

Democratic Services

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Date: 23 September 2010

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Tim Ball, Colin Barrett, Armand Edwards, Bryan Organ, Brian Simmons and Brian Webber

Independent Member: John Barker

Chief Executive and other appropriate officers
Press and Public

Dear Member

Corporate Audit Committee: Thursday, 30th September, 2010

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Thursday, 30th September, 2010 at 5.00 pm** in the. **Council Chamber - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Corporate Audit Committee - Thursday, 30th September, 2010

at 5.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

To receive any declarations from Members/Officers of financial or other interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interests declared.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 29 JUNE 2010 (Pages 1 - 42)

9. TREASURY MANAGEMENT OUTTURN 2009/10 (Pages 43 - 52)

10. GOVERNANCE REPORT FOR THE AVON PENSION FUND (Pages 53 - 80)

11. GOVERNANCE REPORT FOR BATH AND NORTH EAST SOMERSET COUNCIL (Pages 81 - 220)

12. INTERNAL AUDIT SERVICE DELIVERY OPTIONS PROJECT - VERBAL UPDATE

13. COMMITTEE WORKPLAN - VERBAL UPDATE

14. FUTURE OF AUDIT COMMISSION AND WORKPLAN - VERBAL UPDATE

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

DRAFT MINUTES OF THE MEETING OF 29TH JUNE 2010

Present:- Cllr Tim Ball, John Barker (Independent Member), Cllr Colin Barrett, Cllr Armand Edwards, Cllr Andrew Furse (Chair), Cllr Brian Simmons, Cllr Brian Webber

Also in attendance: Andrew Pate (Director of Resources and Support Services), Tim Richens (Divisional Director - Finance), Jeff Wring (Head of Risk and Assurance), Andy Cox (Risk Manager), Irene Draper (Team Leader, Control & Reconciliation), Richard Howroyd (Corporate Governance Manager), Chris Hackett (Audit Commission)

1 EMERGENCY EVACUATION PROCEDURE

The Clerk read out the procedure.

2 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTION

Apologies were received from Cllr Bryan Organ.

4 DECLARATIONS OF INTEREST

John Barker declared a personal and prejudicial interest in relation to the part of agenda item 14 dealing with the future role of the Independent Member.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

6 ITEMS FROM THE PUBLIC – TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

A Member requested information about the implications of the Government's spending cuts for two projects.

1. Building Schools for the Future

The Director of Resources and Support Services said that the Chancellor had stated in the budget that as far as possible capital schemes would be protected, and that those benefiting the economy would be prioritised. The Government would carry out a review of capital spending in October. It was not clear at present what the impact of would be would be on Building Schools for the Future or the Bath Transport Package.

2. Council/PCT Integration

The Director of Resources and Support Services said that the Government intended to publish a White Paper on health. He did not anticipate that Council/PCT integration would have to be reversed; in fact the White Paper was likely to encourage further integration of delivery. It was also anticipated that it would encourage separation of delivery and commissioning. The Member noted that that the Government had indicated that the role of the PCTs would be restricted to commissioning, and suggested that the all the risks arising from delivery would therefore fall on the Council. He suggested that this was a matter on which the Council should be briefed as soon as possible.

8 MINUTES: 18TH MAY 2010

These were approved as a correct record and signed by the Chair.

9 BATH AND NORTH EAST SOMERSET STATEMENT OF ACCOUNTS 2009/10

The Divisional Director: Finance presented the report and invited the Committee to approve the Statement of Accounts for 2009/10. He said that the report would also be considered by the Cabinet and the Corporate Resources and Performance Overview and Scrutiny Panel at their next meetings. The auditor's opinion on the Accounts would be given by September, and would be reported to the Committee at its next meeting.

He explained that compliance with the Local Authority Accounting Code of Practice had required changes to the treatment of Council Tax and National Non-Domestic Rates. He invited comments from Members.

A Member asked about earmarked reserves and balances. The Divisional Director: Finance replied that details about these appeared in note 30 on page 41 of the Accounts. The General Fund Balance was risk assessed, though projections might change. Balances exceeded the target levels. The Council had approved a fresh allocation to reserves in February for affordable housing and changes in the Council's workforce.

The Chair asked about debtors and prepayments (page 11). The Team Leader, Control & Reconciliation said that the figures for debtors in the Accounts only gave a snapshot as at 31st March, but the figures for 09/10 were lower than 08/09. Each service made its own provision for bad debt; some provisions had increased, others had not. Provisions for bad debt were continually reviewed.

In reply to a question from a Member, the Team Leader, Control & Reconciliation said that the gain on disposal of fixed assets (page 7) was much lower in 09/10 than in 08/09 because there had been a good deal of amortisation in 08/09. In addition a number of schools had achieved foundation status and their assets had been transferred to the governors and written out of the accounts. This had not happened in 09/10, though there had been disposal of school assets. The Chair said that he understood that receipts from these disposals were retained within the schools' budget. The Director of Resources and Support Services confirmed that this was the case.

In response to further questions from Members, the Team Leader, Control & Reconciliation provided the following information:

- the difference in the 09/10 and 08/09 figures for Corporate and Democratic Core (page 7) was due largely to technical reasons relating to a reduction in grant charges in 09/10
- the differences in “cash on deposit” and “creditors” (page 11) and the increase in “other operating costs” (page 12) for 08/09 and 09/10 were explained by the fact that in 08/09 the Council had invested £20m cash on behalf of the Avon Pension Fund, which had to be paid back to the Fund in 09/10

A Member commented that most members of the public would not understand the Accounts and that the media were more likely to home in on the figures for Councillor’s allowances rather than try to give a balanced view of the Council’s financial management. Other Members agreed with this. Mr Hackett suggested that a summary set of accounts giving the key figures could be prepared for the public. The Director of Resources and Support Services said the Council was required to prepare a set of accounts in accordance with the Local Authority Accounting Code of Practice. The document that gave the best overview of the how well the Council was performing was the Outturn Report.

A Member asked for an explanation of the practice of stock lending by the Pension Fund, as mentioned on page 57 of the Accounts. The Divisional Director: Finance replied that the way worked was as follows. Often brokers sold a quantity of stock for delivery by a certain date. If they did not hold enough of that stock as the delivery date approached, they entered into an agreement to borrow stock from a third party, for which they gave security and paid a fee. The loaner of the stock did not receive dividends on it while the stock was on loan. Stock lending was practiced by all local authorities.

A Member asked about the Council’s responsibility for West of England Partnership Growth Point Funds, mentioned on page 23 of the Accounts. The Divisional Director: Finance said that B&NES acted as the banker for these funds, receiving grants and disbursing money for specific projects.

A Member noted the increase of £100,000 in the sums paid to voluntary bodies in 09/10 compared with 08/09 and asked which bodies these were. The Team Leader, Control & Reconciliation said she would circulate a list to Members.

A Member noted that the control and reconciliation of suspense accounts had been an issue that the auditors had raised in the past, and asked whether there had been any improvement. The Divisional Director: Finance replied that a great deal of effort had been devoted to improving working papers, which he believed had borne fruit. He was pleased to report that 90% of school balances had already been reconciled. The Team Leader, Control & Reconciliation said that there was a central electronic log for reconciliation.

RESOLVED to approve the Council’s Accounts for 2009-10, including the Avon Pension Fund Accounts 2009/10.

10 ANNUAL GOVERNANCE STATEMENT 2009/10

The Head of Risk and Assurance reminded Members that this item had appeared on the two previous agendas

The Risk Manager reminded Members that they had considered the “long list” of significant risks at the previous meeting. Since the agenda papers had been issued

there had been consultation within the Council on the Statement, and a number of changes had been made. Strategic Directors had recommended a reduction in the number of significant risks to be included. He circulated copies of the revised Statement with the changes highlighted.

RESOLVED to confirm that the Committee has considered the Statement and “significant” issues recorded and to recommend that the Leader of the Council and Chief Executive sign the Annual Governance Statement 2009/10.

11 PRESENTATION ON ETHICS AND CORPORATE GOVERNANCE

Richard Howroyd gave a PowerPoint presentation and answered Members’ questions. A copy of the presentation is attached as an appendix to these minutes.

12 WEST OF ENGLAND PARTNERSHIP – AUDIT COMMISSION ACTION PLAN – PROGRESS REPORT

The Head of Risk and Assurance presented the report. He reminded Members that the details of the audit of the West of England Partnership (WoEP) had been presented to the Committee at its meeting on 2nd February 2010 and that Members had requested a progress report. He said that the attached report was also being presented to the Audit Committees of the three partner authorities. All the audit recommendations had been fully implemented.

A Member was concerned to note the number of issues rated as “high priority”, and suggested that this indicated that the WoEP was not working as intended and that the Council was being exposed to significant risk. The Head of Risk and Assurance replied that the auditors had wanted to prioritise their recommendations; they had given priority ratings, not risk ratings. They had planned to do further work relating to the WoEP, but it seemed that this would not now be going ahead. Internal Audit would be doing some work. The Chair asked Mr Hackett for his views on the future of the WoEP. He said that he knew no more about this than Members did. He confirmed that the Audit Commission would not be doing the planned additional work on the WoEP this year because of the abolition of the Comprehensive Area Assessment. However, as issues relating to the WoEP affected the auditors’ value-for-money judgment, they would no doubt be revisited. The Head of Risk and Assurance said that all the councils in the WoEP were considering the feasibility of a Local Enterprise Partnership, and it was possible that this would impact on the WoEP in future.

RESOLVED to note the report.

13 EXTERNAL AUDIT FEES LETTER – PENSION FUND – 2010/11

Mr Hackett introduced this item. He explained that previously the Audit Commission had specified a uniform fee for all large pension funds, but now a formula was used to calculate an individual fee for each one. This formula had been used to calculate the indicative fee for 2010/11 and to recalculate the fee for 2009/10. This had resulted in a reduction of the fee for 2009/10. The indicative fee for 2010/11 was 8.5% above the scale fee because of the following issues identified in the 2009/10 audit:

- working papers supporting figures in the accounts were below minimum standard
- the 2008/09 accounts contained many material presentational errors

- there were weaknesses in relation to the control of journals

The fee would be revised if there was sufficient improvement in these areas. The auditors would be reviewing the quality of working papers in the next two weeks.

The Divisional Director: Finance said that a great deal of effort had been devoted to remedying the shortcomings identified by the auditors.

RESOLVED to note the report.

14 ANNUAL REPORT OF THE CORPORATE AUDIT COMMITTEE

The Head of Risk and Assurance introduced this item. He invited Members to comment on the role and effectiveness of the Committee.

A Member said that though the Committee deal with complex issues, Members were lay people. He believed that the Committee had become more effective as Members' knowledge had increased, and that it now commanded respect within the Council. The presentations and briefings given at meetings had been very helpful. Other Members agreed that the Committee had become better at questioning officers.

The Chairman invited Members to send any comments on the draft annual report to himself or to the Head of Risk and Assurance.

John Barker left the room in accordance with his declaration of interest. Members discussed the role of the Independent Member, agreeing that it made a valuable contribution to the work of the Committee and should continue. They requested officers to give consideration to increasing the support and advice available to them between meetings.

RESOLVED

1. To delegate to the Chair and the Head of Risk and Assurance the preparation of an annual report for submission to the Council in September.
2. To delegate responsibility to the Chair and the Head of Risk and Assurance to decide on future arrangements for the Independent Member in 2010/11.

The meeting finished at 7.05 pm.

Chairman.....

Date signed and confirmed.....

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Corporate Governance & Ethical Standards

What is Corporate Governance?

- » How local government bodies
 - » ensure that they are doing the right things,
 - » in the right way,
 - » for the right people,
 - » in a timely, inclusive, open, honest and accountable manner.

Everyone is a risk manager

What is Corporate Governance?

- » It comprises:-
 - » the systems and processes,
 - » The cultures and values,
- » by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Local Definition

- » *‘Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner’*

Why is it Important?

- » Governance arrangements in the public services are keenly observed and sometimes criticised.
- » Significant governance failings attract immense attention
- » Local government is big business, employing over two million people and accounting for 25% of public spending.
- » Local Government services are vitally important to all tax payers and citizens.
- » Authorities need to ensure they deliver high-quality services to them.
- » Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users of the Council.
- » Good governance enables the Council to pursue its vision effectively as well as underpinning it with mechanisms for control and management of risk.
- » The Council should aim to meet the standards of the best.
- » Governance arrangements should not only be sound but also be seen to be sound.

How Does the Council Demonstrate Good Governance ?

- » The Council has adopted a Local Code of Corporate Governance.
- » The Council undertakes an Annual Governance Review.
- » The Council prepares and publishes an Annual Governance Statement (AGS) that meets the statutory requirement set out the Accounts and Audit Regulations 2006 for authorities to prepare a statement of internal control in accordance with “proper practices” .
- » The AGS demonstrates compliance with the CIPFA/ SOLACE framework "Delivering Good Governance in Local Government" .

