

# HYNDBURN BOROUGH COUNCIL

## Statement of Accounts (Audited)

Year Ended 31<sup>st</sup> March, 2010



**HYNDBURN**

The place to be  
an excellent council

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### ACCESSIBILITY

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# AUDITOR'S REPORT

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

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

I have audited the Authority accounting statements and related notes of Hyndburn Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, 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 Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in 2008.

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

The Executive Director's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the 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 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 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 accounting

## AUDITOR'S REPORT continued

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 accounting statements and related notes.

### ***Opinion***

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Authority as at 31 March 2010 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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 May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Hyndburn Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

## AUDITOR'S REPORT continued

### **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

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

24 September 2010

## **EXPLANATORY FOREWORD**

### **1. Introduction**

This publication is the Council's statement of accounts (SOA) for the financial year ended 31<sup>st</sup> March 2010. 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. The need for the 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).
  - (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.

## EXPLANATORY FOREWORD

(d) **Supplementary Financial Statement(s)**

(i) **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 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 revenue accounts position**

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

Financial Year 2009/10	Updated Budget * £000	Actual Outturn £000	(Favourable) / Adverse Variance £000
Net Expenditure & other movements in year	16,098	14,216	(1,882)
financed by:			
HBC precept on the Collection Fund	5,450	5,450	0
Local Authorities Business Growth Incentive **	0	19	(19)
Revenue Support Grant	1,885	1,885	0
Business Rates (NNDR) share via the Govt's 'pool'	8,168	8,168	0
HBC Collection Fund (deficit)/surplus balance	(75)	*** (75)	0
<i>Resources total</i>	<i>15,428</i>	<i>15,447</i>	<i>(19)</i>
(Increase)/Reduction in GF Balance	670	(1,231)	(1,901)

\* The original budget was approved by Council on 26th February 2009, with £10,000 to be met from the General Fund Balance. On 22nd June 2009 the Audit Committee, as so delegated by the Council, approved additional budget total of £660,000 to be met from GF reserves brought forward (with zero impact on net Budget Requirement).

\*\* Further information on the 'LABGI' grant from the Government is at [note 4a](#) to the core financial statements. *It is not likely that LABGI grant will be received after 2009/10.*

\*\*\* the outturn item for Collection Fund deficit at year-end, in the table above, has been split in the core financial statements between I&E Account principal sources of finance (£24,449) and the SMGFB (£50,739), per the Council Tax related 'SoRP' changes.

## **EXPLANATORY FOREWORD**

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 £1,230,800. The approved updated budget had provided for a contribution of £670,000 from GF Balance, so there is an overall favourable variance of approximately £1,901,000. The approx. £1,230,800 increases the General Reserves of the Council from approximately £3,066,000 at the end of year 2008/09 to a positive balance of some £4,296,000 at the end of 2009/10.

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.

Information on the main variances of the year is given in the report or commentary accompanying this Statement of Accounts document (at Audit Committee 21<sup>st</sup> June 2010); *and a report on the basis or format of 2009/10 internal management accounts reporting went to the next available Cabinet meeting (held on 30<sup>th</sup> June after cancellation, for other reasons, of the 24<sup>th</sup> May 2010 meeting).*

Committee and Cabinet non-confidential papers are available via [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk).

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.

The intention remains to continue the sound and prudent management of finances, and taking appropriate in-year actions, in 2010/11 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 - and while facing, via HBC Medium Term Financial Strategy updates, further challenges of prospective limited Local Government financial resources.

### **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 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.

## EXPLANATORY FOREWORD

Over the course of the year the size of the net pension deficit increased from £35.8m to £47.8m. 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 2010

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 next triennial review will be as at 31<sup>st</sup> March 2010.

### **3. Capital Expenditure**

Capital expenditure in year 2009/10 totalled £12.062m (inclusive of allocations of capitalised staff salaries) as follows:

Scheme	Amount £000s
Housing Market Renewal (incl'g 'Equity Share Loans' / PALs *)	7,824
Housing Improvement Grants	1,377
Accrington Market Hall	1,199
Oakhill Bandstand	203
Playground Imps Big Lottery (Highams & Rhyddings)	195
Area Councils Schemes	155
Rhyddings & Memorial Parks	154
Peel Park & Coppice Regeneration (contribution)	106
Allotments Regeneration	90
Technology Refreshment Programme	89
Playbuilders PH (Highams)	86
CCTV Borough Network Extension	77
Vehicle Underwash Equipment	53
Vehicles	49
Election Software	32
Cycleway Acc'n Pals Health Centre	32
Oswaldtwistle Civic Theatre Project	31
Government Connect	23
Planned Asset Management	19
Disability Discrimination Act related	17
Other capital schemes	251
<b>TOTAL</b>	<b>12,062</b>

This compares to capital expenditure of £10.611m in 2008/09. The financing of the capital expenditure is given in note 18 to the core financial statements.

## EXPLANATORY FOREWORD

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). Provisional 2009/10 final outturn figures were given to CPWG for the 20<sup>th</sup> April 2010 meeting.

Information on the main variances of the year is given in the report or commentary accompanying this Statement of Accounts document (at Audit Committee 21<sup>st</sup> June 2010); *and a report on Capital Programme Outturn 2009/10 and impacts went to the next available Cabinet meeting (held on 30<sup>th</sup> June after cancellation, for other reasons, of the 24<sup>th</sup> May 2010 meeting)* - Committee and Cabinet non-confidential papers are available via [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk).

### \* Equity Share Loans & Purchase Assistance 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; 2007/08 was a further £473,150 (further 16 loans); 2008/09 was a further £361,700 (further 10 loans); cumulatively £1,517,100 (47 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 (and more recently Purchase Assistance Loans – referred to below) had been categorised as Deferred Charges capital expenditure (and from year 2008/09, under the SORP, any revenue accounts impact of deferred charges is now known as 'Revenue expenditure funded from Capital under Statute' - REFCUS).

Under the circumstances of the related loan repayment conditions, it is not appropriate to include the ES loans / PALs in the Balance Sheet. If and when such loans may become due for repayment, the loan amount (and in the case of ESLs, 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) and Purchase Assistance Loans are recorded, summarised and reconciled within the Council jointly by the departments involved. *Note 42 (Financial Instruments) also refers.*

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

First PALs made by the Council were in 2009/10: **£37,220** advanced (comprising 3 loans).

Repayments of ESLs / PALs - up to 31<sup>st</sup> March 2010 there have been 2 repayments (in year 2009/10) of ESLs.

## **EXPLANATORY FOREWORD**

### **4. Balance Sheet**

As shown by the bottom-half of the Balance Sheet, the Net Worth as at 31st March 2010 is a negative position of approximately £12.5m - a worsened position by some £11m from 31<sup>st</sup> March 2009, which was £1.6m negative (as necessarily restated, from £2.0m negative, for relevant prior-year impacts of the first of the three 2009 'SoRP' changes outlined at 6. below in this Explanatory Foreword).

The main change in the year has been the increase of £12m in the Pensions Net Liability or Deficit (a Long Term Liability), which in the top-half of the Council's balance sheet is partly offset by the net reduction of approx. £5m in Current Liabilities; and also approx. £4m downward adjustment in final version for fixed assets (to give a nominal historical cost value within 'community assets').

Commentary on the main elements and changes from previous year was given in the report accompanying the then draft Statement of Accounts (Audit Committee 21st June 2010).

### **5. Business Improvement District (BID)**

As noted in previous Statements 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 and agreed business plan. More information on this can be found on [www.althambid.co.uk](http://www.althambid.co.uk) website. 2009/10 was Year 3 of the Altham scheme.

The Council's financial role is to bill the annual local BID Levy to all the businesses for the relevant financial year 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, other than any 'debtors' and 'creditors' related Levy figures and (if any) recovery costs and income.

*A memorandum account is no longer required to be given in the HBC Statement of Accounts 2009/10 and thereafter - per the 2009 'SoRP'.*

### **6. Annual 'SoRP' changes**

As noted at the beginning of the Council's Statement of Accounting Policies (which immediately follows this Explanatory Foreword), 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).

## **EXPLANATORY FOREWORD**

Other than changes relating to Private Finance Initiative (PFI) schemes and similar contracts' accounting - not currently applicable at Hyndburn BC - the 2009 updated SoRP introduced changes for year 2009/10 onwards (and with requirements also to re-state or give for previous year - 2008/09) for:

- Council Tax income accounting in relation to major preceptors' portions; and treatment or presentation changed for any council tax debtors/creditors amounts; and has involved the creation of a Collection Fund Adjustment Account in the Council's balance sheet
- Correspondingly for any NNDR (business rates) debtors amounts, in context of recognition of the Council collecting NNDR as an agent of central government
- Employees remuneration - more information required to be disclosed, per Amended Regulations via Parliament of mid-December 2009 and which came into force 31st March 2010 - relating to number of any employees with remuneration of £50,000 or more (at Note 8) and particularly 'senior employees' with salary in the year of at least that figure (new table at Note 9).

### **7. Acknowledgement**

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

### **8. Approval of the financial statements**

The draft Statement of Accounts (SOA) was presented to, for approval and authorisation by, the Audit Committee on 21st June 2010 – as provided for by amendment to terms of reference via Council on 10th March 2009. This approval of the draft accounts was subject to subsequent inclusion of any necessary and agreed adjustments after the Committee meeting, including such adjustments (if any) arising in or from the external audit of the accounts - as being reported if significant or material to the Audit Committee on 20th September 2010.

### **9. International Financial Reporting Standards (IFRS)**

From a decision by the then Chancellor(s) of the Exchequer via budget report(s) to Parliament in early 2007 and 2008, IFRS is to be adopted as appropriate for the UK public sector - *and to be implemented at local authorities for year 2010/11.*

The belief was / is that adoption of the various IFRSs will bring (i) private sector 'best practice' among countries, (ii) easier comparison of organisations' accounts (across sectors affected and countries), and (ii) better information for users of the accounts.

## EXPLANATORY FOREWORD

The IFRS accounting code for local authorities (as issued by CIPFA in late December 2009) will replace the annual 'SoRP'.

As part of the transition major project, *the 2009/10 accounts now presented (and subject to external audit) are to be re-stated in accordance with IFRSs (including for the previous position as at 1<sup>st</sup> April 2009) to enable comparative and retrospective information to be given as at/from 1<sup>st</sup> April 2009.* A full internal presentation on the subject was given at Audit Committee on 19<sup>th</sup> January 2010; and a report on further progress on IFRS Transition at HBC is to be given at future meeting(s).

Under IFRS there is likely to be a significant increase in the disclosure pages, and therefore in the length/size of the Statement of Accounts.

After initial implementation of the initial IFRS code for UK local authorities, it is probably inevitable that from time to time in the future there would be periodic or occasional changes to several of the IFRSs, potentially also with retrospective (or at least prior year) impacts.

### **10. Further information**

If required, further information about the 2009/10 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 by the Council in the local press by early July, giving current rights under law and notice of related, subsequent dates.

The Statement of Accounts, initially before audit completion and subsequently afterwards, is also placed on the Council's website [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk) - together with key summary financial statements and/or charts and a *Glossary of Accounting Terminology*. Such financial information for the year is also summarised in the Council's separate *Annual Report* (with break-down over Corporate Strategy Priorities of spend on Revenue and Capital).

Suggestions or comments or views on the format and/or style of these documents - eg regarding readability and understanding - **are welcome**.

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 1<sup>st</sup> 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.

### **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 2009/10, 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.

## **STATEMENT OF ACCOUNTING POLICIES**

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 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).

### **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 2008/09 onwards), 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 1<sup>st</sup> of the month following acquisition.

<b>Asset</b>	<b>Period (years)</b>
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.

## **STATEMENT OF ACCOUNTING POLICIES**

### **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 £501,400 in 2009/10 (£464,904 in 2008/09) against a capital programme spend of £12.062m in 2009/10 (4.23%).

### **6. Revenue Expenditure Funded by Capital Under Statute (REFCUS)**

REFCUS charges were formerly (prior to 2008/09) referred to as Deferred Charges. REFCUS 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, REFCUS 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 adjustment account.

### **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 was 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.

## **STATEMENT OF ACCOUNTING POLICIES**

### **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.

### **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).

## **STATEMENT OF ACCOUNTING POLICIES**

### **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.

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 latter such change has been implemented for 2008/09 onwards.

### **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.

## **STATEMENT OF ACCOUNTING POLICIES**

### **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.

### **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.

## **STATEMENT OF ACCOUNTING POLICIES**

### **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 continued to include a Revaluation Reserve from 1<sup>st</sup> April 2007, in accordance with the SoRP. *Note 29 refers.*

### **22. Capital Adjustment Account**

In accordance with the SoRP 2007: (a) the (previous) Capital Financing Account was re-named 'Capital Adjustment Account' from 1<sup>st</sup> April 2007; and (b) the balance brought forward from the Fixed Asset Restatement Account as at 31<sup>st</sup> March 2007 was 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).

#### **Financial Assets**

- *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.

## **STATEMENT OF ACCOUNTING POLICIES**

- *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 2010, has none of these.* 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 would be no transactions on such account for year 2009/10 and the balance as at 31 March 2010 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 2010 there were no such financial guarantee contracts made by the Borough Council.*

## **24. Accounting for Council Tax and NNDR**

As from the 2009/10 Statement of Accounts, via SoRP 2009, the accounting for the council's and major preceptors' portions of council tax deficit/surplus, and related debtors/creditors amounts, changed and has involved the creation of a Collection Fund Adjustment A/c in the balance sheet. From the same SOA, for any applicable NNDR (business rates) debtors amounts they are recognised in context of the Council collecting NNDR as an agent of central government.

## **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.



Date: 20<sup>th</sup> September 2010      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 a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2010.

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 a true and fair view of the financial position of the authority as at 31<sup>st</sup> March 2010 and its income and expenditure for the financial year 2009/10.

These financial statements replace the unaudited financial statements authorised at the meeting of the Audit Committee on 21st June 2010.

Date: 20th September 2010

Signature:



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.

