at the end of the subject financial year. The SORP requires that these figures be provided for such current year and for the previous *four* accounting periods.

| History of Actuarial Gains & (Losses) and percentages of Total Assets/ (Liability) | 2003/04 | | 2004/05 | | 2005/06 | | 2006/07 | | 2007/08 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **%** | **£000** | **%** | **£000** | **%** | **£000** | **%** | **£000** | **%** |
| Gain / (loss) on difference between expected and actual return on assets | 7,141 | 13.1 | 2,817 | 4.6 | 10,326 | 14.9 | (496) | (0.7) | (5,762) | (9.0) |
| Gain / (loss) on difference between actuarial assumptions on liabilities and actual experience | 0 | 0 | (3,964) | (4.1) | (1,654) | (1.6) | 0 | 0 | 1,782 | 1.8 |
| Gain / (loss) on changes in demographic and financial assumptions affecting estimation of liabilities | 0 | 0 | (14,829) | (15.5) | (8,049) | (8.0) | 4,654 | 4.7 | (6,385) | (6.3) |
| **Net Total** | **7,141** | | **(15,976)** | | **623** | | **4,158** | | **(10,365)** | |

# NOTES TO CORE FINANCIAL STATEMENTS

Estimated Gain to Council due to change in scheme benefits

Changes made to the Local Government Pension Scheme permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The actuaries to the LCC pension fund had assumed, for 31 March 2006 disclosure items, that 50% of employees retiring after 6th April 2006 will take advantage of this change; and the actuaries then advised that this will reduce the value of the Hyndburn Borough Council pension liabilities by £0.996m. This was shown as a 'past service gain' in respective table for that year; and was accounted for within Non Distributed Costs.

The actuaries have re-considered the position for each subsequent 31 March and, again, have proposed that the 50% assumption be retained for the time being, for reasons given by them in their April 2008 supplementary paper.

'New Look' Local Government Pension Scheme from 1 April 2008

In the main, the changes only affect benefits accruing and member contributions from 1 April 2008 onwards, with the result that employers' current service costs will change with effect from that date.

However, the new provisions give rise to some changes in death benefits in relation to accrued service (eg introduction of pensions for cohabiting partners and an increase in the 'guarantee' period during which a pension continues after a pensioner's death). These particular changes bring an increase in the value of the accrued liabilities; this is shown as a 'past service cost' of £0.468m in respective table on previous page.

Estimated Deficit for Council relating to employees transferred to Hyndburn Homes

As referred to again in the Explanatory Foreword, there is a liability of the Council from 30th March 2006 (the effective date of the Housing Stock Transfer agreement between HBC and Contour Housing Group / Hyndburn Homes Ltd) for Pension Fund deficit attributable to the HBC employees transferred to the new RSL This deficit had been estimated initially at £2,700,000 by the Lancashire County Council pension scheme actuaries (Mercer Ltd) as an assessment of the "share of deficit" in respect of the transferring staff which has been retained by HBC.

During year 2006/07 this deficit reduced by three specific payments over to LCC, by HBC, totalling £998,608.

A final assessment of the net deficit was to be provided by the LCC pension scheme actuary by or after the next Triennial Valuation of the pension fund (ie as at 31st March 2007 and completed thereafter). The actuary (Mercer Ltd) produced a figure in May 2008 of £2,200,000 for 'updated deficit amount as at 31 March 2007'.

Net Pensions Liability as at 31st March 2008

The £37.166m net liability relating to the fund represents the difference between the value of the Authority's pension fund assets at 31st March 2008 and the estimated present value of the future pension payments to which it was committed at that date.

These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1st April 2008 would also have an impact on the capital value of the pension fund assets. The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries at their last actuarial review of the Pension Fund, as at 31st March 2007, carried out during 2007/08.

From the respective tables, it can be seen that the change from an estimated net liability of £26.525m at 31st March 2007 to the estimated net liability of £37.166m at 31st March 2008 (ie increase of approximately £10.7m) relates to net impact of:
(a) the net decrease of £8.8m in the value of the fund's investment assets; and
(b) the increase of £1.9m in present value of liabilities.

## 34. Altham Business Improvement District (BID)

As outlined in the Explanatory Foreword at the beginning of this Statement of Accounts, Altham Business Improvement District scheme is a security initiative devised, ratified, managed and paid for by the businesses in the Altham BID area. The aim of this BID is to install and monitor security cameras, using the latest technology with closed circuit television (CCTV) and automatic number plate recognition (ANPR) cameras; the cameras are monitored 'live' in the Police Communications Centre at Greenbank, Blackburn, providing an additional level of security for businesses - with the objectives of reducing crime, fly tipping, arson and anti-social behaviour.
The CCTV cameras have already been used to assist a Crown Court prosecution.

Given below is a BID Revenue Account - a statutorily required memorandum account for the scheme.

| HBC Income and Expenditure Account (BID) | | | |
|---|---|---|---|
| | Note | **2006/07 £000** | **2007/08 £000** |
| **Income:** | | | |
| BID Levy (local supplementary business rate) | | **-** | **(50)** |
| **Expenditure:** | | | |
| Council expenditure on providing services | 1 | - | 0 |
| Payment for services provided by other parties, £40,500 in yr2007/08 | 2 | - | 40 |
| Further payment(s) due when collected | 3 | - | 10 |
| **Total Expenditure** | 4 | **-** | **50** |
| **(Surplus) / Deficit** | | **-** | **0** |

# NOTES TO CORE FINANCIAL STATEMENTS

BID Revenue Account Notes

(1) It is not expected that there will be any HBC direct expenditure as part of ongoing implementation of the business plan. HBC accounting treatment of the Levy, per the 'SoRP', reflects in the above account the Council's role in acting as agent in billing and collecting the levy, ie not incurring scheme expenditure.

(2) The £40,500 comprises (i) £36,600 paid over by the Council to Altham BID Company Ltd (a company limited by guarantee) in 2007/08, being BID Levy billed and collected for Year 1; and (ii) £3,900 also billed and collected in and for Year 1, but paid over by HBC early in 2008/09, after invoicing by the company via Groundwork Pennine Lancashire who are managing agents for the BID Company.

(3) As at 31st March 2008, there was £9,600 Year 1 Levy previously billed but still outstanding and therefore, under local protocol, not subject to paying over by the Council until collected. HBC debt recovery procedures were in progress.

(4) As at 31st March 2008, there were no specific costs incurred by the Council on collecting the £50,100 Year 1 levy as the billing authority. However, should any costs be necessary to be incurred for year 1 levy collection or for subsequent year(s), they would be recharged to the business(es) concerned or to the BID Company – if the latter, then such future recharge may figure as an HBC expenditure item recovered against levy income.

## 35. Local Area Agreement (LAA)

The Council is a participant in the Lancashire LAA - a partnership with other public, private and third-sector bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. For 2007/08, the second year was completed of the first Lancashire LAA 3-year agreement (2006-09).

The purpose(s) of the LAA are:

- to identify priorities for Lancashire across a range of headings e.g. crime, health, education, social cohesion, the environment, employment
- to jointly negotiate the priorities and base on evidence and need
- to agree to deliver on these priorities during the period of the LAA.