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The Local Code of Corporate Governance

- » Approved in May 2008
- » Available on the Council's Intranet
- » Currently not available on the Council's Website
- » Annually Reviewed – In 2010 it will be important to take into account the CIPFA Statement on the Role of the Chief Financial Officer in Local Government

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Ethical Standards

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Ethics – A Definition

“Based on core values, a set of standards for conduct in government companies and society that guide decisions, choices and actions.”

Source – Transparency International

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The Council's Code of Corporate Governance – Principle 4

- » Promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct

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What Values do we Stand For & What do They Mean?

| | | |
|--------------------------------------|----------------------------|--|
| INTEGRITY (How) | ACCOUNTABILITY | Ownership, discipline, control, governance, transparency, freedom to operate within defined limits , intelligent application |
| | ETHICS | Honesty, openness, trust, enjoyment, professionalism, pragmatism, excellence |
| | WAY WE TREAT EACH OTHER | Respect, listening, collaborative, supportive but challenging, building relationships |
| MAKE A DIFFERENCE (What) | MAKE IT HAPPEN | Commitment, take permission, value based decisions, outcome focussed, timely, enable, tackle obstacles, do it |
| | COMMUNITY FOCUS | Understand needs, inclusive, customer satisfaction, community leadership, perception, reputation |
| | EFFICIENT & EFFECTIVE | Doing the right things, doing things right, financial sustainability, value improvement, performance mgt culture |
| INNOVATION (Doing Better) | INNOVATION | Creativity, leading edge, future focussed, continuous improvement |
| | CONFIDENCE/ BRAVERY | Risk taking, autonomy, empowerment, raising the bar, entrepreneurial |
| | ORGANISATIONAL DEVELOPMENT | Develop staff/managers through active coaching, build organisational capability, talent management, motivation, leading by example |

Everyone is a risk manager

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Principle 4) The Authority will promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct

| SUPPORTING PRINCIPLES | EXPECTED REQUIREMENTS |
|--|---|
| <p>Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p> | <p>Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect;</p> <p>Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff, its partners and the community are defined and communicated through codes of conduct and protocols;</p> <p>Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice</p> |
| <p>Ensuring that organisational values are put into practice and are effective</p> | <p>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;</p> <p>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;</p> <p>Develop and maintain an effective standards committee;</p> <p>Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Authority;</p> <p>In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively</p> |

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Leadership Values Surveys

Values we do/don't stand for – Survey July 07

| | | DO | 5 | 4 | 3 | 2 | 1 | DON'T |
|--------------------------|----------------------------|---|---|---|---|---|---|--|
| | Accountability | Ownership, discipline, control, governance, transparency, freedom to operate in defined limits, intelligent application | | | | | | Waiting to be told, taking all the decisions, hierarchy & controlling, abdication responsibility, keep your head down, not my job. |
| Integrity | Ethics | Honesty, openness, trust, enjoyment. Professionalism, pragmatism, excellence | | | | | | Cynicism, criticism, blame, defensive, covering up, win only, unprincipled, silent veto. |
| | Way We Treat People | Respect, listening, collaborative, supportive but challenging, building relationships | | | | | | Rudeness, bullying, silo's/internal barriers, not consulting /communicating decisions that impact other services. |
| | Make It Happen | Commitment, take permission, value based decisions, outcome focussed, timely, enable, tackle obstacles, do it | | | | | | Bureaucracy, institutionalised control, indecisiveness & procrastination, too busy, talking shop, not doing what you say. |
| Make a Difference | Community Focus | Understand needs, inclusive, customer satisfaction, community leadership, perception, reputation (outside in) | | | | | | Knowing best, lack of consultation / communication, bad press, poor customer service. |
| | Efficient & Effective | Doing the right things, doing things right - Financial sustainability, value improvement, performance mgt culture | | | | | | Inconsistency, fire fighting, confusion, accepting mediocrity, cost over value, poor performance. |
| | Innovation | Innovation, creativity, leading edge, future focussed, continuous improvement | | | | | | Short term, inertia, change is bad, why rock the boat, dreaming, it's not my job, sceptics & resisters, too difficult. |
| | Confidence/Bravery | Risk taking + autonomy & empowerment (within limits), raising the bar, entrepreneurial skills | | | | | | Risk adverse, blame culture, complacent, comfortable, survival. |
| | Organisational Development | Develop staff/managers through active coaching, build organisational capability, talent mgt, motivation, by example | | | | | | Autocratic management, empire building, directing & telling, status & ego. |

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Values we do/don't stand for – Survey April 08

| | | DO | | | | | DON'T | | | | | |
|--------------------------|----------------------------|----|---|---|---|---|-------|---|---|---|---|--|
| | | 5 | 4 | 3 | 2 | 1 | 5 | 4 | 3 | 2 | 1 | |
| | Accountability | | | | | | | | | | | Waiting to be told, taking all the decisions, hierarchy & controlling, abdication responsibility, keep your head down, not my job. |
| Integrity | Ethics | | | | | | | | | | | Cynicism, criticism, blame, defensive, covering up, win only, unprincipled, silent veto. |
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| | Innovation | | | | | | | | | | | Short term, inertia, change is bad, why rock the boat, dreaming, it's not my job, sceptics & resisters, too difficult. |
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| | Organisational Development | | | | | | | | | | | Autocratic management, empire building, directing & telling, status & ego. |

Everyone is a risk manager

Values we do/don't stand for – Survey March 09

| | | DO | 5 | 4 | 3 | 2 | 1 | DON'T |
|--------------------------|----------------------------|---|---|---|---|---|---|--|
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Values we do/don't stand for – Survey March 10

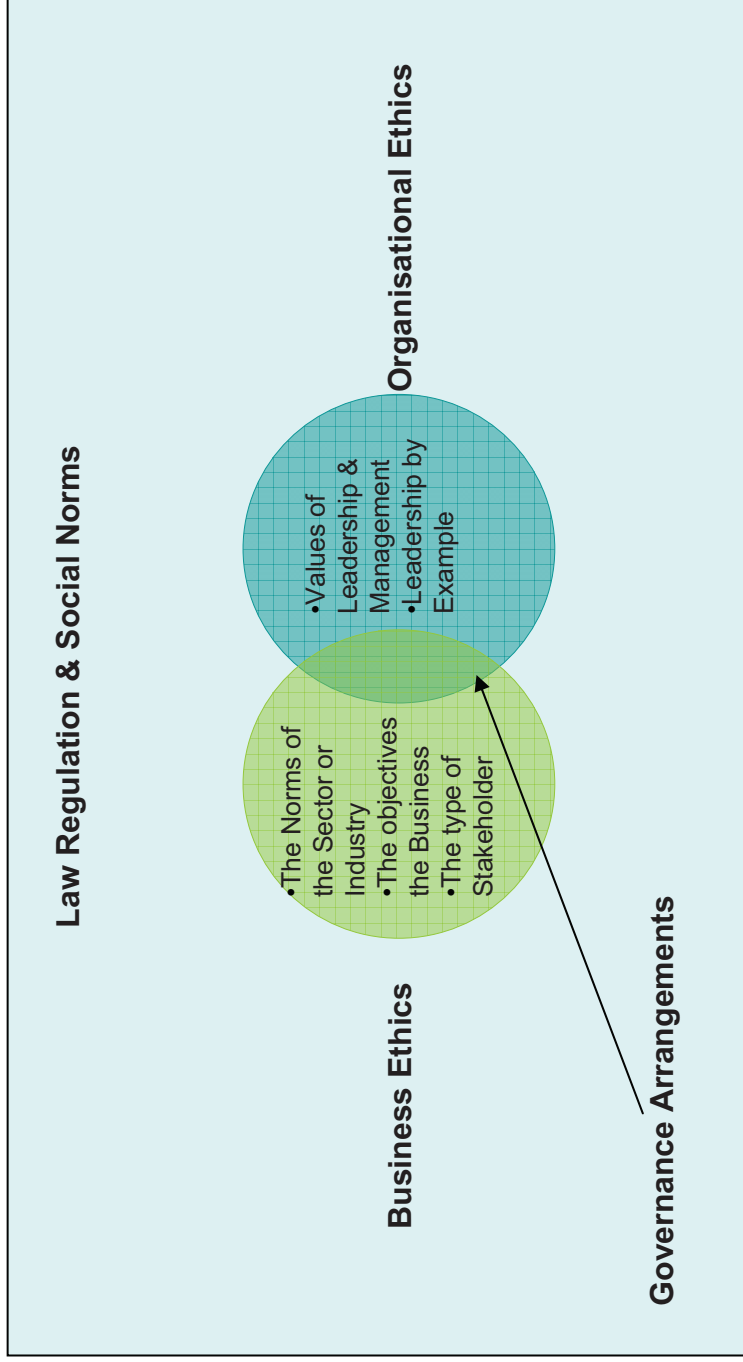
| | | DO | 5 | 4 | 3 | 2 | 1 | DON'T |
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| | Innovation | Innovation, creativity, leading edge, future focussed, continuous improvement | | | | | | Short term, inertia, change is bad, why rock the boat, dreaming, it's not my job, sceptics & resisters, too difficult. |
| Innovation | Confidence/Bravery | Risk taking + autonomy & empowerment (within limits), raising the bar, entrepreneurial skills | | | | | | Risk adverse, blame culture, complacent, comfortable, survival. |
| | Organisational Development | Develop staff/managers through active coaching, build organisational capability, talent mgt, motivation, by example | | | | | | Autocratic management, empire building, directing & telling, status & ego. |

Everyone is a risk manager

Ethical Components

- » Law, Regulation & Social Norms
- » Business/Corporate Ethics – The moral norms relating to the conduct of business
- » Organisational Ethics – The values of the organisation to its employees irrespective of law or regulation

How do they interact?



Everyone is a risk manager

What Happens if Things Go Wrong

- » Corruption (Grand, Petty or Political) » Facilitation Payments
- » Loss of Transparency » Fraud
- » Loss of Accountability » Loss of Integrity
- » Loss of Disclosure » Inappropriate Lobbying
- » Bribery » Money Laundering
- » Clientelism » Nepotism
- » Collusion » Patronage
- » Conflict of Interest » Revolving Doors
- » Embezzlement » Solicitation
- » Extortion

Everyone is a risk manager

Is it a problem in the United Kingdom?

(1= Not Corrupt 5= Very Corrupt)

Source: *Global Corruption Barometer 2009*

| | Political Parties | Parliament | Private Sector | Media | Public Sector | Judiciary | Average |
|----------------|-------------------|------------|----------------|-------|---------------|-----------|---------|
| Survey Average | 3.9 | 3.7 | 3.5 | 3.2 | 3.8 | 3.5 | 3.6 |
| EU Average | 3.7 | 3.4 | 3.4 | 3.3 | 3.4 | 3.1 | 3.4 |
| United Kingdom | 3.6 | 3.3 | 3.5 | 3.5 | 3.2 | 2.8 | 3.3 |

Everyone is a risk manager

Is it a problem in the United Kingdom?

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| | Political Parties | Parliament | Private Sector | Media | Public Sector | Judiciary | Average |
|----------------|-------------------|------------|----------------|-------|---------------|-----------|---------|
| Survey Average | 3.9 | 3.7 | 3.5 | 3.2 | 3.8 | 3.5 | 3.6 |
| EU Average | 3.7 | 3.4 | 3.4 | 3.3 | 3.4 | 3.1 | 3.4 |
| United Kingdom | 3.6 | 3.3 | 3.5 | 3.5 | 3.2 | 2.8 | 3.3 |

Everyone is a risk manager

Scandals/Public Interest Reports

- » Poulson Affair - Bribery
- » Westminster – Homes for Votes
- » Doncaster MBC “Donnygate” – Corrupt Practices
- » Parliamentary expenses
- » Robinson “Affair”
- » Laws Resignation
- » Corby Borough Council - Probity & governance regarding procurement (2002)
- » Chipping Campden Town Council - Financial Governance (2007)
- » Walsall MBC – Governance (2007)
- » Leicester City Council – Procurement (2007)
- » Merseyside PTE – Governance (2008)
- » North Somerset Council - Waste Management (2009)
- » Nottingham CC - Allocation of Council Houses (2009)
- » Doncaster MBC – Conduct (2009)

Everyone is a risk manager

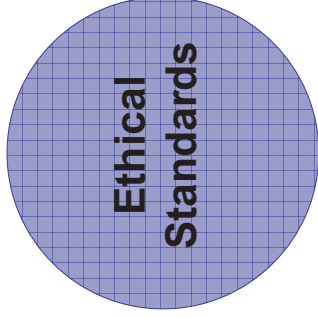
How Does an Organisation Set its Ethical Standards?