2008/09	Outturn for the year for the authority	Note	2009/10		
Net Expend. * restated £'000			Gross Expend. £'000	Income £'000	Net Expend. £'000
11,825	Services to the Public				
8,349	- Central Services		17,627	(2,513)	15,114
1,491	- Cultural, Environmental and Planning Services		13,302	(5,386)	7,916
(6,748)	- Highways, Roads and Transport Services		1,849	(418)	1,431
782	- Housing Services	1	37,832	(44,752)	(6,920)
(49)	Corporate and Democratic Core net costs		808	(25)	783
0	Non Distributed Costs		73	(16)	57
	Exceptional items	11	156	(812)	(656)
<b>15,650</b>	<b>NET COST OF SERVICES</b>		<b>71,647</b>	<b>(53,922)</b>	<b>17,725</b>
	<b>CORPORATE INCOME AND EXPENDITURE:</b>				
124	(Gain) or loss on disposal of fixed assets	5			(74)
10	Precepts of local precepting authorities: Altham Parish Council				12
(93)	(Surplus) / Deficit on Trading Undertakings	2	2,275	(2,313)	(38)
707	Interest Payable and similar charges				580
19	Contribution to Govt Housing 'Pooled' Capital Receipts	31			0
1,853	Pensions Interest Costs and Expected Return on Assets	33			2,850
(647)	Interest and Investment Income				(52)
(441)	Other income / unattached capital receipt(s)	5, 31			(109)
<b>17,182</b>	<b>NET OPERATING EXPENDITURE</b>				<b>20,894</b>
	<b>PRINCIPAL SOURCES OF FINANCE:</b>				
(5,226)	Precept on Collection Fund for council tax, incl'g parish precept				(5,463)
* 26	Collection Fund (surplus) / deficit transfer				24
(4,131)	General Government Grant(s)	4a			(6,340)
(8,690)	Non-Domestic Rate Income from national pool	4b			(8,167)
<b>* (18,021)</b>					<b>(19,946)</b>
* (839)	<b>NET I &amp; E ACCOUNT (SURPLUS) / DEFICIT FOR YEAR</b>				948

### STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

* (839)	(Surplus) or deficit for the year on the Income and Expenditure Account, from the summary account above				948
* (186)	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				(2,178)
<b>(1,025)</b>	<b>(Increase) or decrease in GF Balance for the Year</b>				<b>(1,230)</b>
(2,041)	General Fund Balance brought forward				(3,066)
<b>(3,066)</b>	<b>General Fund Balance carried forward</b>				<b>(4,296)</b>

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

## **STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE**

2008/09 * restated £'000	STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE (continued):  Analysis	Note	2009/10 £'000
	<b>Analysis of the above net additional amount required to be debited or (credited) to the General Fund Balance for the year:</b>		
	<b>(A) Amounts included in the I&amp;E Account but required by statute to be excluded when determining the Movement on the GF Balance for the year</b>		
(24)	Amortisation of intangible fixed assets	15	(44)
(1,140)	Depreciation of fixed assets	15	(1,315)
121	Govt Grants Deferred amortisation, via Capital Adjustment A/c	30	124
0	REFCUS in-year capital expenditure, written-out, (contra) net	16	0
317	Contra to net gain on sale of fixed assets, and unattached receipts		183
(3,419)	Net (charges) made for retirement benefits and liabilities in accordance with FRS 17: appropriation (from)/to Pensions Reserve		(3,884)
* (9)	Transfer to Collection Fund Adjustment Account		51
(9,135)	Contra to Fixed Assets values adjustments		(12,830)
2	Contra to Financial Instruments Adjustment A/c movement	42	2
9,253	Grants & contributions used in capital financing: enhancing assets		9,686
43	non-enhancing		32
<b>* (3,991)</b>	<b>Total (A)</b>		<b>(7,995)</b>
	<b>(B) Amounts not included in the I&amp;E Account but required to be included by statute when determining the Movement on the GF Balance for the year</b>		
382	Minimum Revenue Provision for capital financing, net of grants commutation adjustment	7	646
53	Financing of capital expenditure by Direct Revenue Finance		234
(19)	Transfer from Usable Capital Receipts to meet payments to the Govt Housing capital receipts 'pool'	31	0
3,099	Employer's contributions payable to Pension Fund		2,510
<b>3,515</b>	<b>Total (B)</b>		<b>3,390</b>
	<b>(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</b>		
290	Contribution(s) to / (from) earmarked GF reserve(s)		2,427
<b>290</b>	<b>Total (C)</b>		<b>2,427</b>
<b>* (186)</b>	<b>Total net additional amount required to be debited or (credited) to the GF Balance for the year</b>		<b>(2,178)</b>

## 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.

2008/09 * restated £000	STRGL : description of (gains) or losses for the year	Notes	2009/10 £000
* (839)	(Surplus)/deficit for the year on the Income and Expenditure A/c for the authority		948
(5,403)	(Surplus) or deficit arising on revaluation of fixed assets		(671)
(1,714)	Actuarial (gains)/losses on pension fund assets and liabilities, in accordance with FRS17	33	10,664
	Other (gains) and losses:		
* (383)	movement on Collection Fund		0
* 61	other movements in Net Worth		(7)
<b>* (8,278)</b>	<b>Total recognised (gains) / losses for the year</b>		<b>10,934</b>

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 2010 - note 42 refers.

2008/09 * restated			Additional Table : Summary of Movement in Net Worth  (bottom part of Balance Sheet)	Notes	2009/10 * restated		
Opening Balance	Net Change	Closing Balance			Opening Balance	Net Change	Closing Balance
£000	£000	£000			£000	£000	£000
2,596	4,748	7,344	Revaluation Reserve for Fixed Assets	29	7,344	606	7,950
17,352	(264)	17,088	Capital Adjustment Account	30	17,088	(2,831)	14,257
(229)	2	(227)	Financial Instruments Adjustment A/c	42	(227)	2	(225)
0	* (65)	* (65)	Collection Fund Adjustment Account		* (65)	51	(14)
4,134	764	4,898	Usable Capital Receipts Reserve	31	4,898	(381)	4,517
(37,166)	1,394	(35,772)	Pensions Reserve	33	(35,772)	(12,038)	(47,810)
			<i>Fund Balances:</i>				
2,041	1,025	3,066	General Fund		3,066	1,230	4,296
(383)	* 383	* 0	Collection Fund		* 0	0	0
			<i>Earmarked Reserves:</i>				
1,756	291	2,047	Hyndburn Borough Council	32	2,047	2,427	4,474
(9,899)	<b>* 8,278</b>	<b>* (1,621)</b>	<b>Total Net Worth: positive/(negative) position</b>		<b>* (1,621)</b>	<b>(10,934)</b>	<b>(12,555)</b>

The figures which had been restated for 2008/09, for both tables, arise from accounting impact, via SoRP 2009, on Collection Fund deficit balance apportionment between the Council and the (council tax) major precepting authorities.

## BALANCE SHEET

2008/09 * restated £'000	Balance Sheet for the Authority as at year ended 31 <sup>st</sup> March	Note	2009/10 £'000
	<b>LONG TERM ASSETS</b>		
147	Intangible fixed assets	15	181
29,474	Tangible Operational fixed assets	15	25,198
8,897	Tangible Non-operational fixed assets	15	10,501
38,518	Total Fixed Assets		35,880
583	Long Term Investments	23	583
19	Long Term Debtors	21	57
39,120			36,520
	<b>CURRENT ASSETS</b>		
54	Stocks & Work in progress	22	59
* 9,057	Debtors	24	12,301
8,896	Investments	23	4,976
0	Bank balance: cash at bank		0
4	Cash in hand		4
18,011			17,340
	<b>CURRENT LIABILITIES</b>		
(6,827)	Short Term borrowing	42	(2,701)
(846)	Grants and Contributions Unapplied		(68)
* (2,999)	Creditors	25	(2,660)
(348)	Bank (overdraft)		(1,004)
(11,020)			(6,433)
* 46,111	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>47,427</b>
	<b>LONG TERM LIABILITIES</b>		
(9,915)	Long Term borrowing	42	(9,914)
(7)	Deferred Capital Receipts	27	(5)
(1,027)	Provisions	28	(1,170)
(1,002)	Govt Grants Deferred Account (receipts in advance)		(892)
(9)	Deferred Liabilities : finance leases	20	(191)
(35,772)	Net Pensions Liability	33	( 47,810)
(47,732)			(59,982)
* (1,621)	<b>TOTAL ASSETS LESS LIABILITIES financed by:</b>		<b>(12,555)</b>
	<b>CAPITAL ACCOUNTS &amp; RESERVES</b>		
7,344	Revaluation Reserve – for Fixed Assets	29	7,950
17,088	Capital Adjustment Account	30	14,257
(227)	Financial Instruments Adjustment Account	42	(225)
* (65)	Collection Fund Adjustment Account		(14)
4,898	Usable Capital Receipts Reserve	31	4,517
	<b>NOTIONAL RESERVES</b>		
(35,772)	Notional Pensions Reserve	33	(47,810)
	<b>BALANCES</b>		
2,047	Earmarked Reserves	32	4,474
3,066	General Fund		4,296
* 0	Collection Fund		0
* (1,621)	<b>TOTAL RESERVES AND BALANCES = Equity or Net Worth</b>		<b>(12,555)</b>

## CASH FLOW STATEMENT

2008/09 * restated £000	Description	2009/10		
		£000	£000	£000
	<b>REVENUE ACTIVITIES</b>			
	CASH OUTFLOWS			
14,281	Cash paid to and on behalf of employees	13,066		
21,244	Housing Benefit paid out	25,269		
19	Payments to the Capital Receipts Pool	0		
* 14,259	Other operating payments	16,473		
* 49,803			54,808	
	CASH INFLOWS			
* 29	Net Council Tax receipts	(51)		
(8,690)	National non-domestic rate receipts from national pool	(8,167)		
(1,209)	Revenue Support Grant	(1,885)		
(19,966)	DWP grants, for housing benefit paid out as Rent Allowances	(25,211)		
(10,413)	Other government grants - Note 40	(12,786)		
(11,264)	Cash received for goods and services	(11,821)		
* (51,513)			(59,921)	
(1,710)	See also Note 39			(5,113)
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
	CASH OUTFLOWS			
630	Interest paid	707		
0	Interest element of finance lease	15		
630			722	
	CASH INFLOWS			
(681)	Interest received	(57)		
(681)			(57)	
(51)				665
	<b>CAPITAL ACTIVITIES</b>			
	CASH OUTFLOWS			
9,478	Purchase of fixed assets	10,755		
843	Capital Grants	1,378		
362	Equity Share Loans	37		
10,683			12,170	
	CASH INFLOWS			
(792)	Sale of fixed assets	(294)		
(8,602)	Capital Grants received	(10,317)		
(171)	Other Capital cash payments / (income)	(617)		
(9,565)			(11,228)	
1,118				942
	<b>ACQUISITIONS AND DISPOSALS</b>			
(10)	Sale of investments			0
(653)	<b>NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING</b>			(3,506)
	<b>MANAGEMENT OF LIQUID RESOURCES</b>			
960	Net increase/(decrease) in short term deposits		(3,915)	
*(700)	Net increase/(decrease) in other liquid resources		3,916	
* 260				1
	<b>FINANCING</b>			
	CASH OUTFLOWS			
0	Net decrease in temporary borrowings	9,200		
6,700	Repayments of long term loans	0		
3	Finance Lease	161		
6,703			9,361	
	CASH INFLOWS			
(0)	New long term loans raised	0		
(6,700)	Net increase in temporary borrowings	(5,200)		
(6,700)			(5,200)	
3				4,161
(390)	(Increase)/decrease in cash and cash equivalents			656

## NOTES TO CORE FINANCIAL STATEMENTS

### List of Notes

The following pages of notes comprise:-

<u>Note No</u>	<u>Subject</u>
1	Housing Services
2	Trading Accounts
3	Publicity Expenditure
4 (a)&(b)	General Government Grants and share of NNDR national pool
5	Fixed Assets : gains and losses on disposal
6	Leasing
7	Minimum Revenue Provision
8 & 9	Employees Remuneration
10	Related Party Transactions
11	Exceptional items in the Income & Expenditure Account : VAT Refunds
12	Members Allowances
13	Audit Fees
14	Fixed Assets : valuation information including depreciation methodologies
15	Fixed Assets : values movements in the year
16	Revenue Expenditure Funded by Capital Under Statute (REFCUS)
17	Fixed Assets : examples of numbers of tangible fixed assets held
18	Sources of finance for the Capital Programme
19	Capital Commitments
20	Finance Leases
21	Long Term Debtors
22	Stocks and Work in Progress
23	Investments
24	Debtors
25	Creditors
26	Parking Accounts
27	Deferred Capital Receipts
28	Provisions
29	Revaluation Reserve (Fixed Assets)
30	Capital Adjustment Account
31	Usable Capital Receipts Reserve
32	Earmarked Reserves
33	Pensions Liabilities and Funding
34 (a)&(b)	Local Area Agreement (LAA) and Performance Reward Grant
34 (c)	Area Based Grant (ABG)
35	The European Single Currency
36	Contingent Assets
37	Contingent Liabilities
38	Movement in Cash and Cash Equivalents
39	Reconciliation of I & E A/c (surplus)/deficit to Net Cash Flow
40	Analysis of Other Government Grants in Cash Flow Statement
41	Movement in Net Debt in relation to Cash Flow Statement
42	Financial Instruments

## 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 analysed as follows:

2008/09				2009/10		
Income £'000	Exp. £'000	(Surplus) / Deficit £'000		Income £'000	Exp. £'000	(Surplus) / Deficit £'000
(29,998)	30,274	276	Housing Benefits	(34,470)	34,743	273
(9,635)	2,611	(7,024)	General Fund	(10,282)	3,089	(7,193)
			Housing Services			
<b>(39,633)</b>	<b>32,885</b>	<b>(6,748)</b>	<b>TOTAL</b>	<b>(44,752)</b>	<b>37,832</b>	<b>(6,920)</b>

### 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 including transport management organisation (TMO), as external / internal trading accounts.

2008/09				2009/10		
Income £'000	Exp. £'000	(Surplus)/ Deficit £'000		Income £'000	Exp. £'000	(Surplus)/ Deficit £'000
(619)	507	(112)	Markets	(575)	488	(87)
(293)	294	1	Industrial Estates	(335)	302	(33)
(1,370)	1,388	18	MOT / Stores / Depot	(1,403)	1,485	82
<b>(2,282)</b>	<b>2,189</b>	<b>(93)</b>	<b>TOTAL</b>	<b>(2,313)</b>	<b>2,275</b>	<b>(38)</b>

### 3. Publicity expenditure

In accordance with the Local Government Act 1986, section 5(1), a local authority is required to keep a separate account of their 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". The 'SoRP' 2009 has removed, for 2009/10 onwards, the requirement to disclose such expenditure in the Statement of Accounts; however, HBC is currently continuing to include this note in view of the existing terms of the statutory requirement and enquiries received or receivable.

In year 2009/10 the authority spent a total of £33,301 on publicity; and this was mainly on advertising job vacancies and Council services and promotions. This compares with £36,931 for 2008/09.

These figures given exclude any internal staffing costs (e.g. on external marketing/communications and graphics/design).

## NOTES TO CORE FINANCIAL STATEMENTS

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

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

2008/09 £000	Description	2009/10 £000
1,209	Revenue Support Grant	1,885
13	LABGI grant *	19
1,278	Area Based Grant(s) - <i>Note 34(c) refers</i>	1,880
	Housing & Planning Delivery Grant (HPDG)	156
0	LAA Performance Reward Grant - <i>Note 34(b) refers</i>	478
1,631	Grants and contributions used in capital finance **	1,922
<b>4,131</b>	<b>Total per the I&amp;E Account 'GGG' line</b>	<b>6,340</b>

\* Local Authorities Business Growth Incentive scheme (temporary) - related to annual actual increase in Hyndburn in total rateable value, applicable to National Non-Domestic Rate (business rates), from end-December to end-Dec, as a measure of business growth.