Under the Local Government and Public Involvement in Health Act 2007 (section 108), all statutory partners have a duty to co-operate in delivering the priorities jointly agreed in the LAA.

The LAA partners are:

- Local government bodies - Lancashire County Council and all 12 District Councils of the LCC area (including Hyndburn)
- Community protection authorities – Lancashire's Police Authority, Constabulary, Fire & Rescue Service and Probation Service

- Health bodies – particularly the local NHS Primary Care Trust (e.g. Hyndburn & Ribble Valley PCT) and the strategic health authority
- Learning bodies – Learning & Skills Council (Lancashire)
- Voluntary organisations and other bodies such as Business Link, Connexions, East Lancashire Chamber of Commerce, Elevate East Lancashire (Housing Market Renewal), the Environment Agency, Job Centre Plus, Lancashire Drug Action Team, Lancashire Economic Partnership, North West Development Agency
- Local strategic partnerships, led by the above-mentioned local government bodies (e.g. Hyndburn's LSP "Hyndburn First") and which assist in the delivery and performance management of the LAA.

Lancashire County Council acts as the accountable body overall for the LAA.
The total amount of LAA grants received by LCC in and for 2007/08 as the LAA accountable body was £28m. Of that, Hyndburn Borough Council received £692,801, comprising allocations of grants attributed to Safer, Stronger Communities (including for Community Safety, and Waste Performance & Efficiency); Children and Young People; Healthier Communities and Older People; and Economic Development and Enterprise. Approximately £4,400 of HBC community safety allocation has been carried forward into 2008/09.

It is envisaged that a payment of performance reward grant (PRG) will be made in March 2009 or later. The allocation and/or distribution of any such further sum are dependent upon performance in the designated 'reward targets'. As at mid-June 2008, it is yet to be decided how such PRG money would be distributed.

The earlier 'LPSA1' performance reward grant is referred to at Note 32(b)(4).

In and from 2008/09, LAA grants are mainly being replaced by 'Area Based Grant'.

## 36. The European Single Currency

At 31st March 2008 the Council has not entered into any financial commitments relating to the possible introduction of the Euro in the UK.

At present, there are no indications as to the future financial impact on the Council.

## 37. Contingent Liabilities

At the 31st March 2008 the Council had no contingent liabilities.

# NOTES TO CORE FINANCIAL STATEMENTS

## 38. Movement in Cash and Cash Equivalents

| Movement In 2006/07 £000 | | Balance 1.4.07 £000 | Balance 31.3.08 £000 | Movement in 2007/08 £000 |
|---|---|---|---|---|
| (1) | Cash in hand | 5 | 6 | 1 |
| (2,436) | Bank balance / (overdraft) | (1,960) | (740) | 1,220 |
| **(2,437)** | | **(1,955)** | **(734)** | **1,221** |

## 39. Reconciliation of I&E A/c (surplus)/deficit to Net Cash Flow

| 2006/07 £000 | Description | 2007/08 £000 | 2007/08 £000 |
|---|---|---|---|
| (1,900) | Net (surplus) / deficit on Income and Expenditure Account | | (371) |
| | **Non-Cash Transactions in Revenue Account:** | | |
| (1,029) | Depreciation | (994) | |
| 115 | Amortisation of capital grants | 173 | |
| 1,030 | Gain / (loss) on disposal of fixed assets | 932 | |
| (2,305) | Net adjustment for retirement benefits | (2,309) | |
| 0 | Fixed Assets values adjustments | (6,957) | |
| 0 | Financial Instruments adjustment account | (229) | |
| 0 | Grants & contributions used in capital financing | 7,392 | |
| (20) | Transfer from usable capital receipts | (26) | |
| 3,089 | Employer contributions payable to pension fund | 2,033 | |
| 318 | Contribution to/(from) earmarked reserves | (160) | |
| 0 | Major repairs reserve | 0 | |
| 0 | Financing of capital by direct revenue finance | 4 | |
| 106 | Other provisions | (330) | |
| 0 | Gain on investments | 53 | |
| (181) | Contribution from / (to) revenue reserves | (263) | |
| 1,123 | | | (681) |
| | **Movements in current assets / liabilities:** | | |
| (203) | Increase/(decrease) in Stocks | (31) | |
| (10,671) | Increase/(decrease) in Debtors | (1,200) | |
| 8,978 | (Increase)/decrease in Creditors | 1,122 | |
| (1,896) | | | (109) |
| | **Items elsewhere in Cash Flow Statement:** | | |
| 370 | Interest Received | 637 | |
| (1,405) | External Interest Paid | (786) | |
| (1,035) | | | (149) |
| **(3,708)** | **REVENUE ACTIVITIES NET CASH FLOW** | | **(1,310)** |

# NOTES TO CORE FINANCIAL STATEMENTS

## 40. Analysis of 'Other Government Grants' in Cash Flow Statement

| 2006/07 £000 | Government Grants Description | 2007/08 £000 |
|---|---|---|
| 6,584 | DWP grant for housing (Rent Rebates) and Council Tax benefits | 7,823 |
| 90 | European Funding (ERDF) | 134 |
| 1,523 | Single Regeneration Budget (SRB) | 1,062 |
| 863 | Neighbourhood Renewal Fund (NRF) | 0 |
| 1,001 | DCLG Housing subsidy | 0 |
| 87 | DCLG Local Authorities Business Growth Incentive | 39 |
| 139 | Crime and Disorder | 0 |
| 815 | Housing Market Renewal | 938 |
| 574 | Other | 656 |
| **11,676** | | **10,652** |

## 41. Movement in net debt - in relation to Cash Flow Statement

The table below reconciles the movement in cash to the movement in net debt during the year.

| Description | 2006/07 £000 | 2007/08 £000 |
|---|---|---|
| (Decrease) / increase in cash | (2,437) | 1,221 |
| Net increase / (decrease) in liquid resources | 4,700 | 1,936 |
| Net (increase) / decrease in borrowing | 1,500 | (333) |
| **Movement in net debt in the year** | **3,763** | **2,824** |
| Net debt at beginning of year | (15,975) | (12,212) |
| Net debt at end of year | (12,212) | (9,388) |
| **Changes in net debt** | **3,763** | **2,824** |

# NOTES TO CORE FINANCIAL STATEMENTS

## 42. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities; and includes both the most straightforward financial assets and liabilities such as trade receivables (Debtors period-end balances) and trade payables (Creditors balances) and the most complex ones such as 'derivatives' and 'embedded derivatives'.
As referred to within the Council's Accounting Policies 18 and 23 in this Statement of Accounts whole document, respective *disclosures* requirements are per Financial Reporting Standard 29 (issued by the Accounting Standards Board) and reflected in the Statement of Recommended Practice (SoRP) for local authorities - except that rights and obligations arising from leases, and to pension schemes, are covered by specific provisions about their recognition, measurement and disclosure (and not under FRSs 25, 26 and 29).

Financial Assets of local authorities would mean a right to future economic benefits, controlled by the authority, represented by:
cash; an equity instrument of another entity; a contractual right to receive cash (or another financial asset) from another entity; a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the authority.

Financial Liability means an obligation to transfer economic benefits, controlled by the authority, that is represented by:
a contractual obligation to deliver cash (or another financial asset) to another entity; a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the authority.

Equity Instrument means a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (such as an equity share in a company).