- » Put them in writing
- » Explain them and provide periodic reinforcement
- » Ensure they are doable with management leading by example
- » Ensure advice is available on ethical situations
- » Monitor them
- » Establish confidential reporting
- » Back them up with clearly stated consequences for disobedience

Everyone is a risk manager

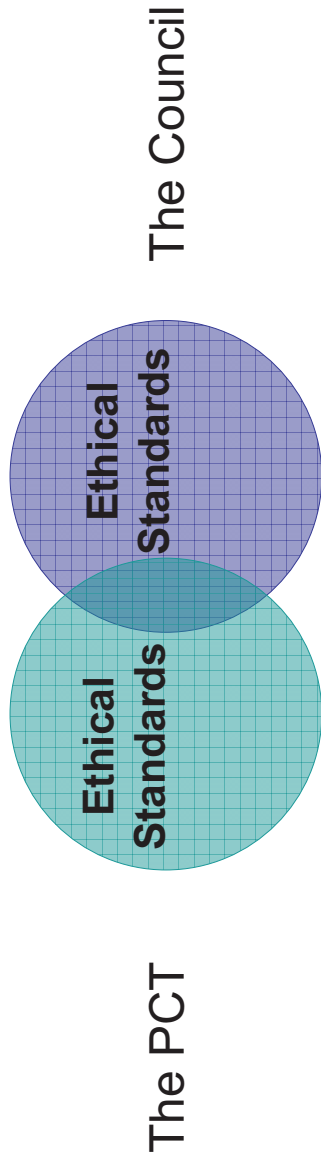
Partnership Bring Together a Variety of Ethical Problems

The Council



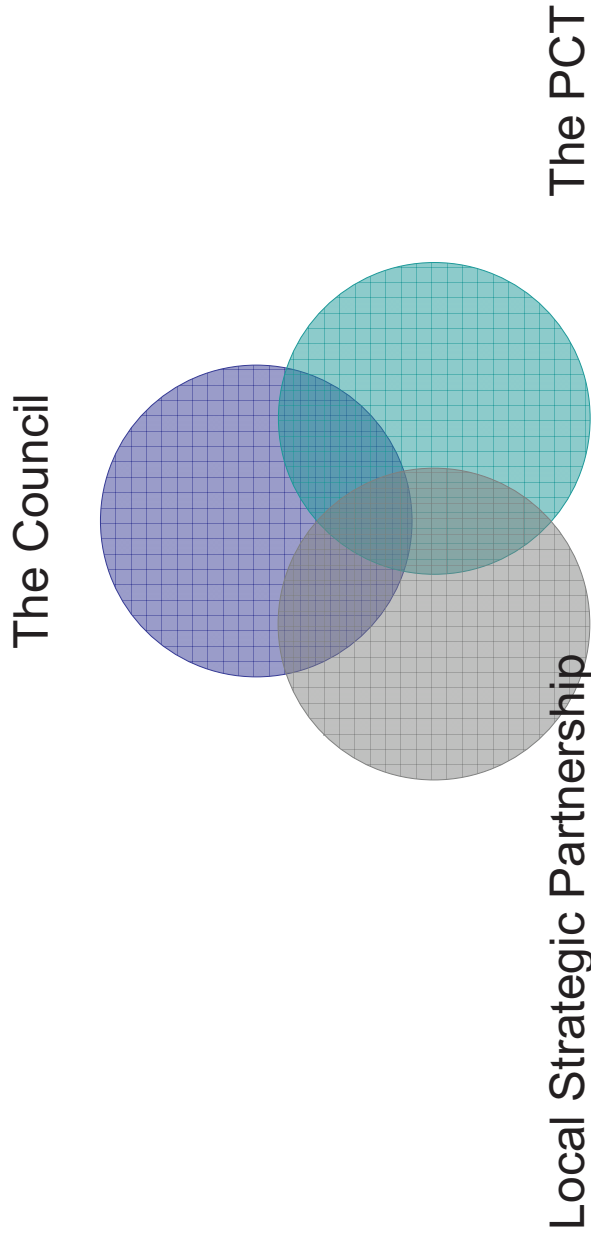
Everyone is a risk manager

Partnership Ethics – Different Legislative Backgrounds



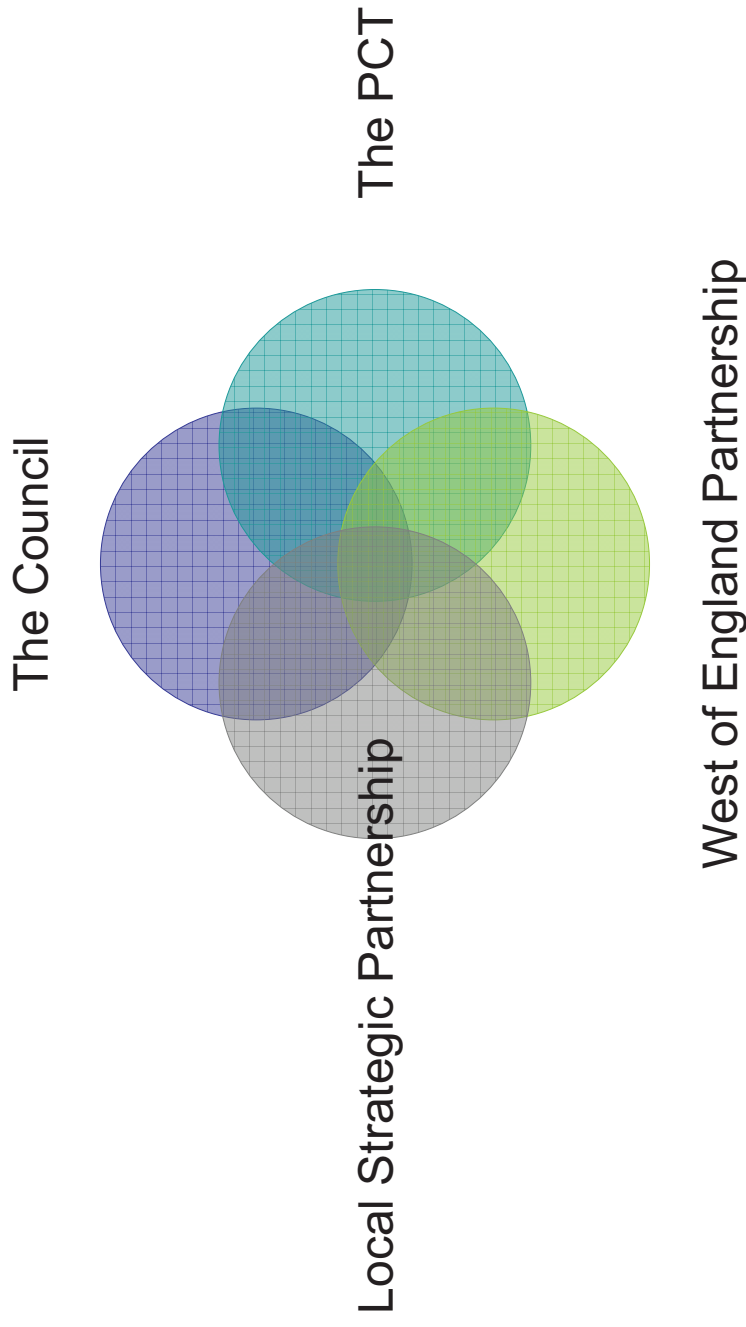
Everyone is a risk manager

Partnership Ethics – Different Interest Groups



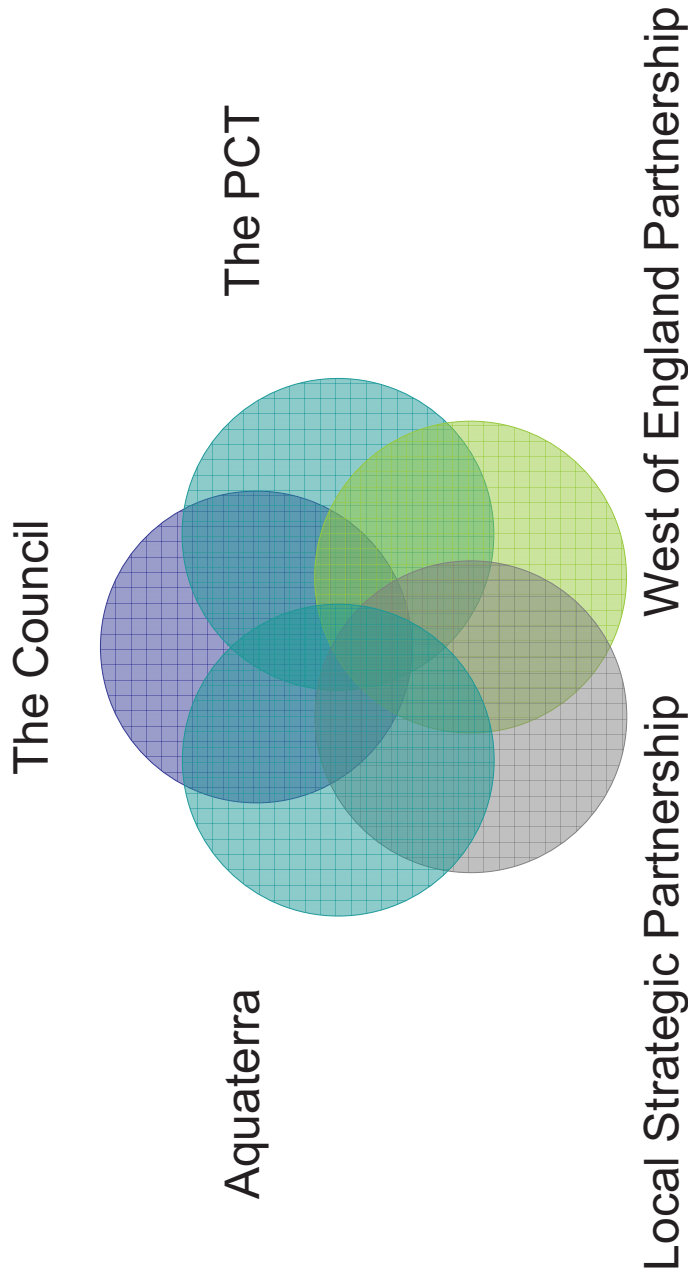
Everyone is a risk manager

Partnership Ethics – Different Interests Groups (2)



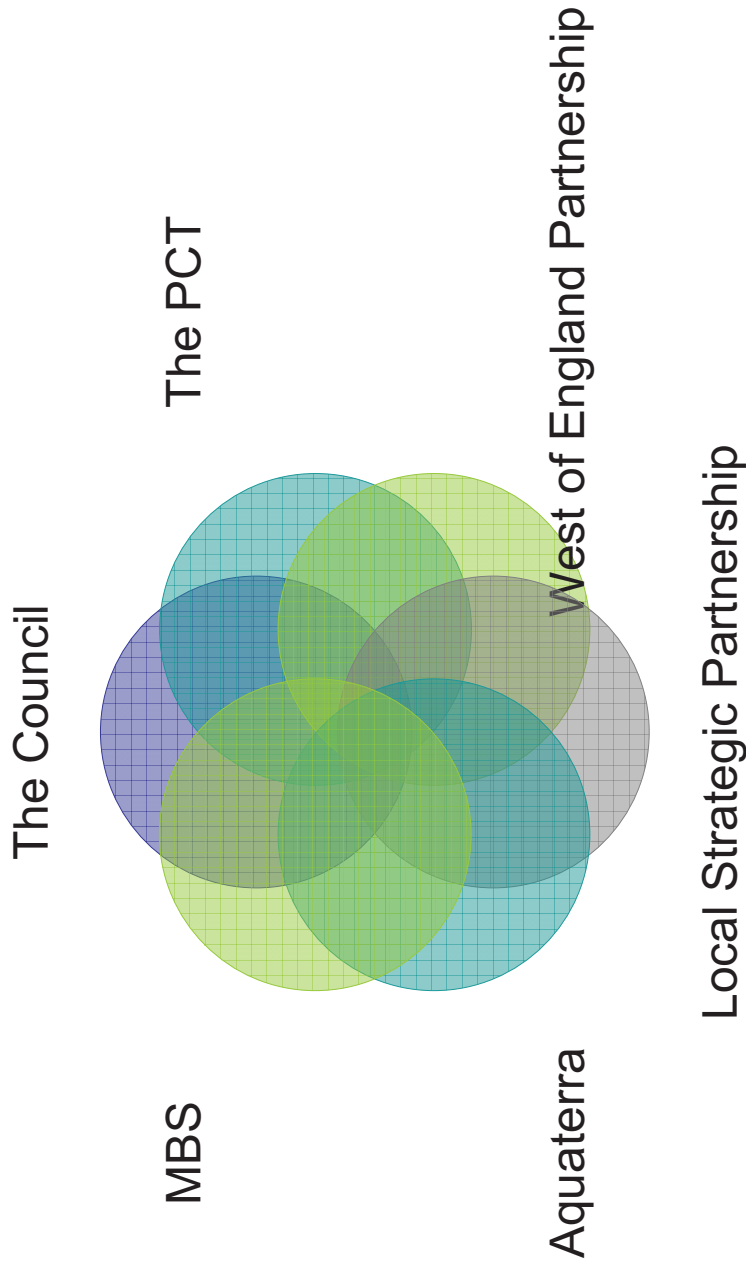
Everyone is a risk manager

Partnership Ethics – Business Interests



Everyone is a risk manager

Partnership Ethics – Business Interests (2)