The additional retrospective amounts received in 2008/09 and 2009/10 had arisen from the Government widening the basis of relevant changes affecting the grant calculation.

\*\* A 'contra' amount for this is within the SMGFB (ie no impact on the GF movement for the year), and within the Capital Adjustment Account. HMR capital grant used on housing (other than an amount financing 'REFCUS' at Note 16) is included in Housing Services income in the Income & Expenditure 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.

2008/09 £000	Description : Formula Grant	2009/10 £000
1,209	Revenue Support Grant - as in table (a) above	1,885
8,690	NNDR share	8,167
<b>9,899</b>	<b>Total Formula Grant</b>	<b>10,052</b>

Formula Grant included (as from 2006/07) for the then extended Concessionary Bus Travel Scheme from 1<sup>st</sup> April 2006. And from 1<sup>st</sup> April 2008, an additional (special) grant, over three years and outside RSG, was introduced by the Government relating to the national CBT scheme from that date. This special grant distribution to Hyndburn for 2009/10 was £334,628 - budgeted and accounted for in Net Cost of Services in the I & E Account.

Such special grant allocation for year 2010/11 was to be £343,879.

## 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' of the fixed assets concerned.

Housing stock transfer (LSVT) related capital receipts (ie quarterly payments to HBC as per the 30<sup>th</sup> March 2006 Transfer Agreement, arising from sales of former Housing Revenue Account properties by Hyndburn Homes Ltd post-transfer) are no longer included as such gains; but are included in the I&E Account - within Other Income in net operating expenditure (£103,787 received in 2009/10).

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	2008/09 £000	2009/10 £000
Miscellaneous non-housing asset disposals	124	(74)
Contra in Statement of Movement on GF Balance	(124)	74
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 2009/10 amounted to £198,993 (£221,100 in 2008/09).

The amount of rentals paid in 2009/10 are in respect of the following items:

Description	2009/10 £'000
IT-related items	0
Vehicles	107
Equipment	92
Total	199

The amounts outstanding in respect of future years is £469,575 at 31<sup>st</sup> March 2010, comprising the following elements:

## NOTES TO CORE FINANCIAL STATEMENTS

Leases expiring	Land & Buildings	Other Operating Leases
	£000	£000
In financial year 2010/11	0	2
Between 2011/12 and 2015/16	0	433
After financial year 2015/16	0	35
<b>TOTAL</b>	<b>0</b>	<b>470</b>

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

### **7. Minimum Revenue Provision**

Local Authorities are normally required each year to set aside some of their revenues as provision ('MRP') for debt - in respect of capital expenditure financed by borrowing or credit arrangements. The system was revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 – the relevant parts of which became operative on 31<sup>st</sup> March 2008 (i.e. applicable for year 2007/08 and subsequent years). The former rules on MRP were replaced with a 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 was issued to LAs by the Department for Communities & Local Government (DCLG) in conjunction with the particular 2008 amending regulation.

In the statutory guidance, LAs are asked to prepare an Annual MRP Statement – of policy on making MRP, for submission to full Council. *Four* particular options were included in the DCLG guidance:-

- (1) Regulatory option (as if the former regulation(s) had not been revoked) and inclusive of the existing feature of commutation adjustment
- (2) CFR option – still based on the concept of the Capital Financing Requirement
- (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; equal instalment method or annuity method
- (4) Deprecation option – alternatively for new borrowing (if any) under the Prudential system for which no Government support is being given.

The Council's MRP policy for 2009/10, as part of the Revenue Budget, was approved by the full Council in February 2009.

The authority has charged 4% MRP in 2009/10. All 2009/10 capital expenditure has been supported from the authority's own resources (ie not by borrowing).

## **NOTES TO CORE FINANCIAL STATEMENTS**

In relation to Finance Lease(s) 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	2008/09 £000	2009/10 £000
Non Housing Amount		
- 4% of Capital Financing Requirement	558	542
- Finance Lease (life of asset)	3	161
Less loss on Grant Commutation	(179)	(58)
Total Minimum Revenue Provision	382	645
Less amount charged as general fund depreciation	(1,165)	(1,359)
<b>Inclusion in Statement of Movement on GF Balance</b>	<b>(783)</b>	<b>(714)</b>

### **8. Employees Remuneration**

Table 1

In England, regulation 7(2) of the Accounts and Audit Regulations 2003, and the SoRP (statement of recommended practice), specifically requires disclosure of amounts paid to officers - in multiples starting with £50,000. The remuneration is sums paid to or receivable by an employee; and for any cases of part-year working, the actual salaries and benefits.

The number(s) of employees whose remuneration, excluding employer pension contributions, was £50,000 or more in bands of £5,000\* were as follows:-

## **NOTES TO CORE FINANCIAL STATEMENTS**

<b>Remuneration</b>	<b>2008/09 restated</b>	<b>2009/10</b>
£50,000 - £54,999	2	1
£55,000 - £59,999		1
£60,000 - £64,999		
£65,000 - £69,999		
£70,000 - £74,999	1	1
£75,000 - £79,999		1
£80,000 - £84,999		
£85,000 - £89,999		
£90,000 - £94,999		
£95,000 - £99,999	1	1
£100,000 - £104,999		
£105,000 - £109,999		
£110,000 - £114,999		
£115,000 - £119,999		
£120,000 - £124,999		1
£125,000 - £129,999	1	

\* The multiples or brackets for this disclosure via the above table were changed from £10,000 to £5,000 by the Accounts and Audit (Amendment No. 2) (England) Regulations 2009 - statutory instrument SI 3322/2009.

### **9. Senior Employees' remuneration**

Table 2

In compliance with further requirements of the above-mentioned amending regulations (SI 3322 of 2009) the table below gives the break-down, identified to each person's job title, of the remuneration (including as required for this purpose the employer's pension contributions) of the Council's relevant senior employees and whose salary is at least £50,000 in the year. The salary is calculated pro rata for any such part-time employee.

## NOTES TO CORE FINANCIAL STATEMENTS

The senior employees at HBC for the purpose of this Table 2 below, are among those who are either the head of paid service / chief executive (the Council's Managing Director) or those officers who report directly to the MD.

The figures in parenthesis, in the second lines for each of the post-holders, are the corresponding amounts (where applicable) for the previous financial year.

RELEVANT SENIOR EMPLOYEES and with Salary £50,000 or more in the year	In year 2009/10	Bonuses if any	Expense Allowances	Compensation for loss of office	Benefits in Kind - eg Car Allowance	TOTAL REMUNERATION excluding employer pension contributions	Employer Pension Contributions	TOTAL REMUNERATION including employer pension contributions
Post holder information / Post or Job title	Salary - including fees & allowances	£	£	£	£	£	£	£
Managing Director	113,209 (122,321)	0 (0)	0 (148)	0 (0)	6,855 (4,818)	120,064 (127,287)	27,608 (26,300)	147,672 (153,587)
Deputy Managing Director a.k.a. director for Community Services	92,000 (92,464)	0 (0)	119 (894)	0 (0)	5,038 (2,594)	97,157 (95,952)	21,896 (19,417)	119,053 (115,369)
Executive Director (Resources)	75,233 (72,966)	0 (0)	247 (1,434)	0 (0)	4,044 (402)	79,524 (74,802)	17,828 (15,323)	97,352 (90,125)
Executive Director (Legal & Democratic Services)	65,676 (less than £50,000 in year 2008/09)	0	286	0	4,529	70,491	14,455	84,946

If a senior employee's salary should become £150,000 or more per year, from that point in time the Regulations require the remuneration details to be identified by Name of the employee as well as by Job Title.

## **NOTES TO CORE FINANCIAL STATEMENTS**

### **10. 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*.  
A background and update report, prepared by the Council's Executive Director for Resources, was made to the Cabinet meeting of 3<sup>rd</sup> March 2010 on three key joint ventures - including Globe Investments Ltd (the other two being Barnfield and Hyndburn Ltd and Barnfield & Hyndburn Partnership), including information on the respective financial positions and the Boards' memberships.

In relation to external grants received by the Council, the Council acts from time to time as the accountable body for the distribution of particular grants. Details of all grants received, where material, are in *Note 40*.

- (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.

### **11. Exceptional items in the Income & Expenditure Account : VAT Refunds**

This £812,016 income in the year is the result of claims for repayment to the Council of Valued Added Tax having been resolved in 2009/10.

European VAT law would have allowed councils to treat the subject original income as VAT free. The claims related to periods in the early 1990s; and were able to be considered by HM Revenue & Customs because of a House of Lords ruling in January 2008 concerning transitional arrangements - enabling the Council and other authorities to submit claims by 31<sup>st</sup> March 2009 for the outstanding VAT repayments.

## **NOTES TO CORE FINANCIAL STATEMENTS**

The following is the breakdown of the 2009/10 income, including accumulated interest (at 'simple' basis so far), over the categories of claims settled:

Culture	£89,388
Cemeteries	£41,240
Sports	£681,388.

The Council had engaged PriceWaterhouseCoopers as external advisers, acting on HBC's behalf in compiling and pursuing the claims for best outcome, on a no win no fee basis. The expenditure in the year of £156,217 on fees reflects agreed 20% level of fees, other than for Cemeteries claim work (5%).

An outstanding area of claim, not yet settled, is Coaching. Note 36 on Contingent Assets refers.

As part of the Council's agreement with PwC, when the fees have gone beyond a particular level there is an entitlement to PwC 'service credits' in effect a credit note usable for further or other work.

### **12. Members Allowances**

The Council is required to disclose the total value of members' allowances paid in the year. For year 2009/10 the total was £300,922 (for 2008/09 it was £297,850).

### **13. Audit Fees**

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

	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>
Fees payable with regard to external audit services carried out by the appointed auditor	114	102
Fees payable in respect of statutory inspection	6	8
Fees payable for the certification of grant claims and returns	16	23
Fees payable in respect of other services provided by the appointed auditor	2	2
	<b>138</b>	<b>135</b>

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 2009/10 accounts and this disclosure note, the audit fee reflects the audit fee to be charged for 2009/10 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 £10,000 against estimate.

## NOTES TO CORE FINANCIAL STATEMENTS

### 14. Fixed Assets valuation information and depreciation methodologies

'SoRP' requires disclosures on valuation information to be based on the provisions of Financial Reporting Standard (FRS) 15 - *Tangible Fixed Assets*.

The name and qualifications of the valuer of HBC's land and buildings, and whether internal or external valuer, is given in HBC Accounting Policy 3 (Fixed Assets) earlier in this Statement of Accounts whole document.

The table below, with related HBC information, is based on CIPFA SoRP Guidance Notes' illustration in the context of progress of the Council's 5-year rolling programme for revaluation of fixed assets.

#### **VALUATIONS OF FIXED ASSETS CARRIED AT CURRENT VALUE**

	Tangible Operational Assets			Tangible Non-Operational Assets			GRAND TOTAL £000s
	Land & Buildings	Community Assets	SUB TOTAL	Investment Properties	Surplus Assets held for disposal	SUB TOTAL	
	£000s	£000s	£000s	£000s	£000s	£000s	
<b>Gross Book Value</b>							
<b>Valued at Current Value</b>							
<b>2009/2010</b>	3,354	1,912	5,266	1,065	1,291	2,356	<b>7,622</b>
<b>2008/2009</b>	13,402	408	13,810	738	1,015	1,753	<b>15,563</b>
<b>2007/2008</b>	4,637	725	5,362	1,266	0	1,266	<b>6,628</b>
<b>2006/2007</b>	2,985	208	3,193	3,761	0	3,761	<b>6,954</b>
<b>2005/2006</b>	4,056	245	4,301	4,271	0	4,271	<b>8,572</b>
<b>Total</b>	<b>28,434</b>	<b>3,498</b>	<b>31,932</b>	<b>11,101</b>	<b>2,306</b>	<b>13,407</b>	<b>45,339</b>

Information on HBC depreciation methodologies is given in Accounting Policy 4.

An overall analysis of movements in the year on Fixed Assets values (including depreciation) is in the main table at Note 15. There have been no financial effects of any noteworthy changes.

## NOTES TO CORE FINANCIAL STATEMENTS

### 15. Fixed Assets Values

	Tangible Operational Assets				Tangible Non-Operational Assets				Intangible Assets £000	GRAND TOTAL £000
	Land & Buildings £000	Vehicles/ Plant/Equip £000	Infra- structure £000	Community Assets £000	SUB TOTAL £000	Investment Properties £000	Assets under Const'n £000	Surplus Assets held for disposal £000		
<b>Gross Book Value</b>										
Value b/f as at 01.04.09	22,102	2,258	3,391	6,080	33,831	7,650	141	1,106	8,897	42,909
Additions	223	412	51	1,090	* 1,776	34	1,306	7,789	9,129	* 10,991
Disposals	(37)	(109)	0	0	(146)	(8)	0	(60)	(68)	(214)
Written Out	(23)	0	(51)	(1,080)	(1,154)	(34)	0	(7,372)	(7,406)	(8,568)
Revaluations	(397)	0	0	** (3,000)	(3,397)	118	0	(88)	30	** (3,367)
Re-categorised	0	0	0	(9)	(9)	(1,015)	0	1,024	9	0
Impairments	(772)	0	0	0	(772)	(90)	0	0	(90)	(862)
Gross Book Value as at 31.03.10	21,096	2,561	3,391	3,081	30,129	6,655	1,447	2,399	10,501	40,889
<b>Depreciation</b>										
Accumulated Depreciation b/f as at 01.04.09	542	977	2,618	220	4,357	0	0	0	0	4,391
Charge for the year	495	407	339	74	1,315	0	0	0	0	1,359
Disposals	(3)	(100)	0	0	(103)	0	0	0	0	(103)
Written Out	(154)	0	0	0	(154)	0	0	0	0	(154)
Revaluations	25	0	0	(200)	(175)	0	0	0	0	(175)
Re-categorised	0	0	0	0	0	0	0	0	0	0
Impairments	(309)	0	0	0	(309)	0	0	0	0	(309)
Accumulated Depreciation as at 31.03.10	596	1,284	2,957	94	4,931	0	0	0	0	5,009

<b>Net Book Value</b>										
As at 31.03.09	21,560	1,281	773	5,860	29,474	7,650	141	1,106	8,897	38,518
As at 31.03.10	20,500	1,277	434	2,987	25,198	6,655	1,447	2,399	10,501	35,880

\* including £344k (£343,519) additions for Finance Leases transferred or new to HBC - note 20 refers

\*\* includes a significant adjustment in 2009/10 to give nominal historical value

## 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 2009/10	Software £000
Opening Balance as at 1 <sup>st</sup> April	147
Written-off in year	(44)
Expenditure in year: £78,141 as summarised below	78
Closing Balance as at 31 <sup>st</sup> March	<b>181</b>

1. PARIS – 3D Secure - Licences - £11.6k – To be written off over 4 years.
2. LDF Database – E-Gov Implementation £2.5k – To be written off over 8 years.
3. Project Ikeya – Licences - £6.3k – To be written off over 4 years.
4. Windows XP Licences £18.7k – To be written off over 3 years.
5. EROS Software - £31.6k – To be written off over 4 years
6. Government Connect - £7.4k – To be written off over 4 years

## NOTES TO CORE FINANCIAL STATEMENTS

### **16. Revenue Expenditure Funded by Capital Under Statute (REFCUS)**

Summary	2008/09		2009/10	
	£000	£000	£000	£000
Balance as at 1 <sup>st</sup> April				
Expenditure in year:				
- Improvement Grants	812		1377	
- Equity Share Loans / PALs (referred to in Explanatory Foreword)	362		37	
- Other	31	1,205	1	1,415
less				
- Disabled Facility Grants received	(274)		(240)	
- Regional Housing Pot Grant received	(569)		(1,138)	
- Elevate Grant received	(362)	(1,205)	(37)	(1,415)
		0		0
Amounts written out to Services, in the Income and Expenditure Account		0		0
		<b>0</b>		<b>0</b>

This disclosure (Note 16 above) is no longer obligatory from 2008/09 on 'REFCUS' (formerly Deferred Charges : non-HBC assets capital expenditure in year, written out), but has been included for fuller information.