Typically for most local authorities' financial instruments, the classification would need to go only as far as some or all of these:

<u>Financial Assets</u>

- *loans and receivables:* assets that have fixed or determinable payments but are not quoted in any active market. They are measured initially at fair value and carried at their amortised cost.

(Loans issued by the authority at preferential / concessionary rate(s) or interest-free would be covered if judged to be 'soft loans' (and measurable using an effective interest rate). *The Council has no recognisable soft loans for accounts adjustment under financial instruments*. HBC had determined, prior to production and presentation of the Council's 2007/08 Statement of Accounts, that the Equity Share Loans made in 2006/07 and 2007/08 are not to be so included as financial assets and therefore not to be adjusted for via the I & E Account (note within Explanatory Foreword, part 4 capital expenditure, refers), because the related loan repayment conditions do not give at the outset in making the 'loan', or at any time subsequently, any definite repayment or maturity date - except principally in respect of when/if the property being purchased with the relocation loan is disposed of)

- *fair value through I & E Account:* assets that are held for trading (if applicable).

- *available-for-sale* (examples would be equity shareholdings and quoted investments). *The Borough Council, as at 31 March 2008, has none of these* - ie and does not include investments in Globe Enterprises Ltd - note 23 refers. SoRP 2007 introduced a new account - 'Available-For-Sale Financial Assets Reserve' - to reflect changes in fair value for available-for-sale assets arising from any unrecognised gains or losses. As indicated above, there are no transactions on such account for year 2007/08 and the balance as at 31 March 2008 is nil.

Financial Liabilities

- *amortised cost* (ie reflecting where part of some assets' and liabilities' (eg borrowing) carrying amount in the Balance Sheet will either be written down or written up, via the Income & Expenditure A/c, over the term of the instrument)

Financial Guarantees would also be covered (and a balance measured by applying a risk of the guarantee being called) ; *as at 31 March 2008 there were no such financial guarantee contracts made by the Borough Council*.

Carrying Value on the Balance Sheet and Fair Value: borrowing and investments
The carrying values as at 31 March 2008 for Balance Sheet comprise:

| Summary as at 31 March 2008 | **Principal Out-standing £000** | **Accrued Interest to 31 Mar £000** | **Adjusmt: Effective Int. Rate smooth'g £000** | **Carrying Value TOTAL £000** |
|---|---|---|---|---|
| Long Term Borrowing | | | | **0** |
| PWLB | 0 | 0 | 0 | 0 |
| Money Market | 9,520 | 79 | (1) 229 | (2) 9,828 |
| Individuals | 68 | 0 | 0 | 68 |
| **Total per Note 26** | 9,588 | 79 | 229 | **9,896** |
| Short Term Borrowing | | | | |
| PWLB | 6,700 | 25 | 0 | (2) 6,725 |
| **Total per Note 26** | 6,700 | 25 | 0 | **6,725** |
| Short Term Investments | | | | |
| Fixed Term Deposits | 6,000 | 29 | 0 | 6,029 |
| Other external fund (RBS) | 1,930 | 8 | 0 | 1,938 |
| **Total per Note 23** | 7,930 | 37 | 0 | (3) **7,967** |

(1) via I&E A/c, SMGFB and Financial Instruments Adjustment A/c - see table below.
(2) Fair Value basis & totals (as different amounts than carrying values) - given in Note 26.
(3) Fair Value for these investments has been assessed at same as the carrying value.

## NOTES TO CORE FINANCIAL STATEMENTS

Long Term Investments (in note 23) - for reasons of materiality (ADC debenture £10k and Others total £8k), and separate information on GEL, no other fair values are given.

Financial Instruments Adjustment Account

SoRP 2007 introduced this account to allow for differences, in statutory requirements and proper accounting practices, for borrowings and investments. This has meant, for the Council's accounts, that the FI Adjustment A/c has been used to neutralise, via the Statement of the Movement on the GF Balance, the 2007/08 impact on the I&E A/c of an adjustment to smooth the effective interest rate over the life of the affected loans. The table below summarises the transactions in the FI Adjustment Account for 2007/08:

| F I Adjustments A/c summary | **Total £000** |
|---|---|
| Balance at 1st April 2007 | **0** |
| Smoothing of effective rate of interest on stepped loans (money market LOBOs): | |
| prior years | 231 |
| current year | (2) |
| **Balance at 31st March 2008 in Net Worth** | **Dr 229** |

The net £229,283 debit will be used to adjust, in future years via the I&E A/c and the SMGFB, the carrying value of the related balances of Borrowing liabiliities.

Fair Value of the Council's other financial instruments (other than borrowings and investments)

Fair value disclosures are not required for short-term trade receivables and payables, as the carrying amounts (in the Balance Sheet) can be taken as a reasonable approximation of fair value. Respectively, HBC debtors information as at year-end is given at note 24 (including net of provisions total for bad and doubtful debts); and creditors information is at note 25.

In the context of particular financial instruments, information on other relevant carrying amounts (and thereby fair values) are given in this Statement of Accounts document:

Long Term Debtors - at note 21
Bank balance (or otherwise overdraft) - note 38
Cash in hand (cash impressts total) - note 38

Gain and Loss on financial assets and liabilities

The face of the HBC Income & Expenditure A/c gives for the year, within 'Corporate Income and Expenditure' prescribed section, the 'Interest payable and similar charges' and the Interest and investment income. There were no applicable premiums or discounts on early repayment of loan debt.

# NOTES TO CORE FINANCIAL STATEMENTS

Risks arising from financial instruments

The Council's activities, and also potential external circumstances, can expose the authority to a variety of financial risks - as follows:

**Credit risk** - the possibility that other parties might fail to pay amounts due to the Council. The Council maintains, reviews and operates strict criteria for acceptance, and investment with, counterparties.
In the case of debtors amounts or 'trade' receivables, the year-end position is given in note 24 - with analysis in gross terms mainly over HMRC, Other Government Depts, other local authorities, HBC Collection Fund (council tax and NNDR (business rates)), Housing Benefit debtors and Sundry Debtors.

**Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments. The authority has ready access to borrowing from the Public Works Loan Board (PWLB), and the wider money markets to cover any day-to-day cash flow need, if not met by planned / forecast / actual cash inflows. There is the flexibility to borrow for any period and at fixed or variable rates, subject to local indicators and/or limits set.

**Re-financing and Maturity risk** - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rate or terms. This is covered in the overall procedures for managing the risks.

**Market risks** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements:

- *Interest Rate risk* - The authority has limited exposure to interest rate movements on its borrowings and investments but has a number of strategies for managing such risk, covered in the overall procedures for managing the risks.
- *Price risk* - The Council (excluding the pension fund) does not generally invest in instruments with this type of risk.
- *Foreign Exchange risk* - Other than occasional expenditure transactions with a recognised trading party in another country (accounted for in sterling via Creditors and I&E Account), the authority has no financial assets or liabilities denominated in foreign currencies.

**Overall procedures for managing risk**

In respect of financial instruments the Council's overall risk management policy and procedures focus on the unpredictability of financial markets and the implementation of restrictions to minimise the related risks.

The Council had adopted and complies with the CIPFA code of practice on Treasury Management in public services (including cash flow management procedures), and the CIPFA Prudential Code for capital finance in local authorities; and with requirements and guidance issued to authorities through legislation.