Everyone is a risk manager

The Council has a strong Ethical Framework to Support Members

- » Standards for England
- » The Council's Standards Committee
- » The Council's Constitution
- » The Local Code of Corporate Governance
- » Council Code of Conduct (minimum includes the Model Code of Conduct)
- » Democratic Services
- » Member Guidance & Training
- » Anti- Fraud & Corruption and Whistleblowing Policy

Everyone is a risk manager

An Officer Framework is in Place

- » Constitution
- » Local Code of Corporate Governance
- » Code of Conduct
- » HR Policies & Procedures
- » Guidance & Training
- » Anti- Fraud & Corruption and Whistleblowing Policy

An Officer Framework is in Place but it Requires Strengthening

- » Constitution
- » **Code of Conduct – Requires Reviewing & Updating**
- » HR Policies & Procedures
- » **Guidance & Training – Currently very Limited**
- » Anti- Fraud & Corruption and Whistleblowing Policy

Everyone is a risk manager

Areas for Development

- » Officer Code of Conduct
- » Guidance
- » Training
- » Review of Local Code of Corporate Governance

Everyone is a risk manager

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| Bath & North East Somerset Council | | |
|---|--|-----------------------------------|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 30 th September 2010 | AGENDA ITEM NUMBER |
| TITLE: | Treasury Management Outturn Report 2009/10 | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| <p>List of attachments to this report:</p> <p>Appendix 1 – Performance Against Prudential Indicators Appendix 2 - The Council’s Investment Position at 31st March 2010 Appendix 3 – Average monthly rate of return for 2009/2010 Appendix 4 – The Council’s External Borrowing Position at 31st March 2010 Appendix 5 – Sterling Consultant’s Economic & Market Review of 2009/10 Appendix 6 – Interest & Capital Financing Budget Monitoring 2009/10</p> | | |

1 THE ISSUE

1.1 This report gives details of performance against the Council’s Treasury Management Strategy and Annual Investment Plan for 2009/10.

2 RECOMMENDATION

The Corporate Audit Committee is asked to agree that:

2.1 the 2009/10 Treasury Management Annual Report to 31st March 2010, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the 2009/10 actual Treasury Management Indicators are noted.

3 FINANCIAL IMPLICATIONS

3.1 The financial implications are contained within the body of the report.

4 THE REPORT

4.1 Performance against the Treasury Management & Prudential Indicators agreed as part of the annual Treasury Management Strategy is provided in Appendix 1. The outturn position and all treasury activity undertaken during the financial year is within the limits agreed by Council in February 2009, as shown in Appendix 1, as well as the CIPFA Code of Practice and the relevant legislative provisions.

Summary of Returns 2009/10

4.2 The Council's investment position as at 31st March 2010 and performance in 2009/10 is given in Appendices 2 and 3. In line with the Annual Investment Strategy, investments undertaken were temporary short term investments made with reference to the core balance and cash flow requirements.

4.3 Gross interest earned from investments for 2009/10 totalled £1.646m. Net interest received, after deduction of amounts due to the Avon Pension Fund, West of England Growth Points, PCT, schools and other internal balances, is £1.247m. The average rate of interest earned on investments over this period was 1.46%, which is 0.99% above the benchmark rate of average 7 day LIBID + 0.05% (0.47%). This represents an extra £843k of net interest income earned above the benchmark rate.

Summary of Borrowings 2009/10

4.4 The Council's external borrowing as at 31st March 2010 is detailed in Appendix 4. No further borrowing was taken during the year. Following concerns regarding elevated levels of credit risk, falling short term investment rates and in light of the Council's cash balances, the decision was taken to use internal resources rather than external borrowing to finance capital spending during the year. This has the effect of reducing the council's investment balance and the amounts it lends on the money markets to financial institutions, thus providing a significant net saving on capital financing costs.

Strategic & Tactical Decisions

4.5 As detailed in the 2009/10 annual economic review attached at Appendix 5, provided by Sterling, the Council's Treasury Advisors, the banking sector remained volatile and we have therefore continued to adopt a cautious strategy in this environment. We have continued to place a significant proportion of our funds with the UK Government Debt Management Office and otherwise with highly-rated major financial institutions, primarily with UK banks, where we assess there is implicit or explicit Government support.

4.6 In line with recent years, the Council continued to take a pro-active risk management approach to its investment decisions during 2009/10 due to the continued volatility of the financial markets and banking sector. This approach included the following actions

- i) For the first three quarters of the financial year all investments were made in line with the restricted counterparty list approved as part of the 2009/10 treasury management strategy report. Around 20-25% of investments were placed with the UK Government's Debt Management Office (LT rating AAA). Remaining investments were placed with highly rated financial institutions, primarily with UK banks, where it was assessed there was implied or explicit Government support;
- ii) In the final quarter the amount invested with the Debt Management Office was gradually reduced to between 10-15% of total investments as the banking sector stabilised, and two short term investments of £3m each were made with two UK Building Societies (Fitch LT rating A) from the Council's wider counterparty list.

Budget Implications

4.7 An amount of £5.979m was included in the Councils 2009/10 revenue budget for capital financing costs.

4.8 A breakdown of this budget and the actual year end position is included in Appendix 6. This shows an underspend at outturn of £1.075m in 2009/10. The underspend is due to the following factors:

- Minimum Revenue Provision (MRP) in respect of debt repayments underspend of £409k due to the final capital spend in 2008/09 being underspent compared to the estimate used in setting the 2009/10 budget for MRP.
- Additional interest earned from the higher ongoing cash balances from 2008/09 and locking in some fixed term investments before a series of base rate cuts totalled £0.673m, which also resulted in a reduction in the requirement to borrow, negating the associated borrowing costs. Higher cash balances were a result of ongoing slippage in the Capital Programme plus higher than anticipated reserves.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 The Council's lending & borrowing list has been regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Sterling.

5.3 The 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

6 EQUALITIES

6.1 This report provides information about the financial performance of the Council and therefore no specific equalities impact assessment has been carried out on the report.

7 CONSULTATION

7.1 Consultation has been carried out with the Deputy Leader of The Council & Cabinet Member for Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

7.2 Consultation was carried out via e-mail.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report deals with issues of a corporate nature.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

9.2 This report has also been presented to the Cabinet meeting on 21st July 2010 and the Council meeting on 9th September 2010.

| | |
|--|--|
| Contact person | <i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> Tim_Richens@bathnes.gov.uk Jamie_Whittard@bathnes.gov.uk |
| Background papers | <i>2009/10 Treasury Management & Investment Strategy</i> <i>Quarterly Treasury Performance Reports (Single Member Decisions)</i> |
| Please contact the report author if you need to access this report in an alternative format | |

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

| | 2009/10 Prudential Indicator | 2009/10 Actual as at 31st Mar 2010 |
|-----------------------------|-------------------------------------|--|
| | £'000 | £'000 |
| Borrowing | 85,000 | 80,000 |
| Other long term liabilities | 2,000 | 0 |
| Cumulative Total | 87,000 | 80,000 |

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

| | 2009/10 Prudential Indicator | 2009/10 Actual as at 31st Mar 2010 |
|-----------------------------|-------------------------------------|--|
| | £'000 | £'000 |
| Borrowing | 80,000 | 80,000 |
| Other long term liabilities | 2,000 | 0 |
| Cumulative Total | 82,000 | 80,000 |

3. Upper limit for fixed interest rate exposure

This is the maximum % of total borrowing which can be at fixed interest rate.

| | 2009/10 Prudential Indicator | 2009/10 Actual as at 31st Mar 2010 |
|-------------------------------------|-------------------------------------|--|
| | % | % |
| Fixed interest rate exposure | 100 | 75* |

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase)

4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping a degree of flexibility through the use of variable interest rates. This is the maximum % of total borrowing which can be at variable interest rates.

| | 2009/10 Prudential Indicator | 2009/10 Actual as at 31st Mar 2010 |
|--|-------------------------------------|--|
| | % | % |
| Variable interest rate exposure | 50 | 25 |

5. Upper limit for total principal sums invested for over 364 days

This is the maximum % of total investments which can be over 364 days.

| | 2009/10 Prudential Indicator | 2009/10 Actual as at 31st Mar 2010 |
|----------------------------------|-------------------------------------|--|
| | % | % |
| Investments over 364 days | 80 | 0 |

6. Maturity Structure of new fixed rate borrowing during 2009/10

| | Upper Limit | Lower Limit | 2009/10 Actual as at 31st Mar 2010 |
|--------------------------------|--------------------|--------------------|--|
| | % | % | % |
| Under 12 months | 50 | Nil | 0 |
| 12 months and within 24 months | 50 | Nil | 0 |
| 24 months and within 5 years | 50 | Nil | 0 |
| 5 years and within 10 years | 50 | Nil | 0 |
| 10 years and above | 100 | Nil | 0 |

No new borrowing was undertaken in 2009/10.

7. Capital Financing as % of Net Revenue Stream

Estimates for net revenue stream based on estimates of the amounts to be met from government grants and local taxpayers.

| | 2009/10 Prudential Indicator | 2009/10 Provisional as at 31st Mar 2010 |
|--|-------------------------------------|---|
| | % | % |
| Capital Financing as % of Net Revenue Stream | 5.99 | 3.95 |

Note: Capital financing includes the amount paid to Bristol City Council in respect of Ex-Avon Debt.

APPENDIX 2

The Council's Investment position at 31st March 2010

| | Balance at 31 st March 2010 |
|-------------------------------|---|
| | £'000's |
| Notice (instant access funds) | 20,000 |
| Up to 1 month | 14,300 |
| 1 month to 3 months | 10,000 |
| Over 3 months | 25,000 |
| Total | 69,300 |

The investment figure of £69.3 million is made up as follows:

| | £'000's |
|-------------------------------|---------------|
| B&NES Council | 37,897 |
| West of England Growth Points | 9,867 |
| Schools | 11,774 |
| Pension Fund | 9,708 |
| Total | 69,300 |

The Council had an average net positive balance of £68.5m (including Growth Points Funding) during the period April 2009 to March 2010.

The following fixed term investments were undertaken during 2009/10 with a maturity date in the following financial year:

| Institution | Amount | Rate | Start Date | Maturity Date | Long Term Credit Rating |
|-------------------------------|---------------|-------|------------|---------------|-------------------------|
| Barclays Bank | £5m | 1.35% | 06/11/09 | 06/05/10 | AA- |
| Barclays Bank | £5m | 2.20% | 10/12/09 | 10/12/10 | AA- |
| Lloyds Banking Group | £5m | 1.60% | 28/07/09 | 28/07/10 | A+ |
| Lloyds Banking Group* | £5m | 1.80% | 08/01/10 | 10/01/11 | A+ |
| Bank of Scotland | £5m | 1.35% | 12/01/10 | 12/07/10 | A+ |
| Coventry Building Society | £3m | 0.59% | 04/01/10 | 06/04/10 | A |
| Leeds Building Society | £3m | 0.52% | 04/01/10 | 06/04/10 | A |
| Nationwide Building Society | £5m | 0.74% | 28/01/10 | 28/07/10 | A+ |
| Development Bank of Singapore | £5m | 0.60% | 22/12/09 | 22/06/10 | AA- |
| Debt Management Office | £1.5m | 0.25% | 30/03/10 | 07/04/10 | AAA |
| Debt Management Office | £6.8m | 0.25% | 31/03/10 | 01/04/10 | AAA |
| Total | £49.3m | - | - | - | |

* This loan is classed as a 1 year duration. The reason that it is 367 days is due to there not being any banking activity on a weekend.

APPENDIX 3

Average rate of return for 2009/10

| | Apr % | May % | Jun % | Jul % | Aug % | Sep % |
|---|--------|--------|--------|--------|--------|--------|
| Average rate of interest earned | 2.13% | 1.80% | 1.74% | 1.77% | 1.86% | 1.63% |
| Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling) | 0.57% | 0.53% | 0.52% | 0.49% | 0.47% | 0.43% |
| Performance against Benchmark % | +1.56% | +1.27% | +1.22% | +1.28% | +1.39% | +1.20% |

| | Oct % | Nov % | Dec % | Jan % | Feb % | Mar % | Average for Period |
|---|--------|--------|--------|-------|-------|-------|--------------------|
| Average rate of interest earned | 1.29% | 1.16% | 1.01% | 0.88% | 0.84% | 0.87% | 1.46% |
| Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling) | 0.43% | 0.43% | 0.43% | 0.44% | 0.45% | 0.46% | 0.47% |
| Performance against Benchmark % | +0.86% | +0.73% | +0.58% | 0.44% | 0.39% | 0.41% | +0.99% |

APPENDIX 4

Councils External Borrowing at 31st March 2010

| LONG TERM | Amount | Fixed Term | Interest Rate | Variable Term | Interest Rate |
|------------------|-------------------|------------|---------------|---------------|---------------|
| PWLB | 10,000,000 | 30 yrs | 4.75% | n/a | n/a |
| PWLB | 20,000,000 | 48 yrs | 4.10% | n/a | n/a |
| PWLB | 10,000,000 | 46 yrs | 4.25% | n/a | n/a |
| PWLB | 10,000,000 | 50 yrs | 3.85% | n/a | n/a |
| PWLB | 10,000,000 | 47 yrs | 4.25% | n/a | n/a |
| KBC Bank N.V* | 5,000,000 | 2 yrs | 3.15% | 48 yrs | 4.5% |
| KBC Bank N.V* | 5,000,000 | 3 yrs | 3.72% | 47 yrs | 4.5% |
| Eurohypo Bank* | 10,000,000 | 3 yrs | 3.49% | 47yrs | 4.5% |
| TOTAL | 80,000,000 | | | | |
| TEMPORARY | NIL | | | | |
| TOTAL | 80,000,000 | | | | |

- All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.5%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

APPENDIX 5

Annual Review 2009/10 – (provided by Sterling Treasury Advisors)

By the start of the financial year in April 2009, UK GDP had already contracted approximately 5.3%, due to a sharp fall in private sector spending. The financial crisis in late 2008 had prompted the Government to implement a number of extraordinary government measures, including capital injections in some banks and the Credit Guarantee Scheme, to keep the banking system afloat amidst a wave of mistrust in financial markets.