### **17. Information on Assets Held**

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

31 <sup>st</sup> March 2009 (Nos.)		31 <sup>st</sup> March 2010 (Nos.)
3	Cemeteries	3
1	Crematorium	1
33	Parks & Recreation Grounds	33
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

## NOTES TO CORE FINANCIAL STATEMENTS

### 18. Sources of finance for the Capital Programme

The capital expenditure was financed as follows:-

	2008/09 £000	2009/10 £000
<b>Capital Expenditure:</b>		
Fixed Asset Additions (within Note 15)	9,406	10,647
REFCUS (Note 16)	1,205	1,415
Total expenditure	<b>10,611</b>	<b>12,062</b>
<b>Financed by:</b>		
Loan finance	0	0
Usable Capital Receipts	8	675
Grants	10,441	10,431
Contributions, incl'g use of s106 moneys	109	722
Direct Revenue Finance	53	95
D R F via earmarked reserves	0	139
Total financing	<b>10,611</b>	<b>12,062</b>

### 19. Capital Commitments

As at 31<sup>st</sup> March 2010 the Council is contractually committed to capital payments which are estimated at £1,265,197 (was £662,467 as at 31<sup>st</sup> March 2009).

### 20. Finance Leases

Assets held under finance leases were for equipment and had a gross book value (GBV) of £368,393 at 31<sup>st</sup> March 2010 (£24,874 GBV at 31<sup>st</sup> March 2009).

The Authority has accounted for these leases as part of Tangible Fixed Assets

	Other Land & Buildings £	Vehicles, Plant & Equipment £
GBV at 1 <sup>st</sup> April 2009	0	24,874
Additions	186,381	157,138
Depreciation (cumulative)	(82,034)	(92,016)
Net Value at 31 <sup>st</sup> March 2010	<b>104,347</b>	<b>89,996</b>

Outstanding obligations to make payments under the Finance Lease (excluding finance costs) at 31<sup>st</sup> March 2010, and accounted for as part of long term liabilities, are as follows:

## NOTES TO CORE FINANCIAL STATEMENTS

	Other Land & Buildings £	Vehicles, Plant & Equipment £
In Financial Year 2010/11	93,014	84,042
Between 2011/12 and 2015/16	11,333	2,977
After Financial Year 2015/16	0	0
<b>Deferred Liabilities - per Balance Sheet</b>	<b>104,347</b>	<b>87,019</b>

Finance charges in 2009/010 amounted to £14,497.75 and have been charged directly to the revenue account.

### 21. Long Term Debtors

2008/09 £000	Description	2009/10 £000
7	Mortgages on RTB sales	5
12	Other Housing advances	11
0	NNDR deferral scheme amounts due in 2011/12	41
<b>19</b>		<b>57</b>

### 22. Stocks and Work in Progress

2008/09 £000	Description	2009/10 £000
53	General Fund - Stock	57
1	WIP	2
<b>54</b>	<b>Total</b>	<b>59</b>

### 23. Investments

The investments consist of:-

2008/09 £000	Summary of Balance Sheet carrying values	2009/10 £000
575	<b>Long term:</b>	
8	Globe Enterprises Limited (2)	575
	Other	8
<b>583</b>		<b>583</b>
	<b>Short Term</b>	
8,897	Temporary Investments (1)	4,977
<b>9,480</b>		<b>5,560</b>

## NOTES TO CORE FINANCIAL STATEMENTS

- (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 £9.9 million at 31<sup>st</sup> December 2009, with Net Assets of £5.026m, 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, resulting in the £575k shown above.

### **24. Debtors**

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

<b>2008/09 * restated £000</b>	<b>Description</b>	<b>2009/10 £000</b>
	Amounts falling due in one year:	
1,786	Government Departments other than HMRC	5,192
253	HM Revenue and Customs	314
* 4,439	Other Local Authorities	3,854
* 908	Council Tax Debtors	796
323	Payments in Advance	322
1,980	Sundry Debtors	2,195
926	Housing Benefit Debtors	1,064
* 10,615		13,737
	Amount falling due after one year:	
113	Car Loans to Employees	145
10,728		13,882
* (1,671)	Less Provisions for Bad and Doubtful Debts at 31 March	(1,581)
<b>* 9,057</b>	<b>Net Total as at 31 March</b>	<b>12,301</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 25. Creditors

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

2008/09 * restated £000	Description	2009/10 £000
* (164)	Government Departments, other than HMRC	(148)
(265)	HM Revenue and Customs	(249)
	Receipts received in advance:	
* (62)	- Council Tax	(64)
* (238)	- Sundry Income	(242)
(160)	Other Local Authorities	(477)
* (2,110)	Sundry Creditors	(1,480)
* (2,999)	Total as at 31 March	(2,660)

### 26. Parking Accounts

Under s55 of the Road Traffic Regulation Act 1984, as amended by the Traffic Management Act 2004, all English authorities must keep an account of all parking income and expenditure related to their functions as an enforcement authority.

2008/09 £	Parking Account	2009/10 £
	<b>Off-Street</b>	
	<b>Income</b>	
2,100	Penalty Charge Notice (PCN) Income	265
<b>2,100</b>	<b>Total Income</b>	<b>265</b>
	<b>Expenditure</b>	
1,902	Contractors	1,269
1,148	In-house Staff	6,691
15	Traffic Enforcement charges	0
<b>3,065</b>	<b>Total Expenditure</b>	<b>7,960</b>
<b>965</b>	<b>TOTAL (Surplus)/Deficit</b>	<b>7,695</b>

## NOTES TO CORE FINANCIAL STATEMENTS

2008-09 £	Application of Parking (Surplus)/Deficit	2009-10 £
	<b>Off-Street</b>	
965	(Surplus)/Deficit	7,695
(965)	To General Fund	(7,695)
0	Brought Forward	0
0	Carried Forward	0

The Borough Council has accounts for on-street and off-street (car parks) transactions. The table above relates solely to off-street parking and reflects, respectively for Off-Street, the 'Parkwise' arrangement with Lancashire County Council.

The Parkwise agreement with the county council ran from September 2004 to 5<sup>th</sup> September 2009.

### **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.

## NOTES TO CORE FINANCIAL STATEMENTS

At the 31<sup>st</sup> March 2010 the Council had the following provisions:

Provisions Summary	As at 1.4.09 £000	(Transfers in) £000	Utilised £000	As at 31.3.10 £000
Industrial Units bonds	(14)	0	0	(14)
Insurance 'Excess' provision	(127)	0	20	(107)
Planning liability & advance *	(103)	0	16	(87)
Well being & Health Equality	(111)	0	46	(65)
Communities for Health	(217)	(110)	47	(280)
Free Swimming (DCMS)	0	(84)	75	(9)
Dilapidations provision	(350)	(250)	100	(500)
ERDF potential clawback	(93)	(3)	0	(96)
ICT replacement items	(5)	0	0	(5)
Others	(7)	(1)	1	(7)
<b>Total</b>	<b>(1,027)</b>	<b>(448)</b>	<b>305</b>	<b>(1,170)</b>

\* This balance of approx. £87.3k 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.

### **29. Revaluation Reserve (Fixed Assets)**

The former Fixed Asset Restatement Account was superseded by the 'Revaluation Reserve' from April 2007; and the then net balance brought forward from the Fixed Asset Restatement A/c was transferred to the 'Capital Adjustment Account' - see note 30. Therefore the new Revaluation Reserve started with a zero balance from 1<sup>st</sup> April 2007.

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 1 <sup>st</sup> April 2009	<b>(7,344)</b>
Fixed Asset valuation movements	(1,084)
Disposal of fixed assets	66
Impairments	412
<b>Balance at 31<sup>st</sup> March 2010</b>	<b>( 7,950)</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### **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.

<b>Capital Adjustment A/c summary for year(s)</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>
'CAA' Balance at 1 <sup>st</sup> April	17,352	17,088
Capital receipts set aside	0	0
Capital Financing - Capital Receipts	8	675
- Direct Revenue Financing	53	95
- Grants & Contributions	9,290	9,863
- Amortised Deferred Grant	121	124
Minimum revenue provision (less total depreciation)	(783)	(714)
Less write down of deferred charges / 'REFCUS'	0	0
Fixed Assets Revaluation Losses	(143)	(4,120)
Fixed Assets Non-Enhancing expenditure	(8,517)	(8,709)
Fixed Assets value adjustments	(293)	(45)
<b>Balance at 31<sup>st</sup> March</b>	<b>17,088</b>	<b>14,257</b>

### **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 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 2009/10 this amounted to £nil (2008/09 was £19,540.71 relating solely to repayments to HBC of former RTB discount). Any 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

<b>Usable Capital Receipts Reserve Summary</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>
Balance at 1 <sup>st</sup> April	4,134	4,898
Capital receipts in Year	791	294
Less		
- Capital Receipts applied	(8)	(675)
- Capital Receipts set aside	0	0
- Capital Receipts to DCLG ('pooled')	(19)	0
<b>Balance at 31<sup>st</sup> March</b>	<b>4,898</b>	<b>4,517</b>

### **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.

<b>summary for year</b>	<b>Balance as at 1<sup>st</sup> Apr 2009 £000</b>	<b>Payments, ie used £000</b>	<b>(Receipts) £000</b>	<b>Balance as at 31<sup>st</sup> Mar 2010 £000</b>
Planning obligations under s106, Town & Country Planning Act 1990 - <i>note (a) below</i>	(612)	23	(1,370)	(1,959)
Housing & Planning Delivery Grant reserve	(201)	166	(156)	(191)
Area Based Grant reserve (note b)	(229)		(261)	(490)
Other earmarked reserves(note c)	(1,005)	139	(968)	(1,834)
<b>Total Earmarked Reserves</b>	<b>(2,047)</b>	<b>328</b>	<b>(2,755)</b>	<b>(4,474)</b>

- (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, with a balance as at 31 March 2010 of £87.3k, is included in Provisions as a particular liability for potential return to provider after a specified period - see *note 28*.

## NOTES TO CORE FINANCIAL STATEMENTS

- (b) Area Based Grant (ABG) £490,214 reserve is the amount unspent as at 31 March 2010; and is thereby carried forward for use in following year(s).  
Notes 4a and 34(c) also refer, and give the overall amounts received in the year.
- (c) The £1,834k 'Other' (£1,833,728) comprises at year-end the following, to nearest £.
- (1) a Nil balance remaining from reserves which had been created on the March 2006 housing stock transfer (Large Scale Voluntary Transfer), ie the loans redemption reserve of £63,069 remaining in 2008/09 having been utilised by HBC in 2009/10 in capital programme financing.
  - (2) **£1,015,783 reserve for LSVT-related Environmental Warranties.** This includes, as from 2008/09, a balance of £15,783 which had arisen at 31 March 2008 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 continues 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 budgeted in line with the Council's medium term financial strategy.  
*Contingent Liabilities* - Note 37 refers.
  - (3) **£100,000 reserve created in 2006/07 for future asset(s) disposal transition costs and/or potential income loss.**
  - (4) **£478,384 comprising two reserves, each of equal amount relating to future use, respectively, for capital and revenue expenditure. The money came to HBC from the DCLG via Lancashire County Council, for Local Area Agreement (LAA) related Performance Reward Grant (PRG)** ie tranche 1 accrued into 2009/10 income (received at HBC in early April 2010). As stated in the previous year's (2008/09) Statement of Accounts note 35(b), HBC would be crediting in the accounts for those years when the PRG, subject to achievement and grant determination, is distributed as final amount(s).  
  
Such LAA performance reward grant (LPSA2) is also referred to at 2009/10 Note 34(b).  
(A reserve of £76,501 had remained in 2008/09 in respect of the previous 'LPSA1' Local Public Service Agreement with the Government in conjunction with the county council - that amount being 50% which Hyndburn BC was to allocate wholly to future capital resources in accordance with Schedule 4 of the Lancashire LPSA - the amount was utilised by HBC in 2009/10 in capital programme financing).
  - (5) **£234,561 capital reserve for Oswaldtwistle Civic Theatre / Arts Centre** - earmarked for future capital financing from 2009/10 revenue resources.
  - (6) **£5,000 reserve being a donation to the Council in 2009/10, for use at Haworth Art Gallery.**

## **NOTES TO CORE FINANCIAL STATEMENTS**

### **33. Pensions liabilities and funding**

The Borough Council participates, as an employing authority, in the Lancashire County Pension Fund, administered by Lancashire County Council. This pension scheme is a Defined Benefit scheme: retirement benefits are determined independently of scheme investments and the authority must contribute to any deficit where assets are insufficient to meet retirement benefits.

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.

The Lancashire County Pension Fund is treated as a defined benefit scheme 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 (triennial) actuarial review of the fund was carried out as at 31<sup>st</sup> March 2007 and was completed during 2007/08. The next full review will during 2010/11, as at 31<sup>st</sup> March 2010.

In calculating the authorities' (including this authority's) assets and liabilities, the fund's actuaries have to make a number of annual 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:

## NOTES TO CORE FINANCIAL STATEMENTS

### Actuarial Assumptions

2008/09 %		2009/10 %
	<b>Financial Assumptions as at end of year (Mature duration profile of liabilities)</b>	
3.3	Rate of Inflation	3.3
5.05	Rate of increase in salaries	5.05
3.3	Rate of increase in pensions	3.3
7.1	Discount Rate *	5.6
	<b>Expected Rate of Return on Assets at end of year (gross of expenses)</b>	
7.5	Equities	7.5
4.0	Government Bonds	4.5
6.0	Other Bonds	5.2
6.5	Property	6.5
0.5	Cash / Liquidity	0.5
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 using the discount rate chosen by the fund actuaries up to 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 has been, instead, a more sophisticated approach in the opinion of the actuaries for 31 March 2008 onwards. The discount rate is 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.