When the Cabinet (in early February), and then also the full Council for approval, considers the Revenue Budget for the forthcoming financial year and the Capital Programme, along with a further update report on the authority's Medium Term Financial Strategy over the next (rolling) three years, there is also a combined report for approval on the Treasury Management Strategy for the coming three years* together with capital finance related and overall prudential indicators (the latter including the setting of external debt overall limits: 'authorised limit' and 'operational boundary').

* The Council's treasury management strategy (for borrowing and cash investment) covers:

- the current treasury position when reporting
- the expected movement in interest rates
- the Council's borrowing and debt strategy
- specific Treasury Management prudential indicators and limits on activity (ie upper limits on variable rate exposure; upper limits of fixed rate exposure; gross limits for maturity structure of borrowing (to reduce or limit the Council's exposure to large fixed sums falling due for refinancing at the same time); and maximum total principal sum invested for over 364 days)
- debt re-scheduling considerations *(the approved TMS includes that in exceptional circumstances the Chief Finance Officer may approve rescheduling under emergency powers, eg where swift action is required to secure favourable rates, and such action would be reported to Cabinet)*
- the Council's investment strategy.

The full Council in February 2007 approved the authority's Treasury Management Strategy 2007/08 – 2009/10; and correspondingly the TMS 2008/09 – 2010/11 was approved by full Council in February 2008. In the meantime, there is a half-yearly update report prepared for Cabinet each October.

# HOUSING REVENUE ACCOUNT

| 2006/07 £000 | HRA Income and Expenditure Account | Note | 2007/08 £000 |
|---|---|---|---|
| | **INCOME** | | |
| | Gross Rental Income | | |
| 6 | Dwelling rents | **1** | 0 |
| 0 | Non-Dwelling rents | | 0 |
| 0 | Charges for Services & Facilities | | 0 |
| (114) | HRA Subsidy (receivable) / adjustment | **3** | 6 |
| **(108)** | **Total Income** | | **6** |
| | **EXPENDITURE** | | |
| | Repairs, Maintenance & Management | | |
| 90 | Repairs and Maintenance | | 4 |
| 40 | Supervision and Management | | 13 |
| 0 | Rents, Rates, Taxes and Other Charges General | | 0 |
| 0 | Depreciation and Impairment of Fixed Assets | | 0 |
| 0 | Debt Management Costs | | 0 |
| 13 | Increase/(Decrease) in Bad Debt Provision | **7** | (7) |
| **143** | **Total Expenditure** | | **10** |
| **35** | **Net Cost of Services per Income and Expenditure Account** | | **16** |
| 0 | Net (gain) / loss on sale of HRA fixed assets at housing stock transfer | **5** | 0 |
| 0 | Interest Payable and similar charges | | 0 |
| 0 | Amortisation of Premiums and Discounts on borrowing | | 0 |
| 0 | Interest and Investment Income | | 0 |
| **35** | **(Surplus) or deficit for year on HRA services** | | **16** |

| 2006/07 £000 | Statement of the Movement on the HRA Balance | Note | 2007/08 £000 |
|---|---|---|---|
| 35 | (Surplus) or deficit for year on HRA Income and Expenditure Account | | 16 |
| | **Items included in the HRA I & E Account but excluded from the movement on HRA Balance for the year** | | |
| 0 | Contra to loss on sale of fixed assets in HRA I & E account | | 0 |
| 0 | Transfer from Pensions Reserve, in accordance with FRS 17 | | 0 |
| | **Items not included in the HRA I & E Account but included from the movement on HRA Balance for the year** | | |
| 0 | Transfer from Major Repairs Reserve | **5** | 0 |
| 0 | Capital expenditure charged in year to HRA, direct revenue finance | | 0 |
| 0 | Employer's Pension Fund Contributions | | 0 |
| **35** | **(Increase) or Decrease in the Housing Revenue Account Balance** | | **16** |
| (107) | Housing Revenue Account Surplus Brought Forward | | (72) |
| **(72)** | **Housing Revenue Account (Surplus) Carried Forward** | **8** | **0** |
| | **Final HRA Surplus transferred to General Fund 28/03/2008** | **8** | **(56)** |

# HOUSING REVENUE ACCOUNT

## NOTES

## 1. Rent Income

Gross rent income for dwellings is the total income due for the year for occupied houses, garages and shops. There was no direct rental income for 2007/2008

## 2. Housing Stock

The Council had no stock of dwellings at 28th March 2008 within the HRA.

## 3. Housing Subsidy Receivable

Part VI of the Local Government and Housing Act 1989 made statutory provisions regarding the Housing Revenue Account and Housing Subsidy. The Housing Revenue Account has been prepared in accordance with the various regulations and determinations and the Subsidy calculated in accordance with the Housing Revenue Account Subsidy (Consolidation) Determination 2005/2006 as follows:-

| | £000 |
|---|---|
| Adjustment (gain) in 2007/08 for yr 05/06 Housing Subsidy | 6 |

## 4. Fixed Assets

There are no balances on fixed assets at 28th March 2008, as, from 30th March 2006, the relevant fixed assets were transferred to Hyndburn Homes Ltd after agreement by the Council and the Secretary of State.

## 5. Major Repairs Reserve

Authorities are required by the applicable Accounts and Audit Regulations, to establish and maintain the Major Repairs Reserve. The main credits to the reserve were amounts equivalent to the total depreciation charges for all HRA assets. The determination under item 8 of part 6 of the Local Government and Housing Act 1989 requires any difference between the depreciation credit on the reserve and the Major Repairs Allowance to be transferred back to the HRA. Authorities are able to charge capital expenditure directly to the reserve.

# HOUSING REVENUE ACCOUNT

The following table identifies that there were no movements on the Major Repairs Reserve for the financial year 2006/07. The movements for year 2007/08 relate to the termination of the HRA following the housing stock transfer to Hyndburn Homes in March 2006, and the issuing of a HRA closure consent (at 28th March 2008) by the Secretary of State -*as indicated in the following table and further paragraph*.

| 2006/07 £000 | Major Repairs Reserve | 2007/08 £000 |
|---|---|---|
| 470 | Brought forward at 1st April | 470 |
| 0 | Transfer to Council's General Fund Reserves at 28th March 2008 | (470) |
| 470 | Carried forward at 31st March (see following paragraph) | 0 |

**Major Repairs Reserve cont'd:**

Within the terms of the housing stock transfer agreement between the Council and Contour Housing Group's 'Hyndburn Homes', the balance on the Major Repairs Reserve (MRR) was to be passed to Hyndburn Homes Ltd (after transferring it to the Council's General Fund reserves) provided that the MRR balance and Housing Revenue Account balance carried forward to the Council, together amounted to at least £400,000. The final figure of MRR to be transferred to Hyndburn Homes, from the Council's General Fund, therefore has been determined as part of the process of final and formal closure of the HRA.

## 6. Rent Arrears

As part of the agreement for the transfer of the housing stock on 30th March 2006, Current Tenants arrears were taken over wholly by Hyndburn Homes. Of the respective amount of gross arrears, 75% of that amount was paid by the company to the Council.
The Council retained ownership of its Former Tenants arrears and continues to collect those outstanding debts.