In an attempt to avoid a more severe recession and possible deflation, the Bank of England had cut Bank Rate to 0.5% in March, where it remained for the whole year. To further loosen monetary policy, the Bank initiated a policy of quantitative easing. By using newly-created central bank reserves to purchase £200bn of government and commercial financial assets, policymakers hoped to stimulate spending and economic activity.

As the financial year progressed and the effects of fiscal and monetary stimulus were more widely felt, the pace of economic contraction gradually declined. House prices recovered following the 20% fall from the 2007 peak and the rate of unemployment slowed. As a consequence, consumer confidence started to recover. However, despite improving business survey evidence, the UK economy continued to contract until quarter four.

Confidence in the financial sector improved in line with better company results, buoyed by higher trading revenues as sentiment improved and credit markets thawed. However, asset impairments continued at elevated levels, and led to losses being reported by some banks. In Europe the European Commission penalised banks that had needed state aid. Some other banks, particularly in the US, repaid government funds.

As a consequence of the recession and the various fiscal stimulus packages, UK Government borrowing soared. By the end of year, the national debt had reached £890bn (62% of GDP) and the annual fiscal deficit was estimated to be £167bn.

The prevailing Bank of England outlook at the end of the year saw the UK economy undergoing anaemic recovery, as weak domestic demand persisted into the medium term. Elevated spare capacity is expected to reduce inflationary pressure, giving the Bank flexibility to maintain loose monetary policy. This could prove useful because the UK and other national governments are under intense pressure to engage in fiscal consolidation, cutting spending and raising taxes in order to control debt levels. Although fears of a double-dip recession may eventually prove unfounded, austerity measures introduced by national governments will weigh on future economic activity.

APPENDIX 6

Capital Financing Costs – Budget Monitoring 2009/10 (Outturn)

| April 2009 to March 2010 | YEAR END POSITION | | | ADV/FAV |
|---|----------------------------------|--------------------------------|------------------------------------|------------|
| | Budgeted Spend or (Income) £'000 | Actual Spend or (Income) £'000 | Actual over or (under) spend £'000 | |
| Interest & Capital Financing | | | | |
| - Debt Costs | 2,418 | 2,421 | 3 | ADV |
| - Ex Avon Debt Costs | 1,740 | 1,744 | 4 | ADV |
| - Minimum Revenue Provision (MRP) | 2,395 | 1,986 | (409) | FAV |
| - Interest on Balances | (574) | (1,247) | (673) | FAV |
| Sub Total - Capital Financing | 5,979 | 4,904 | (1,075) | FAV |

| Bath & North East Somerset Council | | |
|--|---|---|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 30th SEPTEMBER 2010 | AGENDA ITEM NUMBER |
| TITLE: | GOVERNANCE REPORT FOR THE PENSION FUND 2009/10 | EXECUTIVE FORWARD PLAN REFERENCE: E |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 – Governance Report for the Pension Fund | | |

1 THE ISSUE

1.1 The Annual Governance Report for the Pension Fund summarise the results of the Audit Commission’s audit of the 2009/10 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report to you under the Audit Commission’s Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – “Communication of audit matters with those charged with governance”.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the issues raised in the Governance report, specifically the matters raised in –

- a) Pages 7 to 9 of the Governance Report – Financial Statements
- b) Appendix 2 of the Governance Report with regard to the adjustment of the financial statements
- c) Appendix 3 of the Governance Report – with regard to approving the letter of representation

3 FINANCIAL IMPLICATIONS

3.1 The adjustments to the Accounts are laid out in the report, they do not affect the Pension Funds financial position as previously reported.

4 REPORT

- 4.1 There have been some presentational and technical changes to the accounts since they were presented to the Committee in June. The revised accounts are presented in the next paper which covers the Governance Report for the Council.
- 4.2 The main change is the insertion of a note to the Net Assets Statement regarding a non-adjusting post balance sheet event, being the announcement in the budget of 22nd June that pension increases will be based on Consumer Price Index instead of retail price index. This will reduce the Fund's pension obligation by an estimated 5 to 8%.
- 4.3 Subject to satisfactory clearance of outstanding matters, the external auditor plans to issue and audit report including an unqualified opinion on the financial statements.
- 4.4 Key issues are as follows –
 - a) There are two non-trivial misstatements which have not been amended.
 - b) There is one disclosure issue affecting an investments note which has also not been amended.
 - c) Electronic working papers were available at the start of the audit providing a clear audit trail.
- 4.5 The report will be taken to the Pension Fund Audit Committee on the 24th of September for information and any relevant update will be given at the Audit Committee's meeting.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. Management of the Pension Fund remains a key risk although the work in relation to this years audit has not identified any new corporate risks or significant changes.

6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 RATIONALE

- 7.1 Approval of the amended audited Statement of Accounts for 2009/10 is required by statute as is the receipt of the Governance report at this time.

8 OTHER OPTIONS CONSIDERED

8.1 None as this report is a statutory requirement.

9 CONSULTATION

9.1 Consultation has been carried out with the Section 151 Finance Officer.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 No decision as this is a statutory requirement.

11 ADVICE SOUGHT

11.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

| | |
|--|---|
| Contact person | Liz Feinstein/Martin Phillips/Tony Bartlett (01225) 395306; |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

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Annual Governance Report

Avon Pension Fund

Audit 2009/10

Date **September 2010**



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Status of our reports

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

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

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Divisional Director of Financial Services on 17 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- agree to adjust the misstatements in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the misstatements; (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Wayne Rickard
District Auditor

30 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of the pension fund accounting statements included within your financial statements.

| Financial statements | Results | Page |
|---|---------|------|
| Unqualified audit opinion | Yes | 7 |
| Pension fund accounting statements free from material error | Yes | 7 |
| Adequate internal control environment | Yes | 7 |

Audit opinion

- 1 Subject to the satisfactory clearance of outstanding issues I intend to issue an unqualified opinion on the accounts of Bath and North East Somerset Council including the Pension Fund by my deadline of 30 September 2010. Appendix 1 contains my draft report. I identified two non-trivial misstatements in the pension fund accounting statements. Management have not amended the financial statements.
- 2 I identified one disclosure issue affecting the investments note 11 to the accounting statements. This has not been amended.

Financial statements

- 3 The Council approved the draft financial statements and annual governance statement before the statutory deadline of 30 June 2010. Electronic working papers were available at the start of the audit providing a clear audit trail.

Audit fees

- 4 On 15 April 2009 I notified you of my proposed fee of £70,900, in my audit fee letter, for 2009/10 for the audit of the pension fund accounting statements. In January 2010 I issued my opinion plan for 2009/10 and said that I would keep the audit fee under review. On 15 June 2010 I notified you that I would reduce the fee for the 2009/10 audit to £47,000 because of changes to the way the Audit Commission calculates fees.
- 5 I have revisited the fee after completing the audit and I can confirm the revised fee of £47,000 remains appropriate.

Key messages

Independence

I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

- 6** This report was taken to the Pension Fund Audit Committee on 24 September for information. I ask the Corporate Audit Committee to:
- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
 - agree to adjust the misstatements in the pension fund accounting statements I have identified that management has declined to amend or set out the reasons for not amending the misstatements (Appendix 2); and
 - approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

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

Opinion on the financial statements

- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 8 I found the Pension Fund accounts to be free of material misstatement.
 - 9 The Pension Fund has an adequate control environment.
-

Outstanding matters

- 10 My work on the financial statements is largely complete. I have outstanding queries in respect of debtors and audit closure procedures to complete. The latter includes our internal quality review procedures, updating the post balance sheet events review to the date of signing the opinion, and receipt and consideration of the letter of representation.
-

Misstatements in the financial statements

- 11 I report all misstatements identified during the course of the audit that are above a trivial threshold. For this audit the threshold is £122,920. I have identified two misstatements that require reporting, these are set out at Appendix 2. Management have not adjusted the financial statements.
-

Important weaknesses in internal control

- 12 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
-

Letter of representation

- 13 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.
-

Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|---|
| Introduction of a separate bank account for the pension fund: we reviewed controls. | Separate bank account set up during 2009/10. Separate treasury management function introduced 1 April 2010. Bank reconciliation processes and controls are in place at the year end. Bank reconciliations were not countersigned during the year. |
| Changes in the Committee structure: we considered any risks for the accounts. | Review of changes did not raise any additional risks. |
| Changes to the accounting regulations: we considered any issues for the 2009/10 accounts. | The financial statements were substantially prepared in accordance with Pensions Statement of Recommended accounting Practice. |
| Working papers: we liaised with officers over the quality of working papers. | Electronic working papers available at the start of the audit providing a clear audit trail. |
| We considered the issue, first raised in 2008/09, of the co-mingling of pension fund and Council investments to ensure the Pension Fund was receiving appropriate returns. | Officers provided an analysis of short term cash investments showing the interest earned and paid to the pension fund. This confirmed the pension fund was receiving the correct interest income. |

Unadjusted misstatements

15 Two misstatements were identified during my audit, one of which was drawn to my attention by officers. These are listed in appendix two and relate to the inclusion of debtors.

Accounting practice and financial reporting

16 I review the accounts as a whole ensuring the information across all the notes to the accounts is consistent and follows accounting guidance. I consider also the non-numeric content of your financial reporting.

Table 2 Matters arising

| Issue | Finding |
|--|--|
| Reconciliation of investments and the disclosure of derivatives. | Recommended accounting practice is that the table in note 11 should show cash flows relating to derivatives, and the note should disclose that cash receipts and payments arising under derivatives contracts do not represent traditional purchases and sales |

Glossary

Annual governance statement

17 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

18 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

19 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules.
-

Qualified

20 The auditor has some reservations or concerns.

Unqualified

21 The auditor does not have any reservations.

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bath and North East Somerset 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 the 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. The 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 Bath and North East Somerset 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 April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the accounting statements 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 are set out in the Statement of Responsibilities for the Statement of Accounts. My responsibility is to audit the accounting statements and related notes 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 give a true and fair view, 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 accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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 accounting statements give a true and fair view, 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 as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 Bath and North East Somerset 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 April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, 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 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes 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 pension fund accounting statements give a true and fair view, 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 transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund 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 pension fund accounts 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 pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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 the 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, Bath and North East Somerset Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

Wayne Rickard

District Auditor

Audit Commission

3- 4 Blenheim Court

Matford Business Park

Lustleigh Close

Exeter

EX2 8PW

30 September 2010

Audit Report to go with the Pension Fund Annual Report

Independent auditor’s report to the Members of Bath and North East Somerset Council

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 Bath and North East Somerset 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 April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, 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. In preparing this pension fund accounting statements, the Divisional Director Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes 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 pension fund accounting statements give a true and fair view, 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, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

pension fund accounting statements. That information comprises [list elements as appropriate]¹,

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting 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 pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. 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 pension fund 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 pension fund 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 pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010,
-

other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Wayne Rickard

District Auditor

Audit Commission

3- 4 Blenheim Court

Matford Business Park

Lustleigh Close

Exeter

EX2 8PW

30 September 2010

Appendix 2 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, (one of which relating to the strain on the fund, was drawn to my attention by officers) but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell me why in the representation letter. If you believe the affect of the uncorrected misstatements, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected misstatements to the representation letter.

Table 3

| Description of misstatement | Accounts affected | Value of misstatement £000s |
|--|---|--------------------------------|
| Strain on the Fund costs relating to 2009/10 not invoiced. | Debtors understated and contributions receivable understated. | 1,074 |
| Error on amount due from B&NES Council | Debtors understated and fund account understated | 152 |

Appendix 3 – Draft letter of representation

To: Wayne Rickard
District Auditor
Audit Commission
3- 4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

Bath and North East Somerset - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers and Members of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended, which give a true and fair view the financial position and financial performance of the Bath and North East Somerset Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;
reason 2

Appendix 3 – Draft letter of representation

Supporting records

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

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
-

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the material assumptions used in the preparation of the accounts such as the method of calculating depreciation, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework that estimates are not used;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.
-

Group entities

There are no interests in companies or joint ventures other than those disclosed in the statement of accounts.