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

2008/09		Fair Value of Assets	2009/10	
£'000	%		£'000	%
30,747	61.2	Equities	42,856	66.0
10,099	20.1	Bonds	12,337	19.0
9,395	18.7	Other	9,740	15.0
50,241	100.0	Total Value	64,933	100.0

## **NOTES TO CORE FINANCIAL STATEMENTS**

As at 31<sup>st</sup> March 2010, the fund's actuaries estimated that the Authority had the following assets and liabilities relating to pensions payable through the fund:

<b>2008/09 £m</b>	<b>Assets and Liabilities</b>	<b>2009/10 £m</b>
50.2	Fair Value of Assets, per the previous table	64.9
(86.0)	Estimated present value of Liabilities	(112.7)
(35.8)	Net Liability	(47.8)

## NOTES TO CORE FINANCIAL STATEMENTS

The movement in the deficit in the scheme during 2009/10 is analysed as follows:

	2008/09 £000	2009/10 £000
<b>Deficit at 1<sup>st</sup> April</b>	<b>(37,166)</b>	<b>(35,772)</b>
<b>SERVICE EXPENDITURE</b>		
Current Service Cost	(1,507)	(1,010)
Past Service Gain / (Cost)	0	0
Curtailment Gain / (Loss)	(59)	(24)
Less Employer Contributions	3,099	2,510
	1,533	1,476
<b>FINANCE GAINS &amp; LOSSES</b>		
Interest costs, net of Return on Assets	(1,853)	(2,850)
<b>ACTUARIAL GAINS &amp; LOSSES *</b>		
Actuarial Net Gain or (Loss)	1,714 ( 1,845	(10,664)
Prior year restatement	( (131)	
<b>Deficit at 31<sup>st</sup> March</b>	<b>(35,772)</b>	<b>(47,810)</b>

(see note on following page)

\* The actuarial gains and losses included above for the subject financial year (2009/10) represent the extent to which actual outcomes during 2009/010 differed from the assumptions used in calculating the estimated assets and liabilities at 31<sup>st</sup> March 2009. The table below shows these changes as percentages of the respective assets and liabilities at the end of the subject financial year. \*\* *The actuary-projected employer contributions for yr2010/11 is £2,584k.*

	2005/06		2006/07		2007/08 restated		2008/09		2009/10	
	£000	%	£000	%	£000	%	£000	%	£000	%
<b>History of Actuarial Gains &amp; (Losses) and percentages of Total Assets/ (Liability)</b>										
Gain / (loss) on expected and actual return on assets	10,326	14.9	(496)	(0.7)	(11,692)	(18.4)	(17,262)	(34.4)	13,170	20.3%
Gain / (loss) on actuarial assumptions on liabilities and actual experience	(1,654)	(1.6)	0	0	1,351	1.3	19,107	22.2	(23,834)	(21.1%)
Gain / (loss) on changes in demographic and financial assumptions affecting estimation of liabilities	(8,049)	(8.0)	4,654	4.7	0		0		0	
<b>Net Total</b>	<b>623</b>		<b>4,158</b>		<b>(10,341)</b>		<b>1,845</b>		<b>(10,664)</b>	

## **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 6<sup>th</sup> 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 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 changed with effect from that date - ie in the figures for and from 2008/09.

However, the new provisions gave 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 brought an increase in the value of the accrued liabilities; this was shown as a 'Past Service cost' in 2007/08.

### Estimated Deficit for Council relating to employees transferred to Hyndburn Homes

As referred to in previous years' Statements of Accounts, subsumed in the HBC overall net pensions liability is a liability of the Council from 30<sup>th</sup> 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 then 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.

The actuary (Mercer Ltd) produced a figure in May 2008 of £2,200,000 for 'updated deficit amount as at 31 March 2007'. Charged in 2007/08 accounts and approved by the full Council in June 2008, the Council made a further specific additional contribution of approximately £476,000.

## **NOTES TO CORE FINANCIAL STATEMENTS**

### **Net Pensions Liability as at 31<sup>st</sup> March 2010**

The £47.810m net liability relating to the fund represents the difference between the value of the Authority's pension fund assets at 31<sup>st</sup> March 2010 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 1<sup>st</sup> April 2010 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 31<sup>st</sup> March 2007, carried out during 2007/08.

It can be seen that the change from an originally-estimated net liability of £35.772m at 31<sup>st</sup> March 2009 to the estimated net liability of £47.810m at 31<sup>st</sup> March 2010 (ie increase of approximately £12.0m) relates to net impact of:

- (a) net increase of £14.7m in the value of the fund's investment assets; and
- (b) increase of £26.7m in present value of liabilities.

### **Post Balance Sheet Event (PBSE): agreed with auditors as non-adjusting for 2009/10 accounting requirements - change from RPI to CPI for Pension Increases**

In his budget statement on 22nd June 2010, the Chancellor of the Exchequer announced that the Government would start to increase public service pensions in line with the Consumer Price Index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the (Lancashire County) Pension Fund are expected to be slightly lower, on average, than would have been the case if this change had not been made. This change is estimated to reduce the FRS17/IAS19 benefit obligations by between 5% and 8% for most employers. The precise financial effect will be taken into account in the FRS17/IAS19 figures for the financial year ending 31st March 2011.

### **34. Local Area Agreement (LAA); LAA related Grants; and Area Based Grant**

#### **(a) Local Area Agreement - a Local Public Service Agreement (LPSA).**

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). This was superseded by the current agreement - LAA(2) - covering 2008-11.

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

## NOTES TO CORE FINANCIAL STATEMENTS

- 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 Local Strategic Partnership) and which assist in the delivery and performance management of the LAA.

Lancashire County Council acts as the accountable body overall for the LAA.

In and from 2008/09, LAA grants were mainly being replaced by ‘Area Based Grant’ received direct from the Government - *see at (c) below*

**(b) Performance Reward Grant (PRG) for ‘LPSA2’** - this performance reward grant is money to be payable by the Government for the achievement of LAA ‘stretch reward targets’. It became expected that the PRG will be awarded and paid by the Government, via the county council, in two tranches: by 31 March 2010 and tranche 2 payment by 31 March 2011; and the money receivable by HBC would be spent through the District (Hyndburn) local strategic partnership - LSP. A county-wide protocol document had been drawn up in advance for PRG distribution and accounting and governance arrangements.

HBC would be crediting in the accounts for those years when the PRG, subject to achievement and grant determination, is distributed as final amounts.

The tranche 1 payment of £478.4k was received at HBC in early April 2010; and has been accrued into 2009/10 income and transferred to earmarked reserves. There is a required split of 50% each for Capital and Revenue expenditure use.

Notes 4(a) and 32(c)(4) also refer.

*Tranche 2 payment was being expected to be received at the end of yr2010/11 and would be credited in that year’s accounts; but, as of 10<sup>th</sup> June 2010 Coalition Government announcement via the DCLG, it is not expected that Tranche 2 will be received.*

## NOTES TO CORE FINANCIAL STATEMENTS

(c) Area Based Grant (ABG) - ABG came in from April 2008 and paid by the Government on a non-ringfenced basis; and therefore an authority is free to use it as it wishes. Unspent amounts can be carried forward by the authority. Allocations by the Government were announced on a three-year basis, with years 2009/10 and 2010/11 initially being provisional or indicative. The revised 2008/09 allocation to Hyndburn was £1,278,329; and the revised 2009/10 allocation was £1,879,894 - and the summary table below shows the central government sources of the ABG and the amount spent in the year by HBC.

Area Based Grant : sources and overall use 2009/10	ABG Brought Forward £	ABG Received by HBC £	ABG Utilised in year £	ABG Carried Forward £
Cohesion	0	174,706	(95,000)	79,706
Working Neighbourhood Fund (WNF)	181,476	1,539,085	(1,376,607)	343,954
Preventing Violent Extremism (PVE)	25,000	143,292	(147,049)	21,243
Climate Change 'Planning Policy Statement'	22,500	22,500	0	45,000
Environmental Protection	n/a	311	0	311
<b>Total ABG</b>	<b>228,976</b>	<b>1,879,894</b>	<b>(1,618,656)</b>	<b>490,214</b>

The ABG spent in the year is included in the Services' expenditure within the HBC Income & Expenditure Account, and the full ABG received by the Council is included in General Government Grants there per the 'SoRP' - Note 4a refers.

The overall £490k unspent at 31st March 2010 is in an existing ABG Earmarked Reserve account, at that date - per Note 32(b).

2010/11 will be the third year of ABG; and the allocation to be paid to HBC in the new financial year *was to be* £2,024,075. However, as of 10<sup>th</sup> June 2010 announcement via the DCLG, there is to be a net reduction on that figure of £244,000.

### **35. The European Single Currency**

At 31<sup>st</sup> March 2010 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.

**36. Contingent Assets** - defined, from Financial Reporting Standard (FRS) 12, as 'a possible asset that arises from past events and whose existence will be confirmed

## **NOTES TO CORE FINANCIAL STATEMENTS**

only by the occurrence of one or more uncertain future events not wholly within the entity's control'.

If an uncertain inflow of economic benefits has become probable, an authority is expected to disclose the contingent asset as a note in the year of change.

VAT Refunds - in early part of 2009/10, during the time of preparing and finalising the 2008/09 Accounts, the Council received settlement of an outstanding VAT claim, with interest, relating to 'Culture' activities prior to 1997. For the 2008/09 Statement of Accounts disclosures it was not considered appropriate or necessary at HBC to include a Contingent Assets disclosure note, because there was some uncertainty on whether any further sums would be received.

The background is that European VAT law would have allowed councils to treat the subject original income as VAT free. The claims related to periods in the early 1990s; and were able to be considered by HM Revenue & Customs because of a House of Lords ruling in January 2008 concerning transitional arrangements - *the cases of Michael Fleming trading as Body Care and Conde Nast Publications Ltd v HMRC* - enabling the Council and other authorities to submit claims by 31<sup>st</sup> March 2009 for the outstanding VAT repayments.

Later in 2009/10, HBC claims were settled also in the areas of Cemeteries and Sports - *Note 11 in this Statement of Accounts document refers.*

At the time of preparing these Accounts, an outstanding area of claim, not yet settled, is Coaching. While the net amount may be significant if/when settled, there is not certainty so far as to the amount and timing of settlement..

### **37. Contingent Liabilities**

Financial Reporting Standard (FRS) 12 defines contingent liabilities as either:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or

(ii) the amount of the obligation cannot be measured with sufficient reliability .

Municipal Mutual Insurance Ltd (MMI) -

During 1992-93 Municipal Mutual, the insurer up to that time to many local authorities, experience trading difficulties. The company's creditors agreed a Scheme of Arrangement in 1993-94 (under s425 of the Companies Act 1985), which allowed MMI to work towards a solvent 'run-off' until all outstanding claims were settled. If the company becomes insolvent, there is a claw-back arrangement whereby the creditors may be required to repay a proportion of the claims paid.

## **NOTES TO CORE FINANCIAL STATEMENTS**

The latest statement received for HBC from MMI (to 31st March 2010) gives Claims Payments Carried Forward £90,654; Estimated Outstanding Claims as Nil; and that the estimated amount liable to claw-back, if the scheme is triggered, is the total carried forward claim payments, less £50,000. *Therefore HBC might be liable for £40,654.* However - *the current or foreseeable possibility of 'transfer of economic benefits' from HBC to MMI is remote* - in the last MMI Annual Report (for year ended 30<sup>th</sup> June 2009) the MMI Directors remain of the opinion that a solvent run-off can be achieved ultimately.

### **LVST Environmental Warranties** -

There may be potential liabilities arising to HBC from the Large Scale Voluntary Transfer of 30<sup>th</sup> March 2006 and the terms of the housing stock transfer related agreement of the same date, with Hyndburn Homes Ltd of Contour Housing Group (subject to the respective limitations and obligations in the agreement). On this, the Council had:

- (i) taken out Environmental Site Liability Insurance up to £20m, via a single premium, for the period 25<sup>th</sup> July 2007 to 24<sup>th</sup> July 2017; and
- (ii) established a reserve for LSVT-related Environmental Warranties - this is being increased by £250,000 annually for at least 10 years - *Note 32(c)(2) refers.*

## NOTES TO CORE FINANCIAL STATEMENTS

### 38. Movement in Cash and Cash Equivalents

Movement In 2008/09 £000		Balance 1.4.09 £000	Balance 31.3.10 £000	Movement in 2009/10 £000
(2)	Cash in hand	4	4	0
392	Bank balance / (overdraft)	(348)	(1,004)	(656)
<b>390</b>		<b>(344)</b>	<b>(1,000)</b>	<b>(656)</b>

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

2008/09 * restated £000	Description	2009/10	
		£000	£000
* (839)	Net (surplus) / deficit on Income and Expenditure Account		948
	<b>Non-Cash Transactions in Revenue Account:</b>		
(1,164)	Depreciation	(1,359)	
121	Amortisation of capital grants	123	
299	Gain / (loss) on disposal of assets, incl'g LSVT	183	
(3,419)	Net adjustment for retirement benefits	(3,884)	
(9,135)	Fixed Assets values adjustments	(12,830)	
2	Financial Instruments adjustment account	2	
9,296	Grants & contributions used in capital financing	9,686	
(19)	Transfer from usable capital receipts	0	
3,099	Employer contributions payable to pension fund	2,510	
(36)	Contribution to/(from) earmarked reserves	0	
53	Financing of capital by direct revenue finance	0	
72	Other provisions	(169)	
18	Gain on investments / other receipts		
* (813)	<b>Movements in current assets / liabilities:</b>		(5,738)
16	Increase/(decrease) in Stocks	5	
(291)	Increase/(decrease) in Debtors	186	
166	(Increase)/decrease in Creditors	31	
* (109)	<b>Items elsewhere in Cash Flow Statement:</b>		222
681	Interest Received	52	
(630)	External Interest Paid	(597)	
51			(545)
<b>(1,710)</b>	<b>REVENUE ACTIVITIES NET CASH FLOW</b>		<b>(5,113)</b>

## NOTES TO CORE FINANCIAL STATEMENTS

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

2008/09 £000	Government Grants Description	2009/10 £000
7,892	DWP grant for housing (Rent Rebates) and Council Tax benefits	8,980
134	Single Regeneration Budget (SRB)	19
110	Communities for Health	136
51	DCLG Local Authorities Business Growth Incentive	19
127	LEGI	225
702	Housing Market Renewal	778
1,278	Area Based Grant	1,880
119	Other	749
<b>10,413</b>		<b>12,786</b>

### 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	2008/09 £000	2009/10 £000
(Decrease) / increase in cash	390	(656)
Net increase / (decrease) in liquid resources	929	(3,919)
Net (increase) / decrease in borrowing	(121)	4,127
<b>Movement in net debt in the year</b>	<b>1,198</b>	<b>(448)</b>
Net debt at beginning of year	(9,388)	(8,190)
Net debt at end of year	(8,190)	(8,638)
<b>Changes in net debt</b>	<b>1,198</b>	<b>(448)</b>

## 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:

#### Financial Assets

- *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.