## 7. Bad Debt Provision

Full provision for writing off the balance of debtors outstanding in 2007/08 and previous years has been made. The provision has been utilised in full. The Council continues to collect those outstanding debts.

# HOUSING REVENUE ACCOUNT

## 8. HRA Balance

As also indicated in the Explanatory Foreword, following the Housing Stock Transfer of 30th March 2006 the Housing Revenue Account was required to remain open for at least a further financial year, in order to resolve any further relevant and residual transactions. Subject to specific approval by the Secretary of State, who has now issued a ‘Consent to Close Housing Revenue Account’, the HRA has now been closed at 28th March 2008, and the Balance transferred to the Council’s General Fund reserves.

The Housing Revenue Account Balance as at 28th March 2008 transferred to the Council’s General Fund reserves was £55,298.

# COLLECTION FUND

| 2006/07 £000 | Income and Expenditure Account | 2007/08 £000 | 2007/08 £000 |
|---|---|---|---|
| | **INCOME** | | |
| (25,964) | Income from Council Tax | | (27,544) |
| | Transfer from General Fund | | |
| (6,559) | - Council Tax Benefits | | (6,685) |
| (17,070) | Income collectable from Business Ratepayers | | (16,407) |
| **(49,593)** | **Gross Income** | | **(50,636)** |
| | **EXPENDITURE** | | |
| | Precepts & Demands - *see notes 3 & 4* | | |
| 23,705 | - Lancashire County Council | 25,002 | |
| 2,689 | - Lancashire Police Authority | 3,010 | |
| 1,301 | - Lancashire Combined Fire Authority | 1,372 | |
| 4,749 | - Hyndburn Borough Council | 5,011 | 34,395 |
| | Business Rates (NNDR) - *see note 2* | | |
| 16,396 | - Payments to National Pool | 16,099 | |
| 7 | - Interest | 52 | |
| 140 | - Cost of Collection | 139 | 16,290 |
| | Bad Debts Provisions in Year | | |
| 233 | - Council Tax | 159 | |
| 527 | - Business Rates | 117 | 276 |
| | Contributions | | |
| (335) | - Previous years surplus (deficit) distributed | | (62) |
| **49,412** | **Gross Expenditure** | | **50,899** |
| (181) | (Surplus)/Deficit for the year | | 263 |
| 301 | (Surplus)/Deficit as at 1st April b/fwd | | 120 |
| **120** | **(Surplus)/Deficit as at 31st March c/fwd** | | **383** |

# NOTES TO COLLECTION FUND ACCOUNTS

**1. General**

The Collection Fund income and expenditure account is a statutory requirement (the Local Government Finance Act 1988, as amended by the LGF Act 1992). The Act requires councils to maintain a separate Collection Fund to show the collection and distribution transactions relating to Council Tax and National Non Domestic Rates (NNDR). Collection Fund balances are included in the Council's Balance Sheet.

**2. National Non-Domestic Rate (business rates)**

The council is responsible for billing and collecting business rates due from relevant properties within its area. The proceeds are paid into a national pool which is managed by Central Government and redistributed back to local authorities based on population statistics. The Government sets a national non-domestic rating multiplier: for yr 2007/08, 44.4p in the pound or 44.1p for small businesses. Business Rates (ie NNDR) are calculated by multiplying the rateable value of the property (as set by HM Revenue & Customs) by the multiplier. The Council's total Non-Domestic rateable value at the financial year-end was £50.954m (at end of year 2006/07 it was £51.056m).

**3. Council Tax**

Council Tax is due from residential properties based on the statutory national valuation band in which the dwelling has been valued, for applicable date, by HM Revenue & Customs. The council tax is calculated by estimating the amount of income required from the collection fund by the Council and Precepting Authorities for the forthcoming year. This is divided by the council tax base, ie the total number of equivalent band D properties. The Council Tax base for year 2007/08 was 23,898. This estimated number of dwellings was calculated as follows, and set by the Council at its meeting on 11th December, 2006.

| Band | Number of Dwellings | Discount | Factor | Band D Equivalent whole nos |
|---|---|---|---|---|
| AA * | 18 | 1 | 5/9 | 9 |
| A | 20351 | 2610 | 6/9 | 11827 |
| B | 4973 | 442 | 7/9 | 3524 |
| C | 5487 | 353 | 8/9 | 4563 |
| D | 2725 | 132 | 9/9 | 2593 |
| E | 870 | 46 | 11/9 | 1007 |
| F | 261 | 16 | 13/9 | 353 |
| G | 171 | 18 | 15/9 | 255 |
| H | 5 | 1 | 18/9 | 8 |
| | | Total | | 24139 |
| | | Collection Rate | | 99% |
| | | **Tax Base** | | **23898** |

* Band A disabled relief number

**4. Surpluses and Deficits**

The actual surplus or deficit on the Council Tax at the financial year end is apportioned and distributed between the billing and precepting authorities in proportion to the value of their respective precepts on the collection fund. Any surplus is used to reduce future years council tax. The amounts transferred in respect to each year's surplus or deficit are based on an estimate made by mid-January and therefore do not directly relate to the balance shown in these accounts. Any difference between the estimate and outturn is taken into account when estimating the surplus or deficit for the following year.

# Annual Governance Statement 2007/2008

## Contents

# Annual Governance Statement 2007/2008

## Introduction

1. Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises systems, processes, cultures and values by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate, leads the community.

2. CIPFA[1]/SOLACE[2] has produced a new governance framework. It is an integrated system that brings together an underlying set of legislative requirements, governance principles and management processes. The governance framework produced by CIPFA/SOLACE remains a discretionary code and is offered to local authorities as good practice.

3. In England, the preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SOLACE framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations (Amendment)(England) 2006 for authorities to prepare a statement on internal control in accordance with 'proper practices'.

4. To comply with this requirement, the Annual Governance Statement is produced in accordance with guidance provided by CIPFA.

## Policy Statement

In conducting its business, Hyndburn Borough Council is fully committed to the key principles of good governance as established by the Nolan Committee on Standards in Public Life. These key principles are:-

- A clear definition of the body's purpose and desired outcomes;
- Well defined functions and responsibilities;
- An appropriate corporate culture;
- Transparent decision making;
- A strong governance team;
- Real accountability to stakeholders.

The CIPFA/SOLACE framework for good governance adapts these core principles for the local authority context.

[1] Chartered Institute of Public Finance and Accountancy
[2] Society of Local Authority Chief Executives

## The Six Core Principles of Good Governance

The six core principles of good governance as recognised by the CIPFA/SOLACE framework are as follows:-

1. Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

5. Developing the capacity and capability of members and officers to be effective.

6. Engaging with local people and other stakeholders to ensure robust local public accountability.

## The Council's Corporate Governance Arrangements

The Council takes its corporate governance arrangements seriously and as a result has put in place a rigorous process of reviewing the arrangements on a regular basis. The process of review is as follows:-

- **Management Team**

  The Council's Corporate Management Team comprises the Managing Director, Deputy Managing Director, and the two service Executive Directors.

  From a governance perspective, the role of Corporate Management Team (CMT) is to review the Council's governance and risk management arrangements. In particular, CMT undertakes a half yearly (in May and November of each year) detailed review of the Strategic and Operational Risk Registers.