Financial instruments

There are no financial liabilities other than those disclosed in the statement of accounts.

Assets

The following have been properly recorded and, where appropriate, adequately and completely disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold;
- completeness of disposals;
- impairment of fixed assets; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Provisions

Provisions have been fully and completely disclosed in the statement of accounts.

Contingent liabilities

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

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

Contingent assets

There are no contingent assets other than those disclosed in the statement of accounts.

Appendix 3 – Draft letter of representation

Related party transactions

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

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

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements, other than the additional disclosure made in respect of pension fund liabilities.

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

Specific representations

I make the following specific representations. I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures;
- there are no matters to include in the statement of accounts arising from plans to reorganise schools;
- there are no matters to report in the accounts arising from the cancellation of capital schemes linked to changes in grant funding;
- I have reviewed the Council's contracts with the private sector and confirm that other than those disclosed in the financial statement there are no public to private service concession arrangements;
- I have disclosed to you all contracts with the private sector involving infrastructure for public services and have provided you with all legal and financial advice received by the Council in relation to those contracts; and
- all creditor payments are correctly initiated in the correct financial year.

Signed on behalf of Bath and North East Somerset Council

I confirm that the this letter has been discussed and agreed by the Corporate Audit Committee on 30 September 2010

Signed

Name T R Richens

Position Director of Financial Services (Section 151 Officer)

Date 30 September 2010

| Bath & North East Somerset Council | | |
|---|--|---|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 30th SEPTEMBER 2010 | AGENDA ITEM NUMBER |
| TITLE: | GOVERNANCE REPORT FOR THE COUNCIL 2009/10 | EXECUTIVE FORWARD PLAN REFERENCE: E |
| AN OPEN PUBLIC ITEM | | |
| <p>List of attachments to this report:</p> <p>Appendix 1 – Governance Report for the Council</p> <p>Appendix 2 – B&NES Council Audited Statement of Accounts 2009/10</p> <p>Appendix 3 - Summary of changes to the accounts</p> | | |

1 THE ISSUE

- 1.1 The Annual Governance Report for the Council summarise the results of the Audit Commission’s audit of the 2009/10 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report to you under the Audit Commission’s Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – “Communication of audit matters with those charged with governance”.
- 1.2 The report highlights some technical and presentational changes which have been made to the accounts and the accounts are therefore brought back to the committee for final approval (Appendices 2 and 3).

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the issues raised in the Governance report, specifically the matters raised in –

- a) Pages 7 to 12 of the Governance Report – Financial Statements
- b) Appendices 2 and 3 of the Governance Report with regard to the adjustment of the financial statements
- c) Appendix 4 of the Governance Report – with regard to approving the letter of representation
- d) Appendix 6 of the Governance Report – Response to the proposed Action Plan

2.2 Corporate Audit Committee is then asked to approve the amended accounts for 2009/10 (Appendix 2).

3 FINANCIAL IMPLICATIONS

3.1 The adjustments to the Accounts are laid out in the report, they do not affect the Council's bottom line or financial position as previously reported.

4 REPORT

4.1 The Committee approved the Statement of Accounts 2009/10 at its meeting of 29th June 2010.

4.2 The Council's Balance Sheet has decreased by £10.6m. This is due to a change in asset values following interpretation of new legislation introduced in the 2009/10 Statement of Recommended Practice

4.3 There have been some presentational and technical changes to the accounts, but there has been no change to General Fund Balances and Reserves

4.4 Subject to satisfactory clearance of outstanding matters, the external auditor plans to issue an audit report including an unqualified opinion on the financial statements.

4.5 Key issues from the External Auditor are as follows –

a) There has been an improvement in the quality of the financial statements and associated working papers since last year. Further challenges to the presentation of accounts lie ahead with the requirements under the new international financial reporting standards (IFRS).

b) Two material misstatements have been amended with respect to the accounting treatment of expenditure in relation to Combe Down Stone Mines and two elderly person's homes. Expenditure on the Stone Mines project has now been included within the Net Cost of Services and this has had no impact on the total net cost of services.

c) Note 8 – Employee emoluments now includes pension contributions. A number of non-trivial misstatements have not been amended as detailed in appendix 3.

d) The council has met all 10 key lines of enquiry with regard to Value for Money detailed in Appendix 5.

e) There is an outstanding objection to the Accounts which has just been received, however this would not materially impact on the accounts.

4.6 The Governance report is still being finalised as at the date of writing this report and so a verbal update will be given at the Committee meeting on any outstanding issues and recommendations contained within the report.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Council's risk management guidance. Management of the Council's finances remain a key risk although the work in relation to this year's audit has not identified any new corporate risks or significant changes.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 RATIONALE

7.1 Approval of the amended audited Statement of Accounts for 2009/10 is required by statute as is the receipt of the Governance report at this time.

8 OTHER OPTIONS CONSIDERED

8.1 None as this report is a statutory requirement.

9 CONSULTATION

9.1 Consultation has been carried out with the Section 151 Finance Officer.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 No decision as this is a statutory requirement.

11 ADVICE SOUGHT

11.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

| | |
|--|---|
| Contact person | Irene Draper/Tim Richens/Jeff Wring (01225) 477325; |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

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Annual Governance Report

Bath and North East Somerset Council

Audit 2009/10

Date **September 2010**

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Status of our reports

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

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

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Divisional Director of Finance on 17 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the misstatements I have identified in the financial statements, but management have not yet amended, or set out the reasons for not amending them; (Appendix 3);;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Wayne Rickard
District Auditor

Date: 30 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

| Financial statements | Results | Page |
|---|----------------|-------------|
| Unqualified audit opinion | Yes | 7 |
| Financial statements free from material error | Yes | 7 |
| Adequate internal control environment | Yes | 8 |
| Value for money | Results | Page |
| Adequate arrangements to secure value for money | Yes | 13 |

Audit opinion and financial statements

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.
- 2 The quality of the draft financial statements and working papers provided to my audit team were an improvement on the previous year. The overall level of errors and issues identified from the audit were less than the previous year because of improvements in the Council's arrangements for preparing the financial statements.
- 3 However, there is scope for the Council to secure further improvements. The finance team will face a challenge in 2010/11 when the financial statements will be prepared under a new set of international financial reporting standards (IFRS).
- 4 I identified two material misstatements. Part of two elderly person's homes used to provide extra care should not be in the financial statements. The accounts have been amended. I agreed that expenditure on Combe Down stone mines should be disclosed as an exceptional item within the income and expenditure account. This is a presentational adjustment.
- 5 I identified a number of non-trivial misstatements totalling £5.6m that management have not amended. These are reported at Appendix 3.
- 6 I cannot formally conclude the 2009/10 audit until I have dealt with matters brought to my attention by a local authority elector. However, I am satisfied none of the matters raised will have a material affect on the financial statements.

TTTTKey messages

Value for money

- 7 I intend to issue an unqualified conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
-

Audit fees

- 8 On 28 April 2009 I notified you of my proposed fee for the 2009/10 audit. The audit plan presented to the Corporate Audit Committee in February 2010, updated my initial fee planning and advised that the original fee, for the audit of the financial statements, was appropriate. I have revisited the fee after completing the audit, and I can confirm the 2009/10 fee remains unchanged.
 - 9 I charged the Council an additional fee for £5,300 for my work reviewing the Council's decision making process in respect of the litigation over the Bath Spa.
 - 10 I am currently considering an objection, from a local elector, to the 2009/10 financial statements. My fees for this work will be invoiced to the Council once I have considered the objection.
-

Independence

- 11 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

12 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the misstatements I have identified in the financial statements, but management have not yet amended, or set out the reasons for not amending them; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

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

Opinion on the financial statements

- 13** I plan to issue an audit report including an unqualified opinion on the financial statements subject to the satisfactory clearance of outstanding matters.
- 14** Appendix 1 contains a copy of my draft audit report.
-

Outstanding matters

- 15** My work on the financial statements is substantially complete except for outstanding enquires on leases and debtors. I also have to complete audit closing procedures which include our internal quality review procedures, updating the post balance sheet events review to the date of signing the accounts and receipt and consideration of the signed letter of representation. (There is a draft of the letter of representation in appendix 4).
- 16** I cannot issue my certificate until I have concluded my work on an objection, from a local elector, to the 2009/10 financial statements. The objection relates to two items of account:
- A compensation award of £500; and
 - expenditure incurred by the Council on an overseas business trip.
-

Adjusted misstatements in the financial statements and internal control

- 17** I report all errors identified during the audit that are above a trivial threshold. For this audit the threshold is £91,050.
- 18** I identified two material misstatements in the financial statements. These arise from interpretation of accounting regulations and do not impact on the financial position of the Council. New accounting rules require the Council's accounts to include assets owned by third parties, if the third party uses them to provide council services under concession arrangements. The rules typically apply to assets provided under Private Finance Initiative (PFI) schemes, although can include other types of arrangements.
- 19** The unaudited accounts included part of two elderly person's homes which are used for 'extra care', but which are owned by a housing association on a long term lease. The assets are valued at £10.6m. The accounting rules are complex but I decided
-

having taken advice that these assets do not relate to a service concession and should be excluded from the accounts.

- 20** The Council spent £22.1m making safe land in respect of Combe Down stone mines. The unaudited accounts showed the expenditure in the income and expenditure account but outside of the net cost of services. This is the accounting approach for an 'extraordinary item', being one outside of the normal activities of a council. I determined that making safe land is an activity councils commonly undertake, although the amount in this case is exceptional. The disclosure of the expenditure has been changed and has been treated as an exceptional item and been shown within the net cost of services. This adjustment to the disclosure is a presentational adjustment only.
- 21** I also identified eight non-trivial misstatements. These are reported at Appendix 2 for completeness.
- 22** The financial statements have been amended for these misstatements. The total value of these is £40m. There is no impact on the bottom line or the financial position of the Council.
- 23** I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Unadjusted misstatements

- 24** I identified a number of non-trivial misstatements to the financial statements that management have not adjusted. The total value of these is £5.6m. The misstatements are listed at Appendix 3 and I bring them to your attention to help you in fulfilling your governance responsibilities.
- 25** You must decide whether you want management to adjust the financial statements for these misstatements.

Key areas of judgement and audit risk

- 26** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|--|---|
| Asset Values. Recent volatility in the property market means there is an increased risk the value of assets in the accounts may be wrong. | We have reviewed the asset values by reference to national benchmarks and to advice provided by an independent expert appointed by the audit commission. Valuations are not materially misstated. |
| Fixed asset Register. The new computerised fixed asset register needs to | The fixed asset register was reconciled to the accounts but only at the year end. |

| Issue or risk | Finding |
|--|--|
| <p>be developed fully to ensure the accuracy of the accounts. System controls and reports need to be in place.</p> | <p>We gained assurance by testing balances at the year end, although this is less efficient than relying on controls during the year.</p> <p>There is scope to develop the functionality of the fixed asset register to improve the efficiency of the accounts processes for example additional reports. This would help to reduce the number of inconsistencies in the notes to the accounts.</p> |
| <p>Capacity in the financial accounting section and working papers. It is important there is sufficient capacity to prepare suitable working papers and to quality control the production of the Council's financial statements.</p> | <p>Processes for preparing the statements have improved this year although the Council is reliant on one key officer for a large proportion of the work. There is scope for further improvement in the availability of working papers. For example debtors and creditors control account reconciliations were not provided at the start of the audit.</p> <p>The officer responsible for preparing the accounts is due to retire next year and there is a risk the organisation may lose knowledge in the area of financial accounting. Risks are increased next year reflecting on-going resource pressures and due to the implementation of international financial reporting standards for the first time in respect of the 2010/11 accounts.</p> |
| <p>Provisions. The European Union has issued the UK Government with a notice of infringement of EU procurement rules and referred to the development of the Bath Western Riverside site. A provision may be needed in the accounts.</p> | <p>The issue has been discussed with officers and no provision is necessary.</p> |
| <p>Bath Spa. Part of the legal settlement is being recognised in the 2009/10 accounts.</p> | <p>The accounting treatment was in line with the accounting guidance.</p> |
| <p>Accounting for NNDR and Council tax. There are new accounting requirements this year. Income collected by the Council on behalf of other bodies will be excluded</p> | <p>The entries in the accounts met the new accounting requirements.</p> |

| Issue or risk | Finding |
|--|---|
| from the Council's accounts. | |
| <p>Service concessions. New accounting rules require that the Council's accounts include assets owned by third parties, if the third party uses them to provide council services.</p> | <p>A part of two elderly person's homes, used for 'extra care', which are owned by a housing association on a long term lease have been included in the Council's accounts. The assets are valued at £10.6m. These assets do not relate to a service concession and should not have been included in the accounts.</p> <p>The accounts have been amended.</p> |
| <p>Senior officer remuneration. Changes to accounting requirements require the accounts to include additional information on staff pay.</p> | <p>The notes to the accounts separately show salary excluding pension contributions and the value of pension contributions. The guidance says the headline gross salary should be disclosed which includes employee pension contributions. The notes also incorrectly exclude back pay for one officer.</p> <p>The accounts have been amended.</p> |

Recommendation

R1 The functionality of the fixed asset register should be developed.