## NOTES TO CORE FINANCIAL STATEMENTS

(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 2008/09 & 2009/10 Statement of Accounts, that the Equity Share Loans made 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 3: 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 - and that position applies to 2009/10 for Purchase Assistance Loans)

- *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 2010, has none of these - and does not include investments in Globe Enterprises Ltd - note 23 refers. A background and update report, prepared by the Council's Executive Director for Resources, was made to the Cabinet meeting of 3<sup>rd</sup> March 2010 on three key joint ventures - including Globe Investments Ltd (the other two being Barnfield and Hyndburn Ltd and Barnfield & Hyndburn Partnership), including information on the respective financial positions and the Boards' memberships.*

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 would be no transactions on such account for year 2009/10 and the balance as at 31 March 2010 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 2010 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 2010 for Balance Sheet comprise:

## NOTES TO CORE FINANCIAL STATEMENTS

TABLE 1

Summary as at 31 March 2010

	Principal Out- standing £000	Accrued Interest to 31 Mar £000	Adjusmt: Effective Int. Rate smooth'g £000	Carrying Value TOTAL £000
<u>Long Term Borrowing</u>				
PWLB	0	0	0	0
Money Market	9,520	80	(1) 227	(2) 9,825
Individuals	89	0	0	89
<b>Total per Table 2</b>	<b>9,609</b>	<b>80</b>	<b>227</b>	<b>9,914</b>
<u>Short Term Borrowing</u>				
PWLB	2,700	1	0	(2) 2,701
<b>Total per Table 2</b>	<b>2,700</b>	<b>1</b>	<b>0</b>	<b>2,701</b>
<u>Short Term Investments</u>				
Fixed Term Deposits	4,000	1	0	4,001
Other external fund (RBS)	975	0	0	975
<b>Total per Note 23</b>	<b>4,975</b>	<b>1</b>	<b>0</b>	<b>(3) 4,976</b>

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

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

### Further Information on Borrowing, including Fair Value - TABLE 2

#### **LONG TERM BORROWING**

Source of Loans	Range of Interest Rates %	Carrying Value at 31.3.09 £000	Carrying Value at 31.3.10 £000	(1)Fair Value at 31.3.10 £000
Public Works Loan Board		0	0	0
Money Market (2)	4.5% to 4.90%	(3)(4) 9,826	9,825	11,475
Individuals	0.5%	89	89	89
		<b>9,915</b>	<b>9,914</b>	<b>11,564</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### SHORT TERM BORROWING

Source of Loans	Range of Interest Rates %	Carrying Value at 31.3.09 £000	Carrying Value at 31.3.10 £000	(1) Fair Value at 31.3.10 £000
Public Works Loan Board	0.83%	(3) 6,828	2,701	2,701
		<b>6,828</b>	<b>2,701</b>	<b>2,701</b>

An analysis of loans by maturity is:-

	Carrying Value		Fair Value
	2008/09 £000	2009/10 £000	2009/10 £000
Within 12 months	6,828	2,701	2,701
1-2 years	89	89	89
2-5 years	0	0	0
5-10 years	0	0	0
over 10 years	9,826	9,825	11,475
	<b>16,743</b>	<b>12,615</b>	<b>14,265</b>

(1) The fair value of an instrument is determined by calculating the net present value of future cash flows. 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) Under further Financial Instruments reporting requirements via the 2007 SORP onwards, 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) have also been credited to the 2009/10 Income & Expenditure Account – and an impact of £2k net is neutralised using the Financial Instruments Adjustment A/c.

(5) The Council has not restructured any long term debt in year 2009/10.

## NOTES TO CORE FINANCIAL STATEMENTS

### 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 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 2009/10.

F I Adjustments A/c summary		<b>Total £000</b>
Balance at 1 <sup>st</sup> April 2009	<b>Dr</b>	<b>227</b>
Smoothing of effective rate of interest on stepped loans (money market LOBOs):		(2)
<b>Balance at 31<sup>st</sup> March 2010 in Net Worth</b>	<b>Dr</b>	<b>225</b>

The net £225,015 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 liabilities.

### 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 imprests 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.

### 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:

## **NOTES TO CORE FINANCIAL STATEMENTS**

**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 over the categories of debtors and also giving the provisions total for bad & doubtful debts as at 31st March. Associated age analyses of debts is also available.

**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. HBC does have information on Fair Values Sensitivity Analysis as at 31<sup>st</sup> March 2010 - ie how an increase of 1% in discount rates would affect Fair Value of the Council's financial assets (ie deposits) and financial liabilities (loans), and impact of a 1% fall or reduction being taken to produce the same movements but in reverse.
- *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.

## **NOTES TO CORE FINANCIAL STATEMENTS**

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:

- Current treasury position when reporting
- Expected movement in interest rates
- 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*)
- Council's investment strategy.

The full Council in February 2009 approved the authority's Treasury Management Strategy 2009/10 - 2011/12; and correspondingly the TMS 2010/11 - 2012/13 was approved by full Council in February 2010. There is a half-yearly update report prepared for Cabinet each October.

Following adoption by the Council in February 2010 of the CIPFA *Revised Code of Practice on Treasury Management*, the Council (on 30<sup>th</sup> March 2010) approved related updates to the *Financial Procedure Rules* and also agreed to revise the terms of reference of the Resources Overview and Scrutiny Committee to give it responsibility, at Member level, for the monitoring and review of the Council's TM strategies and policies.

## COLLECTION FUND

2008/09 * restated £000	Income and Expenditure Account	2009/10	
		£000	£000
	<b>INCOME</b>		
(28,515)	Income from Council Tax		(28,860)
	Transfer from General Fund		
(7,051)	- Council Tax Benefits		(7,823)
(19,919)	Income collectable from Business Ratepayers		(18,802)
<b>(55,485)</b>	<b>Gross Income</b>		<b>(55,485)</b>
	<b>EXPENDITURE</b>		
	Precepts & Demands - <i>see notes 3 &amp; 4</i>		
25,576	- Lancashire County Council	26,205	
3,229	- Lancashire Police Authority	3,359	
1,429	- Lancashire Combined Fire Authority	1,476	
5,226	- Hyndburn Borough Council	5,463	
35,460			36,503
	Business Rates (NNDR) - <i>see note 2</i>		
19,072	- Payments to National Pool	17,747	
8	- Interest	63	
138	- Cost of Collection	137	
19,218			17,947
	Bad Debts Provisions in Year		
287	- Council Tax	344	
700	- Business Rates	854	
987			1,198
	Contributions		
(120)	- Previous years surplus (deficit) distributed		(511)
<b>55,545</b>	<b>Gross Expenditure</b>		<b>55,137</b>
60	(Surplus)/Deficit for the year		(348)
383	(Surplus)/Deficit as at 1 <sup>st</sup> April b/fwd		443
<b>443</b>	<b>(Surplus)/Deficit as at 31<sup>st</sup> March</b>		<b>95</b>
	<b>Share of (Surplus)/Deficit</b>		
* 65	Hyndburn Borough Council - to Collection Fund Adjustment A/c		14
* 320	Lancashire County Council - to Debtors /Other local authorities		69
* 40	Lancashire Police Authority - to Debtors /Other local authorities		8
* 18	Lancashire Combined Fire Authority - to Debtors / Other LAs		4
<b>443</b>			<b>95</b>
<b>* 0</b>	<b>Balance on the Collection Fund</b>		<b>0</b>

## 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 2009/10, 48.5p in the pound or 48.1p 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 £50.413m (at end of year 2008/09 it was £50.841m).

### 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 2009/10 was 23,644. This estimated number of dwellings was calculated as follows, and set by the Council at its meeting on 2nd December, 2008.

Band	Number of Dwellings	Discount	Factor	Band D Equivalent whole nos
AA *	22	1	5/9	11
A	20118	2673	6/9	11629
B	5035	443	7/9	3571
C	5412	365	8/9	4486
D	2701	140	9/9	2561
E	874	48	11/9	1009
F	266	16	13/9	361
G	165	18	15/9	245
H	6	1	18/9	10
Total				23883
Collection Rate				99%
<b>Tax Base</b>				<b>23644</b>

\* 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.

## **NOTES TO COLLECTION FUND ACCOUNTS**

In accordance with SORP 2009 the Collection Fund is now a holding account which is used to determine the surplus/deficit on the fund based on the above criteria. The respective balances on the fund show the disposition or distribution of the year-end balance to the relevant precepting authorities. HBC's share of this balance is carried on the Collection Fund Adjustment Account within the Council's balance sheet.

# **Annual Governance Statement 2009/2010**

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# **Annual Governance Statement 2009/2010**

## **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<sup>3</sup>/SOLACE<sup>4</sup> has produced a 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.

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<sup>3</sup>Chartered Institute of Public Finance and Accountancy  
<sup>2</sup> Society of Local Authority Chief Executives

## **The Six Core Principles of Good Governance**

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 were adapted by the CIPFA/Solace framework and adopted by HBC in the following format. To Hyndburn good governance means:-

1. Focusing on the Council's purpose and on outcomes for the community and creating and implementing a vision for Hyndburn.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the Council 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 risk management.
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 (director for community services), and the two other 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 Cabinet is responsible for delivering identifiable, accountable, corporate leadership for the Council and the community it serves.

- **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.

- **Overview and Scrutiny Committee**

The Council's Overview and Scrutiny Committee(s) 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.

- **Standards Committee**

The Council's Standards Committee (chaired by an Independent Chairman), and its Sub-Committees, promotes and maintains high standards of conduct by members, co-opted members and officers of the Council and Altham Parish Council, and has responsibility for monitoring and advising on revisions to the Council's Constitution, codes of conduct, complaints, ethical matters etc.

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 Council has adopted a "Local Code of Corporate Governance", in accordance with the CIPFA/SOLACE Framework for Corporate Governance, which incorporates a comprehensive and up to date Constitution. This 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.

It includes:

- Articles of the Constitution – principal arrangements,
- Responsibility for Functions - terms of reference and scheme of delegation,
- Rules of procedure for Council, Executive and other key areas,
- Codes and Protocols for Council, members and officers,
- Members' Allowances Scheme.

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](http://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.

During 2008/09 full reviews and updates of the Council's Contracts Procedure Rules, Members Allowances Scheme, Complaints Policy and Local Code of Corporate Governance have been completed.

During 2009/10 further reviews and updates of the Council's Scheme of Delegation, Local Code of Corporate Governance, Financial Procedure Rules, and the

Whistleblowing Policy have been completed. Further updates to the Contract Procedure Rules have been submitted to Council in March for consideration and approval. Updates to the Scrutiny Procedure Rules were approved in June 2009.

A review of the Council's governance arrangements has also been undertaken in order to meet the requirements of producing an Annual Governance Statement (AGS) in accordance with the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations (Amendment) (England) 2006. The AGS is submitted annually to the Council's Audit Committee in June.

Constitutionally and in related practice, the Council has set out a clear statement of the respective roles and responsibilities of the executive (Cabinet) and of the executive's members individually and the Council's approach towards putting this into practice. Respective roles and responsibilities of other authority members, members generally and senior officers have been defined within the Constitution, the terms of reference for Council, Cabinet and committees. HBC has a remit for each Cabinet Portfolio and a Civic Protocol.

The Council have determined a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council taking account of relevant legislation, and this has been monitored and updated on an ongoing basis throughout the year.

The Chief Executive (Managing Director) is responsible and accountable to the Council for all aspects of operational management through the job description and we have developed protocols to ensure that the Leader and Managing Director negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.

A chief officer (the S151 officer) – Executive Director (Resources) - is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control, including the preparation of an Internal Audit Plan. The role is supported by robust Financial Procedure Rules within the Constitution.

The Monitoring Officer – Executive Director (Legal and Democratic Services) - is responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. Hyndburn has a very good record covering recent years with no challenges to the legality of our actions.

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.

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.

Protocols have been developed to ensure effective communication between members and officers in their respective roles, through the Member/ Officer Relations Protocol, the Members Code of Conduct, the Employee Code of Conduct and the Code of Conduct for Planning and Licensing Functions, all of which are backed up by regular training. The excellent relationships developed between officers and members have translated into highly effective and efficient service delivery and improvements for local communities.

The Council has decided how value for money is to be measured. It ensures that the information needed to review value for money and manage performance effectively is obtained through its performance management arrangements, its Procurement Strategy 2009-13 and its Gershon efficiency savings process and annual efficiency targets. The environmental impact of policies, plans and decisions are also measured.

The Council has set out the terms and conditions for remuneration of members and officers and has an effective structure for managing the process, which includes, the Management Review Committee set up to determine the remuneration of the Managing Director and Deputy Managing Director, the Members Allowances Scheme, an effective independent remuneration panel to review members and officers remuneration, the Pay and Workforce Strategy and the Personal Development Review Process. Job Evaluation has also been successfully implemented.

Effective mechanisms exist to monitor service delivery, including through the six monthly Performance Improvement Review Clinics.

The Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders. They are clearly articulated and disseminated via the Sustainable Community Strategy 2008-18, the Lancashire Local Area Agreement 2008-11, the Corporate Strategy 2008-13, service plans, the Local Strategic Partnership, the Budget and Policy Framework Procedure Rules, the Asset Management Plan 2007-10, the Medium Term Financial Strategy (2010/11–2012/13), the Equality Strategy, the Procurement Strategy 2009-13, and performance management arrangements.

## 2. Purpose and Vision

The Council's purpose and vision has been developed and promoted principally through its Sustainable Community Strategy 2008 – 2018, the Lancashire Local Area Agreement 2008 – 2011, the HBC Corporate Strategy 2008-2013, and Service/Business Plans.

It reviews on a regular basis the Council's vision for the local area and its impact on the Council's governance arrangements which are embodied in the Local Code of Corporate Governance.

The Council ensures that its partnerships are underpinned by a common vision of their work that is understood and agreed by all parties.

The Council has published an Annual Report to communicate the Council's activities and achievements, its financial position and performance - eg through its Annual Report

2007/08 in addition to and complementing the Statement of Accounts for 2007/08 and key summaries.