- **The Cabinet**

  The Cabinet has primary responsibility for the Council's governance and risk management arrangements and that includes reviewing such arrangements. Where necessary the Cabinet will make recommendations to the Council on the governance and risk management arrangements.

- **The Audit Committee**

  The Audit Committee will review annually the effectiveness of the Council's corporate governance and risk management arrangements and will, where necessary, make recommendations to the Council and the Cabinet on any issues arising.

- **The Council**

  The Full Council has a responsibility to act upon the recommendations made by the Cabinet or the Audit Committee in relation to the Council's policy on corporate governance and risk management. This will be subject to recommendations being made by the Cabinet and/or the Audit Committee but will, at the very least, occur at least once a year when the policies on corporate governance and risk management are reviewed following review by the Audit Committee.

A full review to assess the effectiveness and operation of the governance arrangements, internal control, and risk management procedures has been undertaken during the year of account. This informs the basis of the Annual Governance Statement which is supported by evidence gathered through the following review procedure.

## The Annual Governance Review

The Annual Governance Statement evidences through eight key steps Hyndburn Borough Council's compliance with statutory requirements, and the CIPFA/SOLACE framework, in accordance with guidance provided by CIPFA, by:

1. Establishment of the Council's corporate governance arrangements, principal statutory obligations and organisational objectives, applying the CIPFA/SOLACE core principles at all times.

2. Identification of the principle risks to achievement of its strategies and objectives.

3. Identification and evaluation of the key controls to manage principal risks.

4. Obtaining assurances on effectiveness of key controls.

5. Evaluation of assurances and identification of gaps in controls/assurances

6. Preparation of an action plan to address weaknesses and ensure continuous improvement of the system of corporate governance.

7. Production of the Annual Governance Statement

8. Reporting to Audit Committee and Council.

**Step 1: Establishment of the Council's corporate governance arrangements, principal statutory obligations and organisational objectives:**

The Borough Council has adopted a Constitution, which sets out how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are transparent and accountable to local people.

The Council's Cabinet is responsible for delivering identifiable, accountable, corporate leadership for the Council and the community it serves.

The Council's Overview and Scrutiny Committee assist the Council and Cabinet in the development of its Budget and Policy Framework by in-depth analysis of policy issues. Specific Procedure Rules are in place within the Constitution to govern these arrangements and ensure an appropriate and full role is played in the corporate governance of the Council by Overview & Scrutiny.

In addition, the Council has in place Procedure Rules to help ensure that records of decisions and the deliberations of Committees are recorded and made publicly available. Agendas, reports and minutes can be found on the Council's website www.hyndburnbc.gov.uk. A Forward Plan is published on a monthly basis, (this can also be found on the Council's website), and this provides information to the public on the key decisions the Council, through the Cabinet or Officers, is due to take and provide an opportunity for involvement, and consultation in the democratic decision making process and allow the Cabinet to be held to account. Meetings are open to the public except where personal or confidential matters are being disclosed.

In addition, senior officers of the Council can make decisions under delegated authority. The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its committees and chief officers under their delegated powers.

The District Council has adopted a "Local Code of Corporate Governance" in accordance with the CIPFA/SOLACE Framework for Corporate Governance. The Local Code contains appropriate monitoring and reporting procedures, and can be found on the Council's website at www.hyndburnbc.gov.uk. Examples of the policies include a scheme of officer delegation, codes of conduct and a whistle-blowing policy.

The Monitoring Officer and Executive Director for Resources, in his capacity as Section 151 Officer, have arrangements in place to ensure compliance with relevant procedures, laws and regulations. Heads of departments have responsibility for identifying, evaluating, communicating, complying with, and monitoring new, or changes to, legislation affecting their departments and reporting to the relevant committee the implications for the Council of such legislation.

Audit reports from the Council's External Auditors are received by the Corporate Management Team, as well as the Cabinet and the Audit Committee. The External Auditors have free access to Members and present their major reports and summaries of their views on the Council directly to Members.

The current system provides the Council with multiple checks on the power of the Cabinet and provides a strong independent system within the Council to aid it to provide effective corporate governance.

The Standards Committee is chaired by a person who is independent of Councillors.

The Overview & Scrutiny Committee monitors the work of 2 Overview & Scrutiny Sub Committees.

The Community and Wellbeing Overview & Scrutiny Sub Committee monitors the implementation of the Council's sustainable community strategy targets and objectives, community safety policies and strategies, the development of sustainable communities and external public service providers including those who provide health services. The Sub-committee assists with the development and review of Council policies and services in those areas.
The Resources Overview & Scrutiny Sub Committee monitors the performance of Council services and makes suggestions for service improvements. It monitors the Council's budgetary position throughout the year and advises in respect of possible efficiency savings and steps required to address any budget deficit. It also monitors and oversees, Service Delivery and Improvements, the Comprehensive Performance Assessment process and development, and assists with the development and review of Council policies and services, including those delivered in partnership.

There are no Cabinet Members allowed on Overview & Scrutiny or Standards Committee, but Cabinet Members attend Overview and Scrutiny Panel when called by these Committees to answer questions relating to their areas of responsibilities.

Executive Members attend Overview and Scrutiny Panel when called by these Committees to answer questions relating to their areas of responsibilities.

All Councillors are invited to attend Overview & Scrutiny meetings and are allowed to ask questions at the discretion of the Chair of the meeting.

**Step 2: Identification of the principal risks:**

A fundamental aspect of the Control Environment is Risk Management. The Council is committed to establishing and maintaining a framework and culture that ensures effective Risk Management is an integral part of all the Council's activities. This will contribute to the successful management of the Council's corporate objectives and support its strategic direction through informed decision making.

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

The Council has always had a strong system of internal control and to further strengthen the control environment, in line with recommended Best Practice the Council has established an Audit Committee. The main responsibilities of the Audit Committee being:

- To consider the reports of Internal Audit, External Audit and inspection agencies

- To consider the effectiveness of the Council's risk management arrangements and control environment.

- To satisfy itself that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions to improve it.

**The Internal Control Environment:**

The Council's control environment comprises the authority's policies, procedures and operations in place to:

- Establish and monitor the achievement of the Council's objectives;
- Identify, assess and manage risks to achieving the Council's objectives;
- Facilitate policy and decision-making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and,
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

The key elements of the Council's internal control environment are described below.

The Council adopted a Risk Management Strategy and Strategic Risks Policy in April 2003. Operational Risks were added in July 2003. The addition of the process for ongoing monitoring, review, addition, deletion and amendment of risks was approved in September 2003. The Risk Management Strategy was reviewed in 2007 and a revised risk management definition was adopted by Cabinet on the 13th September 2007 which better reflected the current role of risk management within the council.

Three Risk Registers (Strategic, Generic and Operational) are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. Management team undertake quarterly reviews of the strategic risk register to ensure that risks are in-line with the corporate goals and objectives.

The Risk Management process is embedded into the culture of the Council. On a quarterly basis Risk Monitoring Reports are produced for inspection by the Audit Committee. The Risk Registers are updated quarterly with feedback from Directors, Heads of Service and Other Senior Managers.