R2 Officers should continue to review capacity in the financial accounting section and proactively provide working papers at an early stage in the audit.

Accounting practice and financial reporting

27 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

| Issue or risk | Finding |
|---|--|
| <p>The accounting policies explain to the reader of the accounts the assumptions made in compiling them. This is important in helping the reader understand the</p> | <p>Not all material accounting policies were disclosed. For example there is no accounting policy on the treatment of exceptional items. There was no formal</p> |

TTTTFinancial statements

| Issue or risk | Finding |
|--|---|
| accounts. | documented review of accounting policies as required by accounting standards. |
| The accounts include a note providing detail of the Council's related parties. This is important in providing the context in which the Council operates. | <p>The related parties note should explain that a material proportion of the Council's budget is managed jointly with the Bath and North East Somerset Primary Care Trust.</p> <p>The related parties note should also explain that some members of the pension committee who have voting rights on the committee are not B&NES councillors.</p> <p>The note has been amended to disclose these issues.</p> |

Recommendation

R3 Closedown processes should include an annual review of accounting policies and a completeness check of the financial statements using the CIPFA Statement of Recommended Practice (SoRP) disclosure checklist.

28 I also review the accounts as whole ensuring the information across all the notes to the accounts is consistent and follows accounting guidance. Table 3 contains the issues I wish to bring to your attention.

Table 3

| Account heading | Issue | Adjustment |
|-------------------------------|--|--|
| Cash Flow statement | The notes to the cash flow statement were not in the format per the accounting guidance. | Restated note 'a' to reconcile the surplus on the income and expenditure account to the cash flow statement. Restated notes 'b' to reconcile the movement in cash for the year to the movement in net debt and note 'c' to analyse movement in cash and net debt in line with guidance. |
| Capital financing requirement | The note was adjusted to ensure the movements in the year were consistently | Note amended by £1.986m |

| | | |
|---------------------------------------|---|---|
| | disclosed. | |
| Movement on fixed assets | The note did not separately disclose accumulated cost and depreciation. | The format of the note was revised to separately disclose accumulated cost and depreciation. |
| Financial instrument disclosure note. | Removal of creditors which are not financial instruments from financial instruments disclosure note. | Creditors totalling £25.3m removed from the disclosure note. |
| Capital adjustment account | Entries did not agree to corresponding entries in other notes. | Adjusted the account for amounts not agreed to Fixed Assets note or Revaluation Reserve note. |
| Notes to the Collection Fund | The notes to the accounts made no mention of the change in the Valuation list with a new valuation list applying for 2010. The new valuation is £154m compared to the previous DV listing of £122m. | The disclosures were amended. |
| Post balance sheet event note | In June 2010 the Government announced a move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes rather than the Retail Price Index. This change will affect the valuation of pension fund liabilities. | A note has been added to the accounts to explain the financial impact of this change. |

Letter of representation

- 29** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the use of resources judgement.

Value for money conclusion

- 30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 31** This year for the first time my work included a review of the Council's arrangements for managing and developing its workforce. We found the Council had:
- good arrangements for developing and training its workforce;
 - made significant progress developing local workforce plans; and
 - policies relating to human resource management are easily available and support good people management.
- 32** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

33 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

34 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

35 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Qualified

36 The auditor has some reservations or concerns.

Unqualified

37 The auditor does not have any reservations.

Value for money conclusion

38 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bath and North East Somerset 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 the 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. The 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 Bath and North East Somerset 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 April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the accounting statements 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 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes 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 give a true and fair view, 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 accounting statements. I am not required to consider, nor have I considered,

whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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 accounting statements give a true and fair view, 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 as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements¹

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 Bath and North East Somerset 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 April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, 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 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes 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 pension fund accounting statements give a true and fair view, 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 transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund 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 pension fund accounts 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 pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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 the 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, Bath and North East Somerset Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Wayne Rickard

Officer of the Audit Commission

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW
30 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

| Adjusted misstatements | Nature of adjustment | Income and Expenditure Account | | Balance sheet | |
|---------------------------------------|--|--------------------------------|----------------|----------------|----------------|
| | | Dr £million | Cr £million | Dr £million | Cr £million |
| Elderly persons homes | Property leased by the council to a housing association removed from balance sheet as deemed not to be a service concession. | | | 10.6 | 10.6 |
| Expenditure on Combe Down Stone mines | Agreed that this would be included within the net cost of services rather than as a separate item within the heading of net operating expenditure, in the income and expenditure account. This is in line with the accounting treatment for an exceptional item. | 22 | 22 | | |
| Reimbursement of VAT | Agreed this would be included in the net cost of services rather than as a separate item to meet the requirements for exceptional items. | 0.2 | 0.2 | | |

TTAppendix 2 – Amendments to the draft accounts

| | | Income and Expenditure Account | | Balance sheet | |
|--|--|--------------------------------|---|---------------|-------|
| Fixed assets | An asset incorrectly classified as operational moved to investment estate | | | 1.7 | 1.7 |
| Creditors | Incorrect inclusion of a capital grant in the creditors balance in the accounts instead of capital grants unapplied balance. | | | 2.362 | 2.362 |
| Debt relating to the former Avon County Council was incorrectly included in creditors. | Restate amount as deferred liability rather than creditors. | | | 0.685 | 0.685 |
| Collection Fund | The NNDR income in the accounts did not agree to the underlying control account. The collection fund account income was amended by £2.673m to £48.924m. | - | - | - | - |
| Cash flow | Notes to the cash flow were amended to reconcile to the movements in cash in the year. | - | - | - | - |

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected misstatements, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected misstatements to the representation letter.

Table 4

| Description of misstatement | Accounts affected | Value of misstatement £ million |
|--|--|---|
| Entries in Statement of movement on general fund balance (SMGFB) are not in line with accounting guidance. | Statement of movement on general fund balance | 3.041 0.306 |
| The Statement of total recognised gains and losses (STRGL) includes entries for the deficit on the Collection Fund adjustment account. This entry is not expected per the accounting guidance. | STRGL and statement of total movement in general fund balances. | 0.282 |
| The revaluation reserve was not consistent with other notes to the accounts including the fixed asset note and the STRGL. | Revaluation reserve: - Differences with the STRGL - Difference with fixed assets - Difference with capital adjustment account | 0.273 0.118 0.138 |
| Sampling identified that some assets had been incorrectly classified as operational assets and were as a consequence | Revaluation reserve and capital adjustment account | 0.512 (Extrapolated error from actual error of £0.049). |

TTAppendix 3 – Unadjusted misstatements in the accounts

| Description of misstatement | Accounts affected | Value of misstatement £ million |
|--|----------------------------|------------------------------------|
| depreciated in misstatement. | | |
| There is a difference between the NNDR debtor in the accounts and the underlying control account. | Collection fund account | 0.13 |
| When reviewing the schools bank reconciliation we noted that some amounts were misclassified between cash, debtors and creditors. | Cash debtors and creditors | 0.623 |
| Un-reconciled difference of £152k between the Avon Pension Fund creditor balance shown in the B&NES accounts (£10,179m) and the debtor shown in Avon Pension Fund accounts (£10.027m). | Creditors | 0.152 |

Appendix 4 – Draft letter of representation

To: Wayne Rickard
District Auditor
Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

Bath and North East Somerset - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers and Members of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended, which give a true and fair view the financial position and financial performance of the Bath and North East Somerset Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;
reason 2

TTAppendix 4 – Draft letter of representation

Supporting records

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

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the material assumptions used in the preparation of the accounts such as the method of calculating depreciation, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework that estimates are not used;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Group entities

There are no interests in companies or joint ventures other than those disclosed in the statement of accounts.

Financial instruments

There are no financial liabilities other than those disclosed in the statement of accounts.

Assets

The following have been properly recorded and, where appropriate, adequately and completely disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold;
- completeness of disposals;
- impairment of fixed assets; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Provisions

Provisions have been fully and completely disclosed in the statement of accounts.

Contingent liabilities

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

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

Contingent assets

There are no contingent assets other than those disclosed in the statement of accounts.

TTAppendix 4 – Draft letter of representation

Related party transactions

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

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

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements, other than the additional disclosure made in respect of pension fund liabilities.

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

Specific representations

I make the following specific representations. I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures;
- there are no matters to include in the statement of accounts arising from plans to reorganise schools;
- there are no matters to report in the accounts arising from the cancellation of capital schemes linked to changes in grant funding;
- I have reviewed the Council's contracts with the private sector and confirm that other than those disclosed in the financial statement there are no public to private service concession arrangements;
- I have disclosed to you all contracts with the private sector involving infrastructure for public services and have provided you with all legal and financial advice received by the Council in relation to those contracts;
- there are no formal legal claims for example arising in respect of rents on Council assets; and
- all creditor payments are correctly initiated in the correct financial year.

Signed on behalf of Bath and North East Somerset Council

I confirm that this letter has been discussed and agreed by the Corporate Audit Committee on 30 September 2010

Signed

Name T R Richens

Position Director of Financial Services (Section 151 Officer)

Date 30 September 2010

Appendix 5 – Value for money criteria

| KLOE | Met |
|--|--------------|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural resources | Yes # |
| Strategic asset management | Yes |
| Workforce | Yes |

This KLOE was not assessed in 2009/10 in line with the audit commission's guidance. The assessment from 2008/09 has been carried forward.

Appendix 6 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|----------|------|
| | Annual Governance Report 2009/10 - Recommendations | | | | | |
| | The functionality of the fixed asset register should be developed. | 2 | | | | |
| | Officers should continue to review capacity in the financial accounting section and proactively provide working papers at an early stage in the audit. | | | | | |
| | Closedown processes should include an annual review of accounting policies and a completeness check of the financial statements using the CIPFA Statement of Recommended Practice (SoRP) disclosure checklist. | | | | | |

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BATH & NORTH EAST SOMERSET COUNCIL

STATEMENT OF ACCOUNTS 2009/10

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Independent Auditor's Report to the members of Bath & North East Somerset Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bath & North East Somerset Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The 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. The 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 Bath & North East Somerset 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 April 2008.

Respective Responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the accounting statements 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 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes 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 give a true and fair view, 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 accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgements 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 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 accounting statements give a true and fair view, 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 as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension Fund accounts

I have audited the pension fund accounts for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 Bath and North East Somerset 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 April 2008.

Respective Responsibilities of the Divisional Director and auditor

The Divisional Director finance is responsible for preparing the pension fund accounting statements 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 Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes 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 pension fund accounting statements give a true and fair view, 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 transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. 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 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the pension fund accounts 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 pension fund accounts 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 pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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 the 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, Bath and North East Somerset Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Wayne Rickard

Officer of the Audit Commission

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

30 September 2010

EXPLANATORY FOREWORD

Introduction

The Statutory Statement of Accounts have been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting.

The Accounts and Audit Regulations 2003 require that the Statement of Accounts shall be approved by a resolution of a Committee of the relevant body and that following approval, the Statement of Accounts be signed and dated by the person presiding at the Committee.

The Accounts were approved by the Corporate Audit Committee on 29 June 2010, and have been signed by the Chairman of the Committee.

The main purpose of a local authority's published Statement of Accounts is to provide electors, Council Tax payers, members of the Council, employees and other interested parties, with clear information about the Council's financial position. It should aim to provide answers to the following questions:

- What did the Council's services cost in the year?
- Where did the money come from?
- What are the Council's assets and liabilities at the year-end?

The main financial statements are:

Income and Expenditure Account

The Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the year.

Statement of Movement on the General Fund Balance

This statement reconciles the differences between the outturn on the income and expenditure account and the general fund balance.

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate decrease in its net worth.

Balance Sheet

The Balance Sheet shows the assets and liabilities of the Council as a whole at the 31 March 2010.

Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from external transactions for both capital and revenue purposes.

Collection Fund

These statements show income from local taxes and from the national non-domestic rates pool, and how these are allocated to the Council and the Police and Fire Authorities on whose behalf they are collected.

Pension Fund Accounts

A summary of the Pension Fund accounts is included, as the Council is the administering authority for the Avon Pension Fund.

Statement of Accounting Policies

The statement describes the accounting concepts and policies adopted in the preparation of the accounts. It contains a number of technical notes, none of which are unusual or which differ from the concepts adopted by the majority of other Local Authorities. The Council complied with all recommended accounting practices contained within the Code of Practice on Local Authority Accounting in the United Kingdom 2009, which is recognised by statute as representing proper accounting practices. The Code of Practice incorporates Best Value Accounting principles with which the Council has also complied.