The Council has determined how the quality of service for users is to be measured, and ensures that the information needed to review service quality effectively and regularly, is available by:

Customer satisfaction surveys and feedback,  
Service standards being in place and monitored,  
Performance Management arrangements:

- Performance Management System implemented
  - Performance Management Team meeting regularly during the year
  - Performance Improvement Review Clinics being held every six months
  - Performance information being reported to corporate management team quarterly
- Equality Strategy and Equality Impact Assessment Process

There is an ongoing review of the Equalities Scheme as we work towards achieving level 3 status of the Equality Standard for which we are applying for an assessment during 2010.

The Council has also put in place effective arrangements to identify and deal with failure in service delivery via:

- Corporate Complaints Policy and Procedures.
- Internal Audit's Annual Audit Plan and inspection reports.
- External Annual Audit and Inspection Letter.
- Scrutiny Committee Annual Workplan and "call in" arrangements.
- Councillors Call for Action.

### 3. Ethical framework and culture

The Council demonstrates the values of good governance through upholding high standards of conduct and behaviour. To achieve this we:

- ensure that elected members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.
- ensure that organisational values are put into practice and are effective

The Council's leadership sets a tone for the organisation by creating a climate of openness, support and respect, and the Council's Constitution provides a framework for good governance. Ongoing training is provided for officers and members following the initial induction training sessions.

We ensure that standards of conduct expected of members and staff, and between the Council, its partners and the community are defined and communicated through codes of conduct and protocols ie we have a Code of Conduct for Members, a Code of Conduct for Employees, Planning and licensing codes of conduct, a Joint Venture Protocol, a Member Officer Relations Protocol, a Civic Protocol, an Anti-Fraud and Corruption Strategy, and a Whistleblowing Policy. The latter for example is, via the Contracts Procedure Rules updated in 2009/10, incumbent upon service & contracts managers to be drawn to the attention of tenderers / potential contractors. Furthermore,

the HBC Guide to Doing Business with the Council now has an electronic link to the Whistleblowing Policy via the section of downloads related to Procurement. We also have a guide for staff on ethical procurement available on the procurement section of the 'Hyntranet' and the Doing Business With The Council webpage.

An effective Standards Committee (ie chaired by an Independent Chairman), and its Sub-Committees, have been developed and maintained, for which the terms of reference are included in the Constitution. The composition and role of the Standards Committee meets statutory requirements and training is provided annually for this Committee. It also has a strong track record in its work.

The role of the Standards Committee, details of which can be found on the Council's web site, has increased significantly since May 2008, when it became responsible for dealing with most complaints about councillors serving on Hyndburn Borough Council and Altham Parish Council. The Committee has produced its First Annual Report for 2009/10 to explain its role, who the members are, the work of the Committee in 2009/10, and the Draft Work Programme for 2010/11, having successfully completed the work programme for 2009/10. This demonstrates that a clear culture around standards of conduct for officers and members exists, led by senior officers and members, which is applied across the Council's partnerships and is recognised by all staff. A new series of Standards Roadshows has started by March 2010, the first being held at Rishton Area Management Council, with information presented to the public about the standards regime for members.

Arrangements are in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders, and appropriate processes to ensure that they continue to operate in practice. These arrangements include: Financial Procedure Rules, Contract Procedure Rules, a Code of Conduct for Members and Employees, a Register of Members Interests which is reviewed monthly, and a Register of Gifts and Hospitality which is also reviewed monthly by the Executive Director (Legal and Democratic Services). There is ongoing member and officer training.

We develop and maintain shared values including leadership values for both the organisation and staff, reflecting public expectations, and communicate these with members, staff, the community, and partners. These values include: a Code of Conduct for Members, a Code of Conduct for Employees, a Member Officer Relations Protocol, and there is an ongoing member and officer development programme.

We have put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice. Such arrangements are embodied in: the Council's Constitution, including Procedure Rules and codes of conduct, the codes of conduct for planning and licensing functions, the Anti-Fraud and Corruption Strategy, the Whistleblowing Policy, the Complaints Policy and Procedures, and new procedures developed for dealing with complaints of breach of the member code of conduct, and the Code of Local Governance.

The Council's shared values are used to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council, by the respective use of standard formats/templates for reports to Cabinet, Council, committees and CMT.

In pursuing the vision of a partnership a set of values have been agreed, against which decision making and actions can be judged. Such values have been demonstrated by partners' behaviour both individually and collectively. The Partnership Governance Arrangements are the subject of a current review, and the Joint Venture Protocol also covers these issues.

The Council provides quarterly and annual returns to the Standards Board for England (supplying information on progress with local assessment of any potential breaches of the code of conduct for members, and ethical governance arrangements).

An effective scrutiny function has been developed and maintained through the current two Scrutiny Committees (Resources; and Communities & Wellbeing), which, by their terms of reference, work plans, annual and ad hoc reports encourages constructive challenge and enhances the Council's performance overall. Member development is strong, enabling members to represent effectively their communities' interests and to provide effective challenge within the Council. The February 2008 CPA Report stated that; "Scrutiny is developing well, with examples of positive impact", and "The Council has an effective scrutiny process. It is well regarded and valued across the Council and is free from political influences. It receives good officer support which has enabled it to develop capacity to carry out meaningful and effective reviews which challenge the Council's performance".

The Resources Overview & Scrutiny 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 (and its successor) process and development, and assists with the development and review of Council policies and services, including those delivered in partnership.

The Community and Wellbeing Overview & Scrutiny 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 the external public service providers including those who provide health services. The committee assists with the development and review of Council policies and services in those areas.

There are no Cabinet Members allowed on Overview & Scrutiny or Standards Committee, but Cabinet Members attend Overview and Scrutiny 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.

Decision Making - there are open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based through the minutes of the meetings, which include a decision for each item considered and a reason for the decision.

Arrangements are in place to safeguard members and employees against conflicts of interest and appropriate processes to ensure that they continue to operate in practice, through the Code of Conduct for Members, the Code of Conduct for Employees, the Register of Members' Interests, the Register of Gifts and Hospitality, and the Joint Venture Protocol.

The Council maintains and has further developed an effective Audit Committee which is independent of the Executive and scrutiny functions and has appropriate arrangements for the discharge of its functions, through its terms of reference, which were revised in 2009/10, and which are modelled on the CIPFA Code of Practice. In order to continue the Committee's development and raise its profile the number of members has been increased from four to six. The Head of Audit and Investigations has true independence with the ability to report to any level of management or members within the Council, and is the last sign up for any report prepared by the Audit and Investigations Team.

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.

Arrangements are in place to safeguard members and employees against conflicts of interest and appropriate processes to ensure that they continue to operate in practice, through the Code of Conduct for Members, the Code of Conduct for Employees, the Register of Members' Interests, the Register of Gifts and Hospitality, and the Joint Venture Protocol.

The Corporate Complaints Policy and Procedure, and the Whistleblowing Policy and Procedures, each ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.

Council decision makers are provided with information that is fit for the purpose, relevant, timely and gives clear explanations of technical issues and their implications, due to the use of standard formats for reports to Council, Cabinet and committees, and by ensuring that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making, and used appropriately.

Risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their job.

Arrangements are in place for whistle-blowing to which staff, and all those contracting with the Council, have access.

The Council actively recognises the limits of lawful activity placed on it by, for example, the ultra vires doctrine but also strives to utilise powers to the full benefit of the community. The Constitution and the roles of the Monitoring Officer and the S151

Officers are central to this issue and the legal and financial officers attend Corporate Management Team, Council, Cabinet and committees. The Council recognises the limits of lawful action and observes both the specific requirements of legislation and the general responsibilities placed on local authorities by public law. It also observes all specific legislative requirements placed upon it, as well as the requirements of general law, and in particular integrates the key principles of good administrative law – rationality, legality and natural justice – into its procedures and decision making processes.

Briefings have been given to all service managers and relevant procurement staff regarding the new Contract Procedure Rules and the requirements of procurement legislation. We also actively review the use of emergency powers approvals which are on occasions used for exemption from the Contract Procedure Rules. These actions ensure that high standards are being maintained in the use of emergency powers approvals.

In addition to providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis the Council ensures that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council, by the use of Member and Officer induction programmes, service manager briefings, the Organisational Development Strategy, the Personal Development Review process, and ongoing continuing professional development training. For example, during the year the Executive Director (Legal & Democratic Services) has delivered Code of Conduct training to Members, and presented a reminder / update session at a special meeting of Service Managers on Council Constitution requirements and changes.

Skills are developed on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed. In assessing the skills required by members and officers the Council has made a commitment to develop those skills to enable roles to be carried out effectively through the annual Members Development Programme and member personal development plans, the annual employees appraisal process and personal development plans and the annual Training and Development Plan. This was evidenced by the retention in November 2008 of the Council's Investors in People Award.

Effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs. Individuals and teams from all sections of the community are encouraged to engage with, contribute to and participate in the work of the Council, and career structures are in place for members and officers to encourage participation and development through feedback, the Communication Strategy, Area Councils Community Involvement and Engagement Strategy and Toolkit, the Equality Impact Assessment Process, Pre-Cabinet review of new policies by Scrutiny, Programme/Project approach, the Data Quality Strategy and Action Plan and training plans.

In order to engage with local people and other stakeholders to ensure robust public accountability we make it clear to whom we are accountable and for what. We consider

those institutional stakeholders to whom we are accountable and assess the effectiveness of the relationships and make changes where required. Evidence to support this can be found in the Sustainable Community Strategy 2008-18, the County Council's Local Area Agreement 2008-11, the Corporate Strategy 2008-13, Service Plans, the Local Strategic Partnership, the ongoing review of partnership governance, the use of the Council's website and Civic Newspaper- "The Beacon", and the production of the annual report on the activity of the scrutiny function.

We ensure that clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that we operate effectively. We hold meetings in public unless there are good reasons for confidentiality, and ensure that arrangements are in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. Examples of these are the establishment of Area Councils, Citizens' Panel, and the Customer Contact Centre.

We have established a clear policy on the types of issues we will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result. We use the Communication Strategy, the Consultation Strategy, and the website for customers to "have your say", consult on the budget process, and publish an Annual Report, and the Statement of Accounts.

We also have a Local Democracy Week which this year involved local schools allowing pupils to ask questions of leading members.

We have improved and updated our website information on the work of the Standards Committee, which addresses complaints about councillors, our corporate governance arrangements, and doing business with the Council.

On an annual basis we publish a Performance Plan, giving information on the Council's vision, strategy, plans and financial statements as well as information about our outcomes, achievements and the satisfaction of service users in the previous period via the Annual Report, Statement of Accounts and Annual Business/Service Plans.

HBC ensures that the Council as a whole is open and accessible to the community, service users and our staff and that we have made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so. Evidence of this can be found in the Access to Information Procedure Rules, the Freedom of Information Guidance on the website and ongoing staff training, the Complaints Policy and Procedures, the Customer Contact Centre, the Equality Standard, and Equality Impact Assessment process, and through Area Council involvement and participation.

HBC has developed and maintains a clear policy on how staff and their representatives are consulted and involved in decision making, including through the JNCC, the Council's quarterly publication 'Hyndsight', the annual staff survey/Times Best Council survey, regular team briefings, and the regular 'Newsround' process.

HBC publishes annually with the Council's annual Statement of Accounts an annual governance statement (ie this document), which sets out the principles of good governance to which this Council is committed, and the findings of the annual review of those governance arrangements, together with conclusions and proposals to deal with any issues identified.

#### 4. Partnership Governance

Hyndburn has a strong record of successful partnerships delivering outcomes which meet the requirements of the local communities.

To achieve this we have been able to:

- exercise appropriate leadership in the community which effectively engages with local people, partnerships and other stakeholders and develops constructive accountable relationships.
- take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.
- make clear to whom we are accountable and for what.
- consider those institutional stakeholders to whom we are accountable and assess the effectiveness of the relationships and any changes required.
- ensure that clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that we operate effectively.
- ensure that the Council as a whole is open and accessible to the community, and that we have made a commitment to openness and transparency in all partnership dealings, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

When working in partnership we ensure that members are clear about their roles and responsibilities, both individually and collectively in relation to the partnership and to the Council. We also ensure that there is clarity about the legal status of the partnership, and that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions. A Joint Venture Protocol is in place and Partnership Governance Arrangements are the subject of an ongoing review. All HBC partnerships relate to the agreed Corporate Strategy priorities and embody, and uphold, proper conduct, funding and monitoring arrangements.

Appointments of Hyndburn councillor members to outside bodies, including any boards of external partners / arrangements, are approved at the Annual Meeting of the full Council.

#### **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.

Effective risk management forms one of the six core principles of the Council's Code of Corporate Governance. The Council's risk management policy and framework was adopted by Cabinet in April 2003. The policy and framework is reviewed annually with significant changes being approved by Cabinet following consultation with Audit Committee and Corporate Management Team.

Supporting the corporate approach to risk management the Council maintains three separate and complementary Risk Registers covering strategic, generic and operational. Structuring the registers in this way ensures there is clear understanding of the main risks that the council faces and how those risks are being managed.

The review of the Council's risk registers is aligned to the cycle of Audit Committee meetings ensuring the registers are reviewed at least three times each year. The outcome of each review is reported initially to Corporate Management Team and then to Audit Committee. This approach to reviewing and reporting the risk registers ensures those charged with the governance of the council are kept regularly informed about the risks the council faces.

The Risk Management Policy sets out the process for assessing the likelihood and impact of individual risks. To determine the effectiveness of the controls the Council has in place to manage individual risks the likelihood and impact of each risk both with and without risk controls in place are assessed. This approach ensures priority is placed on those actions that have the greatest impact on managing the risk.

Allocation of accountability for risk management is clearly defined in the Risk Management Policy. Accountability for the management of individual risks is detailed in the individual risk registers.

The council recognises that the Risk Registers are an important element of any approach to risk management but do not in themselves ensure the effective management of risk. A sound system of corporate governance exists at the Council which ensures that risks management and mitigation occurs naturally and effectively within the Council. The March 2009 Annual Audit and Inspection Letter recognises the Council's 'Financial management, service planning and performance management arrangements are good...'

Looking beyond the risk registers it is clear that Risk Management is fully embedded in the Council's procedures. HBC financial management procedures are effective at managing and mitigating financial risks. The Medium Term Financial Strategy (MTFS) identifies significant cost pressures faced by the council. In-year reviews of the MTFS ensure it remains current and that changes to the financial outlook of the Council over the medium term are communicated to Corporate Management Team and Members with appropriate action being taken.

There are necessary and strong links, to Risk Management, of the Council's Treasury Management Strategy, covering cash borrowing and cash investment, and the CIPFA Prudential Code on capital finance. As given again in the UoR current (2009-10) self-

assessment for KLOE 1.1, Financial Planning and Financial Health – section 1, a combined report on the rolling medium-term years goes to Cabinet and full Council, deliberately at the same meetings when the Capital Programme and Revenue Budget are approved, and at which a further update for the Medium Term Financial Strategy appropriately is presented - further evidencing integration of planning - inclusive of any risk assessment and management issues.