Improvements have been made to the format of the risk registers and the quarterly reports within the last 12 months. Further improvements to the risk management processes will be introduced in the current year. The Policy, Partnerships and Performance team, which is responsible for managing the quarterly review of the Risk Registers, is developing an online risk register database. This will enable constant access to the risk registers for updating, reviewing and reporting.

Through reviews by external auditors, external agencies, Internal Audit, and its Management, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.

Services are delivered by trained and experienced staff. All posts have a detailed job description and person specification. Training needs are identified through the Appraisal Scheme and are recorded in an employee's work plan. Strategic training needs are defined in the Corporate Training Plan as are generic operational training needs identified in the development action plans. The corporate training plan is produced annually in consultation with Directors, Heads of Service and other senior managers and is approved by Management Team and sent to Cabinet for information.

The Council maintains an Internal Audit Section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.

**Step 3: Identification and evaluation of the key controls:**

The Council has an effective performance management framework. The System is driven by the Sustainable Community Strategy, Corporate and Performance Plan setting out corporate priorities.

In 2005-06 a Performance Management Team was established to strengthen the performance management culture of the Council. The Performance Management Team consists of cross-departmental senior managers with representation from each directorate. The remit of the team is to monitor key areas of performance, drive continuous performance improvement and for improve the arrangements for managing performance across the Council.

All key corporate performance indicators are monitored through the Council's performance management software PerformancePlus on a quarterly basis. Underperforming areas identified for special measures monitoring are monitored through the system on a monthly basis. Areas identified for special measures monitoring have included council tax and NNDR collection, and sickness absence. The use of the system is embedded in each Directorate. Work is progressing on extending the use of PerformancePlus to service level performance management.

The financial management of the authority is conducted in accordance with the financial rules set out in Part 4 (f) of the Constitution and with Financial Regulations. The Council has designated the Executive Director for Resources in accordance with Section 151 of the Local Government Act 1972.

Financial Procedure Rules are an integral part of the Council's Constitution and the means by which the Council's Section 151 officer lays down the internal controls that must be complied with to ensure the proper administration of the Council's financial affairs. Internal Audit continually reviews these internal controls and makes recommendations for changes and improvements where necessary.

The Council has continued to improve its budget monitoring and financial management, being given a level 3 (4 being the maximum) in the latest External Audit Use of Resources Assessment. The main reasons leading to this improved assessment being:

- Sound budget setting, monitoring and control arrangements
- Clear Reporting of budget performance to members
- Reporting of non-financial and financial information to assist members in fully understanding budgetary performance; and
- Prompt and effective remedial action is taken when forecast deficits arise.
- Clear lines of professional accountability to the Executive Director for Resources.

The Council produces a Medium Term Financial Strategy which looks at the financial position of the Council over a three-year period. This plan is updated as required during the year usually at least twice at the start and end of the budgetary process.

The Council is under a statutory obligation to produce an Annual Statement of Accounts. This details the Council's spending on an annual basis and is independently audited to professional standards under a Code of Audit Practice approved by the Government.

The Council's Budget is annually updated as required by legislation. Budget monitoring is undertaken on a monthly basis with Service Managers, supported by their designated Accountant. The Executive Director for Resources also monitors the Budget at a strategic level. At a corporate level, the Resources Overview and Scrutiny Sub Committee reviews monthly monitoring reports. Budgetary information is submitted to Corporate Management Team and the Council's Cabinet.

**Step 4: Obtaining assurances on effectiveness of key controls:**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control as part of the Annual Governance Review. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers of the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

During 2007/08 the Council continued to update the Code of Corporate Governance, with the actions being reported to Cabinet, examples of this work programme included the completion of updates to:-

The Council Constitution

Scheme of Delegation

and Various Council Procedure Rules

Suitable training will be provided on any new aspects of the Code to both Members and Officers.

The Audit Commission's Comprehensive Performance Assessment (CPA) for 2008 assessed Hyndburn Borough Council as an EXCELLENT Council, and noted good practice in many areas.

In its CPA Report the Audit Commission said 'The Council has evolved over the past three years and a significant change in culture and working practices has resulted in a modern business operation where councillors and officers work well together.'

The latest Audit Commission Direction of Travel assessment (March 2008) reflecting previous assessments confirmed that the Council 'continued to make very good progress in most of its priorities, services and activities identified as important by local people.'

**Step 5: Evaluation of assurances:**

During 2007/08 the Council's external auditors undertook a Use of Resources Audit which reviewed aspects of the Council's performance including:

Financial Reporting

Financial Management

Financial Standing

Internal Control

Value for Money

The external auditor's overall conclusion issued in October 2007 was that the Council has adequate arrangements for ensuring value for money in its use of resources.

<u>Financial Reporting:</u>
Arrangements were judged to provide a good explanatory paper on the financial statements to the Audit Committee. Although the Annual Audit and Inspection Letter is published on the Council's website, an unqualified audit opinion on the financial statements was not issued until 31st October 2007, and summary financial statements and additional consultation with stakeholders regarding an annual report are recommended.

Financial Management:
The council continued to maintain its improved budget monitoring and financial management arrangements. The council issued an updated asset management plan to members (June 2007) and now has a quantified assessment of the backlog maintenance.

Financial Standing:
The Council improved its unallocated reserves balance (during 2006/07) from £0.759m to £1.338m and is aware of and has quantified some challenges to its Medium Term Financial Strategy.

Internal Control:
The Council has made further improvements to its risk management arrangements by transferring responsibility for the administration of risk registers to the Policy and Performance Team. The risk registers have been transferred to and are maintained on a database system. Whilst service managers use these the arrangements were not fully embedded at 31st March 2007

Value for Money:
The Council continues to perform well in comparison to other districts. The level of performance improvement is higher than the district average. Performance on key services is higher than expected for the level of spending, when compared to similar authorities, and taking into account local demographics. There is evidence that investment has resulted in improved services, and unintended high spending is addressed effectively when it occurs.
The Council's arrangements in place to manage value for money have improved, in particular the Council has progressed on achieving efficiency, strengthened its performance management framework through the use of performance scorecards, strengthened partnership working and procurement practices.

From the work undertaken during the year, Internal Audit has reached the opinion that there were no fundamental breakdowns of controls resulting in material discrepancy, based upon the audit areas examined and associated audit work carried out.