For members, an update report on the Treasury Management Strategy, together with in-year monitoring of the Prudential statements / indicators, is given to Cabinet at its October meeting.

The Council has adopted a process and culture of financial management from a FTSE100 company - incorporating the detailed rigorous monitoring of monthly spend and concentrating financial effort on a detailed forecast of spend to the end of the financial year. More detail of this approach is given in the Use of Resources self-assessment supporting KLOE 1.2 Understanding Costs and Performance, and in the self assessment for KLoE 1.3 Financial Monitoring and Reporting. HBC robust financial management processes ensure budgetary risks are managed and mitigated effectively.

A strong approach to financial and performance management ensures that risks are actively managed. Evidence of this can be seen from the fact that the authority's approach to budget and performance monitoring has ensured the Council consistently delivers on its annual objectives within budget, improves performance in areas of importance, routinely achieves efficiency gains that exceed national targets whilst at the same time strengthening the Council's financial reserves.

Risk management is embedded within the Council's Programme and Project Management arrangements.

The Council's Project Management Framework, developed from recognised best practice models, establishes the corporate approach for the effective management of projects and covers the management of project risks. Ongoing training is provided to develop project management skills and capacity across the Council and embed effective project management practices. Evidence of the effectiveness of the council's approach to project management is seen in the fact that projects as diverse as housing stock transfer, job evaluation, development of the new council headquarters and the implementation of the Government Connect framework have been, or are being, successfully delivered.

Equally effective is the Council's approach to programme management.

When developing the capital programme, project bids for consideration must include details of known risks associated with the bid. Chaired by the Executive Director (Resources) and attended by Portfolio Holder for Finance and Asset Management, the Capital Programme Working Group (CPWG) is responsible for carefully scrutinising capital bids and developing a draft capital programme via Corporate Management Team / Directors, in relation to prioritisation and firm availability of finance funding. The draft capital programme is reviewed/proposed by Cabinet before being presented to full Council for approval.

To react to any in year factors affecting the overall Capital Programme, the approval of the Executive Director (Resources) must be obtained (Approval to Start) before any expenditure can be committed on individual capital projects, including with regard to any significant changes in cost, financing and time predictions since the capital budget was approved. The CPWG acts as the programme board for the capital programme and in monitoring and reporting progress, of accountable scheme managers, to Corporate Management Team and Cabinet. This rigorous approach to the development and management of the annual capital programme has mitigated the risks associated with it and repeatedly secured its successful delivery.

The scale of Hyndburn's Housing Market Renewal (HMR) Programme is unprecedented in the history of the borough. Comprehensive risk management procedures are embedded within the management of the programme. Risk mitigation is considered at programme development stage with consideration being given to the structure and phasing of the individual projects for example to mitigate against the impact of unforeseen funding changes. Project risks are initially considered at project proposal stage and inform the programme development. Detailed monthly programme monitoring ensures programme and project risks and associated risk responses are reviewed and updated regularly. The Council and its partners have responded during the year to the unique risks arising from the economic downturn that could if not managed proactively have impacted adversely on the HMR programme.

The Council provides a comprehensive range of training and guidance to officers and members to enable them to understand risk management and manage risk effectively. This range of activity covers general risk management training to more focused training areas such as business/services continuity planning, project management and health and safety designed to manage specific types of risk effectively. Across the Council there are a number of officers with responsibility for providing generalised and specialised risk management related support and guidance; these include Head of Audit and Investigations, Corporate Performance Manager and the Safety and Emergency Planning Officer.

Partnership Working: the Council recognises and effectively manages the different types of risks partnership working presents. Partnership risks that rest with the Council are routinely managed through its internal risk management processes. For partnerships risks that rest with the partnership the Council works with its partners to ensure effective risk management is in place.

All significant partnerships have clear governance structures in place with clear plans and strategies supported by robust financial and performance management arrangements. Where appropriate, partnership arrangements are underpinned by legal agreements.

The Council's partnership arrangements with the leisure trust (Leisure in Hyndburn Ltd) is a strong example of effective partnership. The Council has successfully managed its partnership relationship with Leisure in Hyndburn during a difficult period for the leisure trust. By providing appropriate financial and managerial support the Council has

assisted the Trust in continuing to operate and de-risked potential issues around its continued operation.

The Council also uses Partnerships to manage risks. The appointment of a preferred development partner to help deliver Hyndburn's HMR objectives and signing of an overarching development agreement illustrates how we have established a partnership and the governance arrangements that transfers development risks to an organisation more able to manage the risks effectively.

Further examples of positive outcomes achieved through good risk management that the Council can evidence include further savings achieved on insurance premiums in 2009/10, reduction in the cost of lost time accidents and first aid cases each year for the last years, successful delivery of a range of innovative projects, and improved organisational reputation evidenced by a number of years of continuous improvement in the amount of positive media coverage given to the Council.

### **The System of Internal Control**

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 an established Audit Committee; the main responsibilities 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 13<sup>th</sup> 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 reviews aligned to Audit Committee cycles 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 regularly 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. 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 full access to the risk registers for updating, reviewing and reporting and has become operational in 2009/10.

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 has developed and maintains a politically balanced and effective Audit Committee, which is independent of the Executive and Scrutiny functions, and has appropriate arrangements for the discharge of its functions, through its terms of reference which have been revised and updated in 2009, and are modelled on the CIPFA Code of Practice. The Committee has had a number of changes of members over recent years resulting in additional training being provided on audit issues to increase the knowledge base of the members. In order to overcome changes to membership, continue their development, and raise the profile of the committee, the membership was increased from four to six. The Chair of the Committee has regular pre-meetings with the Head of Audit and Investigations and the Executive Director (Resources) in order to increase the Chair's depth of knowledge and provide effective

challenge in the discussions on the agenda items. The Committee's role includes consideration of: reports of internal audit, external audit, and inspection agencies; the effectiveness of the Council's risk management arrangements and control environment; the Council's assurance statements, including the Annual Governance Statement, to satisfy itself that these all properly reflect the risk environment and any actions to improve it.

The Audit Committee can demonstrate the positive impact of its work through providing effective challenge across the organisation. Whilst the Audit Committee does not formally review the work of other committees, the Overview and Scrutiny Committee includes within its workplan the scrutiny of items which have been considered by the Audit Committee.

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'. The section is managed against a risk based Annual Audit Plan which includes all of the Council's key financial systems in its evaluation, and is resourced accordingly. Whilst the Head of Audit and Investigations reports directly to the Executive Director (Resources), as part of the independence of HBC Internal Audit the reports are not only provided to the Section 151 Officer but are sent direct to the appropriate level of management for the area being audited. The head of internal audit (Head of Audit & Investigations) has true independence with the ability to report to any level of management or members, (including the Audit Committee), and is the last sign up of Internal Audit reports.

HBC Audit Section is in the process of undergoing a peer review in conjunction with the neighbouring councils of Burnley and Pendle, with each council undertaking a review of its neighbouring council's compliance with the CIPFA code of practice. This work will be reviewed by the third council to quality assure the work of the review.

### **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, and the Corporate Strategy 2008-13 setting out corporate priorities. The 2008 CPA report recognised 'Performance monitoring and reporting arrangements are comprehensive and effective.'

In 2005 the Performance Management Team was established, by Corporate Management Team, 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 to 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. The use of PerformancePlus has been extended to service level performance management.

Innovative six monthly Performance Improvement Review Clinics, chaired by the Managing Director, have been introduced in 2008 to assist effectively in embedding the new corporate priorities, monitor performance and review service quality. Structured around the themes of Corporate Strategy the 'clinics' bring together relevant Portfolio Holders (Cabinet Member(s)), Directors and Service Managers. By considering progress against key corporate projects and performance indicators the clinics provide a holistic and shared view of progress against the corporate priorities.

Robust data quality procedures, which have been in place at the Council for a number of years, have demonstrably improved the level of data quality achieved throughout the organisation. To reinforce its commitment to data quality the Council has developed a comprehensive Data Quality Policy and Strategy. Performance Management Team has monitoring responsibility for compliance with defined data quality objectives, with quarterly review by the Policy, Partnerships and Performance Team to strengthen the links between risk management and 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. A scheme of delegation is included at Part 3 of the Constitution. 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 (2008-09) external 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
- Prompt and effective remedial action is taken when forecast deficits arise
- Clear lines of professional accountability to the Executive Director (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 set annually 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 Cabinet reviews monthly monitoring reports. Budgetary information is also submitted to Corporate Management Team.

Hyndburn has a strong record of successful partnerships delivering outcomes which meet the requirements of the local communities. To achieve this we have been able to exercise appropriate leadership in the community which effectively engages with partnerships and develops constructive accountable relationships. We have put in place monitoring arrangements to ensure that we operate effectively, by regular attendance at partnership meetings, reviews of outputs against targets/objectives and monitoring of financial reports.

Sound internal control arrangements for operating the housing and council tax benefit system throughout the year, and completion of the year-end subsidy claim form, are in place in accordance with relevant Housing Benefit regulations. Detailed procedure notes are used and staff receive refresher training to ensure up to date understanding of legislation. Reports from the HB system are audited by both Internal and External Audit to ensure that the year-end claim form is completed accurately and subsidy is maximised.

Transmission of data via a secure environment has been increased when the Council joined the Government Connect network in June 2009, enabling secure transmission of data and emails between the Council, Government Departments and other public sector organisations which are also connected to the network.

#### **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, which itself is reviewed by the Audit Committee. 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.

From the work undertaken by the Internal Audit Section during the year the Head of Audit and Investigations has reported in the Annual Audit Report 2010 that "Systems are adequate to achieve Council Objectives. The framework of control is adequate and controls are generally operating effectively". The scored level of perceived risk has reduced from the previous year.

During 2009/10 the Council updated the Local Code of Corporate Governance, with the actions being reported to Cabinet in April 2010. Examples of this work programme

included the completion of updates to the Council Constitution, the Scheme of Delegation, and Various Council Procedure Rules. Suitable training has been provided on any new aspects of the Code to both Members and Officers.

#### **Step 5: Evaluation of assurances:**

The Audit Commission's Comprehensive Performance Assessment (CPA) report for 2008 assessed Hyndburn Borough Council as an EXCELLENT Council, and noted good practice in many areas, and 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 Council's Direction of Travel Report in February 2009 stated that performance management arrangements are good. They are aligned with financial reporting and support the monitoring and improvement of services.

During and for 2008/09 the Council's external auditors undertook a Use of Resources Assessment which reviewed aspects of the Council's performance. The auditor's overall judgement issued in January 2010 was that the Council is performing consistently above minimum requirements, ie performing well, in ensuring value for money in its use of resources.

The Council's core financial systems are audited every year by both internal and external audit when the adequacy of these systems and their controls are evaluated. A comprehensive set of Financial Procedure Notes covering key financial systems is regularly reviewed and updated. All key financial systems, and feeder systems, are regularly reconciled.

The Council has business continuity plans in place for Corporate Property, and ICT, in relation to disaster recovery procedures which have been the subject of reviews during the year.

#### **Significant Internal Control Issues**

The Council identifies any significant internal control issues 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 has been the subject of ongoing assessment in 2009-10, with no significant issues or required actions arising.

Other Control Issues which are not fundamental to the overall operation of the Council are identified, addressed, and managed effectively by the Council during the year.

**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 2009/10.

**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: \_\_\_\_\_  
**Managing Director**

Date: 25th May 2010



Signed: \_\_\_\_\_  
**Councillor Peter Britcliffe  
Leader of the Council**

Date: 25th May 2010

## **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: Local Code of Corporate Governance
- 7: Minutes of Audit Committee
- 8: CPA Report 2008

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

##### **Evidence**

- 9: Council Constitution
- 10: Scheme of Delegations
- 11: Job Descriptions of Key Officers
- 12: Structure Charts
- 13: Control of Staffing Resources
- 14: Communication Strategy – Media Protocol
  - Executive Briefing
  - News round
  - Media Releases
- 15: Corporate Induction Process
- 16: Internal Audit Report on Action Plan 2009/10

## List of Audit Reports 2009/10

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

#### **Evidence**

- 17: Sustainable Community Strategy 2008 – 2018  
Corporate Strategy 2008 - 2013  
Asset Management Plan 2007 – 2010  
Data Quality Policy and Strategy 2008

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

#### **Evidence**

- 18: Performance Management Framework – HBC  
Performance Management Framework – LSP
- 19: Medium Term Financial Strategy 2010/11 – 2012/13
- 20: Forward Plans June 2009  
Internal Audit Service Plan 2009-2010  
Health & Safety Action Plan 2009-2011  
Asset Management Plan 2007-2010  
Corporate Training & Organisational Development Plan & Report  
Sustainable Community Strategy 2008 – 2018
- 21: Council Tax and NNDR Performance Indicators  
Revenue Budgets – Monitoring Reports  
Revenue Budget Report for 2010/11  
Annual Report End of Year VFM Report 2009/10
- 22: Capital Monitoring Reports

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

#### **Evidence**

- 23: Audit Committee Minutes approving 2009/10 Audit Plan
- 24: Risk Management Monitoring Reports to Audit Committee
- 25: ICF Review Statements from Lead Officers
- 26: Audit Committee Terms of Reference (as updated March 2009)

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

## **Evidence**

- 27: Prudential Indicators & Treasury Management Strategy 2008/09-2010/11
- 28: Authorised Signatures
- 29: Whistle Blowing Policy
- 30: Project Management Framework
- 31: Financial Reporting Partnership Organisations
- 32: Business Continuity Plan (BCP) IT back-up Disaster Recovery Policy
- 33: BCP Property Disaster Recovery Strategy
- 34: Register of Interests, Gifts and Hospitality - Members
- 35: Code of Conduct Employees & Members
- 36: Risk Management Monitoring Report
- 37: Procurement Strategy
- 38: Insurance Policies
- 39: Service Business Plans
- 40: Internal audit reports - Internal Control Framework (ICF)
- 41: Audit Commission Annual Audit and Inspection Letter March 2009  
External Audit – Use of Resources – November 2008
- 42: Health and Safety policy
- 43: Corporate Complaints Comments & Compliments Procedure
- 44: Fraud & Irregularity 2009/10  
Anti-Fraud and Corruption Strategy  
Anti-Money Laundering Policy
- 45. Resources Overview & Scrutiny Committee Terms of Reference
- 46. Communities and Wellbeing O & S Committee Terms of Reference

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

### **Evidence**

- 47: Annual Audit and Inspection Letter March 2009

48. Annual Audit Letter December 2009

49: CPA Assessment on Intranet

**Step 5: Evaluation of assurances:**

**Evidence**

50: Annual Internal Audit Report 2009/10  
IT Audit work 2009/10

51. Overview & Scrutiny Annual Report 2009/10

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

**Evidence**

52: Audit Risk Tables & Action Plans  
Strategic Risks – March 2010  
Generic Operational Risks – March 2010  
Operational Risks – March 2010