## SIGNIFICANT INTERNAL CONTROL ISSUES

Significant Internal Control Issues are identified as those that may lead to:

- Closure of a service
- Seriously prejudicing or threatening the achievement of a principal objective of the Council
- Threaten the safety of service users or staff
- Provide significant damage to the reputation of the Council
- Significant financial imbalance requiring additional funding to be released from Reserves

The Council's position against each of these major control issues in 2007-08 is identified in the table below. Other Control Issues are identified and addressed during the year, but are not reported here as they are not fundamental to the overall operation of the Council. These however are managed effectively by the Council throughout the year.

| **Major Control Risk** | **Council's Position 2007/08** |
|---|---|
| Closure of a Service | There was no loss of service during the year. Control systems worked adequately to ensure provision of all the Council's major services.<br><br>Work is on-going to improve Business Continuity Plans. |
| Serious Threats to Principal Objectives | There were no serious threats to the Council achieving its principal objectives in the year. Progress against key targets is discussed at Corporate Management Team and appropriate action taken by Strategic Directors to ensure outputs are achieved.<br><br>In the last two years outputs and spend around the Elevate programme have been achieved. Measures are in place to monitor performance throughout the year, which include reports to each meeting of Council's management team and reports to Council's Housing Market Renewal Panel every six weeks. (A panel of six senior elected members) In addition the Council reports monthly to Elevate East Lancashire the Housing Market Renewal Pathfinder. |

| | |
|---|---|
| Threaten the safety of service users or staff | The Council reviewed its Health and Safety Policies in 2006 and re-issued it as a rolling plan to be renewed every two years. New legislation eg Corporate Manslaughter and Corporate Homicide Act 2007, has resulted in special risk management training for senior managers. Workplace accidents have reduced by 32% over 2006/07. Over 3 day reportable accidents reduced by 15%, and there was a 15% reduction in manual handling accidents. |
| Significant Damage to the Council's Reputation | The Council continued to manage its business in a professional manner, in line with its Constitution and high standards expected from Public Servants. The Council has adequate arrangements in place to consult over significant decisions and has good liaison with the Press to ensure the accuracy of reporting of stories, and employs a professional Senior Marketing and Communications Officer. |
| Significant additional financial reserves required | The Council managed its overall finances effectively during the year, turning an updated budgeted contribution of £158k from General Fund Reserves into a contribution of £703k to the General Fund Reserves. This significantly increases the General Reserves of the Council from £1.34m at the end of 2006-07 to £2.04m at the end of 2007-08.<br>Included in the above is a £400k contribution (in total) to the Council's General Fund reserves made from the Housing Revenue Account and the Major Repairs Reserve Account, following the March 2006 transfer of the Council's housing stock to Hyndburn Homes Limited and the subsequent termination of those Accounts in 2007/08.<br>As in previous years while overall expenditure was contained across the Council's Budget, there were a small number of areas in which an overspend occurred. However our budgetary monitoring procedures identified these early in the year and appropriate action was taken to reduce expenditure in these areas or manage overspend across the Council. |

**Step 6: Preparation of an action plan to address weaknesses and ensure continuous improvement of the system of corporate governance:**

The evaluation of assurances is followed by a number of action plans being prepared to monitor risks applicable to the achievement of the Council's objectives. Principally these will cover Generic and Operational Risks, Strategic Risks, and Audit Risks, with Action Plans being approved by Audit Committee and Corporate Management Team as appropriate.

**Step 7: Production of the Annual Governance Statement:**

The Annual Governance Statement is prepared at the end of the financial year, to review and report on the effectiveness of the arrangements during the financial year to ensure compliance with statutory requirements.

**Step 8: Reporting to Audit Committee and Council:**

The Annual Governance Statement is reported to Audit Committee in June for approval and inclusion in the Statement of Accounts for 2007/08.

## Conclusions Drawn from Annual Governance Review

The Council's governance procedures were found to contain comprehensive systems, processes, cultures and values by which the Council is controlled, and through which it engages with the community in a timely, inclusive, open, honest and accountable manner.
No significant weaknesses were found requiring procedural changes.

**Signed:** ---------------------------------------------------- **Date: 11th June 2008**

**Managing Director**

**Signed:** Peter Britcliffe ---------------------------------------------------- **Date: 11th June 2008**

**Councillor Peter Britcliffe**
**Leader of the Council**

# List of Evidence Files to Support Annual Governance Review

**Step 1: Establishment of the Council's corporate governance arrangements, principal statutory obligations and organisational objectives:**

**Step 1.1 – Effective Corporate Governance arrangements are embedded within the authority**

**Evidence**

1: Council Constitution

2: Executive Procedure Rules

3: Budget and Policy Framework Procedure Rules

4: Financial Procedure Rules

5: Contracts Procedure Rules

6: Minutes of Audit Committee

7: CPA Report

**Step 1.2 - Mechanism established to identify principal statutory obligations**

**Evidence**

8: Council Constitution

9: Scheme of Delegations

10: Job Descriptions of Key Officers

11: Structure Charts

12: Control of Staffing Resources

13: Communication Strategy – Media Protocol
- Executive Briefing
- News round
- Media Releases

14: Corporate Induction Process

15: Internal Audit Report on Action Plan 2007/08
List of Audit Reports 2007/08

**Step 1.3 – Mechanism in place to establish corporate objectives**

**Evidence**

16: Sustainable Community Strategy 2008 – 2018
Corporate and Performance Plan 2004 – 2008
Asset Management Plan 2007 - 2010

**Step 1.4 – Performance Management arrangements are in place**

**Evidence**

17: Performance Management Framework – HBC
Performance Management Framework – LSP

18: Medium Term Financial Strategy

19: Forward Plans Nov 2007 - Feb 2008, March 2008 – June 2008
Internal Audit Service Plan 2007-2008
Health & Safety Action Plan 2006-2008,
Asset Management Plan 2007-2010
SRB6 Delivery Plan for 2007-2008
Corporate Training & Organisational Development Plan & Report
Local Strategic Partnership Plan PMF Report

20: Council Tax and NNDR Performance Indicators
Revenue Budgets – Monitoring Report
Revenue Budget Report 2007/08
Report to Cabinet – Scrutiny of a service budget
Self assessment of performance on National Performance Indicators
2007-08 BVPI report to Performance Management Team

21: Capital Monitoring Reports

**Step 2: Identification of the principal risks to achievement of its strategies and objectives.:**

**Evidence**

22: Audit Committee Minutes approving 2007/08 Audit Plan

23: Risk Management Monitoring Reports to:
Audit Committee –25/09/2007, 29/01/2008

24: ICF Review Statements from Lead Officers

25: Audit Committee Terms of Reference

**Step 3: Identification and evaluation of the key controls:**

**Evidence**

26: Prudential Indicators & Treasury Management Strategy 2008/09-2010/11

27: Authorised Signatures

28: Whistle Blowing Policy

29: Project Management Framework

30: Financial Reporting Partnership Organisations

31: IT back-up Disaster Recovery Policy

32: BCP Property Disaster Recovery Strategy

33: Register of Interests, Gifts and Hospitality - Members

34: Code of Conduct Employees & Members

35: Risk Management Monitoring Report 25/09/07

36: Procurement Strategy

37: Insurance Policy

38: Service Business Plans:
Accountancy Central Administration & Local Taxation 2007/08
Environmental Services Service Plan 2007/08
ICT Service Plan 2007/08

39: Internal audit reports - Internal Control Framework

40: Audit Commission Annual Audit and Inspection Letter March 2008
External Audit – Use of Resources – April 2007

41: Health and Safety policy

42: Corporate Complaints Comments & Compliments Procedure

43: Fraud & Irregularity 2007/08
Anti-Fraud and Anti-Corruption Strategy
Anti Money Laundering Policy

**Step 4:  Obtaining assurances on effectiveness of key controls:**

**Evidence**

44:  External Audit Reports ISA 260 October 2007

45:  CPA Assessment on Intranet

**Step 5:  Evaluation of assurances:**

**Evidence**

46:  Annual Internal Audit Report 2007/08
IT Audit work 2007/08

**Step 6:  Preparation of an action plan:**

**Evidence**

47:  Audit Risk Tables & Action Plans
Strategic Risks – March 2008
Generic Operational Risks – March 2008
Operational Risks – March 2008