FOREWORD TO THE ACCOUNTS

General Review

Summary of the Council's financial performance

Despite a number of major pressures, the Council underspent its revenue budget by £1.8m in 2009/10. The Council has a robust action plan system for addressing service overspends which are monitored on a monthly basis and has helped produce a favourable outturn position. Lost income and additional costs due to the recession placed significant pressure on services to remain within budget. The main area contributing to the underspend relates to capital financing costs. Rephasing of the capital programme together with favourable long term fixed interest rates on investments, has meant the Council achieved additional income from interest. The favourable cash balances removed the need to borrow during 2009/10, therefore also saving on debt interest costs.

Whilst the Council has not been able to escape the impact of the wider slowdown in the economy and the need to plan for significant reductions in public sector expenditure going forwards, there is some evidence that some key areas of the Council's activities have withstood some of this pressure. Income from heritage sites, including the Roman Baths has remained buoyant and the commercial estate has maintained relatively low void levels.

The Next Twelve Months

The medium term planning period from 2010/2011 is expected to be tough as the implications of the significant reduction in public expenditure required to address the national budget deficit becomes clear. The Council has already foreseen this and its Medium Term Service and Resource Planning process has already begun to prepare the Council for the financial challenge ahead.

The Council's change programme continues to deliver improvements and savings including:

- * better workplaces using less space
- * better customer access based on prioritised needs
- * less expensive support services tailored to needs of users and statutory requirements
- * commissioning based approach so we focus on the 'right things'
- * service specific change such as redesign within the health and social care delivery partnership
- * enablers for the programme include: support for better procurement, lean reviews in some areas, simplify standardise and share' approach for some support services, some investment in IT, Revenue Income Optimisation and workforce planning.

Revenue outturn and balances

The Council's net revenue budget was set at £123.26 million leading to a 3.5% increase in its part of the 2009/10 Council Tax. Dedicated schools grant funding of £95.5m separately supports expenditure on schools.

Total net spending amounted to £122.2 million against a revised budget of £124.0m, with a year end surplus of £1.8 million on general fund spending before transfers to earmarked reserves.

The Council followed well established procedures for monitoring its finances and reporting the position to the Cabinet. Despite a number of major pressures during 2009/10, the budget has been managed in total with a small underspend. The main area contributing to the underspend relates to capital financing.

The Council continues with its programme of budget management where overspends and underspends are carried forward (rollovers) subject to policy approval. After transfers to earmarked reserves the General Fund stands at £14.6m.

The main adverse variances from budget incurred are:

Customer services overspend of £996k - mainly due to reduced income from both parking charges and planning fees and staff severance costs.

Childrens services overspend of £712k - mainly due to increased costs of child placements and foster carer allowances.

FOREWORD TO THE ACCOUNTS - continued

There were significant underspends in:

Resources & Support Services spend below budget of £730k - mainly due to a phased implementation of carbon management scheme, a review of business rates on corporate properties and staff savings.

Corporate & Agency underspend of £2.79m - mainly due to reduced capital financing costs, VAT refunds on leisure income, savings in pay awards and inflation.

The outturn position compared to the budget and the last reported forecast is as follows:

| Service | Budgeted Spend £'000 | Actual Spend £'000 | (Under)/Over Spend £'000 |
|---------------------------------|----------------------------|--------------------------|--------------------------------|
| Customer Services | 29,329 | 30,325 | 996 |
| Childrens Services | 24,861 | 25,573 | 712 |
| Adult Social Services & Housing | 46,677 | 46,814 | 137 |
| Resources & Support Services | 4,619 | 3,889 | (730) |
| Improvement & Performance | 2,960 | 2,957 | (3) |
| Development & Major Projects | 2,067 | 1,990 | (77) |
| Council Solicitor | 2,515 | 2,466 | (49) |
| Corporate & Agency Budgets | 11,054 | 8,262 | (2,792) |
| | 124,082 | 122,276 | (1,806) |

In addition the net position on schools was an overall underspend of £306k, comprising an underspend of £958k on Dedicated Schools grant partly offset by use of schools reserves totalling £652k.

Collection Fund

The estimated surplus on the Collection was £1m. The actual surplus after allowance for the Police and Fire Authorities share is £970,000. This has been taken into account when setting the 2010/11 budget.

Income and Expenditure Account

The Income and Expenditure Account includes a number of items that are not required to be included in the general fund and to be taken into account in setting the council tax. The Income and Expenditure Account included within this Statement of Accounts shows the net cost of services for the year of £136.7m. This reconciles to the general fund spending reported above as follows:

| | | |
|---|--------|----------------|
| Total net spending by departments | £m | £m |
| | | 122,276 |
| Add: | | |
| Charges related to capital assets: | | |
| - depreciation | 16,946 | |
| - revenue expenditure funded from capital under statute | 46,628 | |
| - impairment, including non-enhancing capital expenditure | 15,672 | |
| FRS17 pension adjustments | 7,116 | |
| | | <u>86,362</u> |
| Offset by: | | |
| Credits for government grants deferred | 44,070 | |
| Unapportioned pensions contributions | 1,722 | |
| Government grant deferred amortisation | 3,378 | |
| Funding from balances | 4,400 | |
| Levy payments | 218 | |
| Interest received and paid | 4,916 | |
| Other movements on funds and balances | 2,141 | |
| Net transfers to reserves | 11,041 | |
| | | <u>71,886</u> |
| Net cost of services per I & E Account | | 136,752 |

The principal differences relate to capital assets. The general fund includes the cost of financing capital assets whereas the Income and Expenditure Account includes depreciation and impairment.

FOREWORD TO THE ACCOUNTS - continued

Capital Expenditure

Capital expenditure in 2009/10 totalled £73.9m (£51.9m net of grant in respect of Combe Down Stone Mines and Bath Communities expenditure). Overall capital spending was 79% of the revised capital budget, resulting in savings on capital borrowings. No additional borrowing was required in 2009/10 to fund ongoing capital projects. Details are:

| Departments | Planned Spend £,000's | Actual Spend £,000's | Variation on planned spend £,000's |
|---------------------------------|--------------------------|-------------------------|---------------------------------------|
| Customer Services | 18,396 | 14,483 | (3,913) |
| Childrens Services | 32,950 | 28,013 | (4,937) |
| Adult Social Services & Housing | 3,186 | 3,049 | (137) |
| Resources & Support Services | 5,024 | 4,455 | (569) |
| Development & Major Projects | 26,648 | 23,437 | (3,211) |
| Corporate | 6,684 | 469 | (6,215) |
| | <u>92,888</u> | <u>73,906</u> | <u>(18,982)</u> |

Capital expenditure was financed as:

| | £,000's |
|----------------------------------|---------------|
| Capital receipts | 4,657 |
| Capital grants and contributions | 62,649 |
| Revenue | 597 |
| Borrowing | <u>6,003</u> |
| | <u>73,906</u> |

Long term debt at 31 March 2010 has not increased and is shown in the Balance Sheet at £81.8m.

Pension Liabilities

The Council has a liability of £193.5m for future pensions costs. This is because under FRS17 the Council must account for pensions for former members of staff when the commitment is made not when the pension is paid. The liability is £52.4m more than in 2008/09. This is mainly due to increased costs of interest on liabilities and the actuarial assumption that yields on corporate bonds has fallen substantially.

Pensions Fund

As required under the Regulations, a triennial valuation of the Avon Pension Fund was carried out as at 31 March 2007. The funding level was calculated at 83% (i.e. the Funds assets cover 83% of future liabilities). The Fund is currently undertaking a valuation as at 31st March 2010 which will set the employer contribution rates from 1 April 2011. The funding level is estimated to have fallen to approximately 73% (based on the same assumptions used in the 2007 valuation). The deterioration in the funding level has been caused by investment returns below expectations in the 3 years and the lower real yields (bond yields less inflation) causing an increase in liabilities.

Changes introduced by the 2009 Statement of Recommended Practice (SORP)

There are a number of changes for local authority accounts introduced in the 2009 SORP.

Under the 2009 Statement of Recommended Practice the authority has adopted the amendment to accounting for council tax and national non-domestic rates (NNDR). For NNDR the SORP requires billing authorities to exclude NNDR debtors from the Balance Sheet but instead include a debtor or creditor for cash collected from NNDR debtors as agent of the Government but not paid to the Government, or overpaid to the Government, at the Balance Sheet date.

For council tax the SORP requires the amount of council tax income included in the Income and Expenditure Account to be the authority's share of the accrued income for the year. The difference between the income included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund is to be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance. As the cash collected belongs proportionately to its major preceptors i.e. the Police and Fire Authorities, there will be a debtor or creditor position between the Council and its preceptors as at 31st March.

FOREWORD TO THE ACCOUNTS - continued

This change in accounting policy was actioned to the accounts as a prior period adjustment. This led to a material restatement of the comparatives in the cash flow statement.

There has also been a major change to the way in which authorities account for Private Finance Initiatives (PFI) and long term contracts. However the Council does not have any PFI's at present and therefore this has had no effect on the 2009/10 accounts. The implementation of IFRIC 12 has had no impact on the accounts.

Group Accounts

There is now a requirement to include a consolidation of group accounts under the Local Authority Statement of Recommended Practice (SORP) 2009. The Council has group relationships with Bath Tourism Plus, Connexions West of England and the West of England Partnership. The turnover and assets held by these companies are not considered significant enough to produce Group Accounts.

Future Changes - International Financial Reporting Standards (IFRS)

The adoption of IFRS for local government is set for 2010/11. This will have a major impact on the presentation of the statement of accounts.

The transition to IFRS will involve some changes to policies and for comparative purposes the 2009/10 accounts will need to be restated in the new format applying the International Reporting Standards. The 2009/10 restated accounts are expected to be completed by the end of this year.

Further Information

Further information on the Council's Accounts and those of the Avon Pension Fund is available on the Councils' website and that of the Avon Pension Fund:

www.bathnes.gov.uk/BathNES/councilinformation/finance

www.avonpensionfund.org.uk

Once again the accounts have been produced promptly and to a high standard. This would have not been possible without the hard work of finance staff across the Council. My thanks go to all finance staff and to Service Directors for their assistance in the preparation of these accounts and for their support throughout the year.



Andrew Pate

Director of Resources & Support Services

INCOME AND EXPENDITURE ACCOUNT 2009/10

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all the day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed asset depreciation and the real projected value of retirement benefits earned by employees in the year.

| | Notes | 2009/10 Gross Exp £'000 | 2009/10 Gross Inc £'000 | 2009/10 Net Exp/(Inc) £'000 | Restated 2008/09 Net Exp/(Inc) £'000 |
|--|-------|----------------------------------|----------------------------------|--------------------------------------|--|
| EXPENDITURE ON SERVICES | | | | | |
| Central Services to the Public | | 10,420 | (11,106) | (686) | (7,572) |
| Cultural Environmental Regulatory & Planning Services | | 63,702 | (24,258) | 39,444 | 31,302 |
| Childrens & Education Services | 3 | 180,963 | (147,901) | 33,062 | 27,199 |
| Highways & Transportation Services | | 27,256 | (15,804) | 11,452 | 10,135 |
| Housing Services | | 61,934 | (57,361) | 4,573 | 2,430 |
| Adult Social Care Services | | 83,548 | (36,992) | 46,556 | 47,174 |
| Corporate and Democratic core | | 26,600 | (25,090) | 1,510 | 8,625 |
| Non Distributed pensions costs | | 841 | - | 841 | 489 |
| Stone Mines projects | 41 | 22,092 | (22,092) | - | - |
| Net Cost of Services | | 477,356 | (340,604) | 136,752 | 119,782 |
| Gain on disposal of Fixed Assets | | (2,364) | | (2,364) | 23,294 |
| Parish Precepts | | 1,927 | | 1,927 | 1,876 |
| Levy payments to Joint Bodies | 6 | 218 | | 218 | 214 |
| Net Deficit/(Surplus) on Trading Services | 4 | 16,062 | (16,390) | (328) | (59) |
| Contribution to Housing Pooled Receipts | | 12 | | 12 | 11 |
| Interest payable | | 4,457 | | 4,457 | 4,236 |
| Reimbursement of VAT & Interest on Leisure Admissions | | | | - | (700) |
| Interest & Investment Income | | - | (1,261) | (1,261) | (2,988) |
| Pensions Interest Cost & Expected Return on Pension Assets | 2 | 12,201 | - | 12,201 | 8,043 |
| Net Operating Expenditure | | 509,869 | (358,255) | 151,614 | 153,709 |
| Income from Council Tax | | | | (76,504) | (74,520) |
| Revenue Support Grant | | | | (7,500) | (4,705) |
| Contribution from Non-domestic Rate Pool | | | | (32,493) | (33,796) |
| Area Based Grant | | | | (7,493) | (7,179) |
| Deficit for the Year | | | | 27,624 | 33,509 |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.

Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance shows whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

| | 2009/10 £'000 | Restated 2008/09 £'000 |
|---|------------------|------------------------------|
| Deficit for the year on the Income and Expenditure Account | (27,624) | (33,509) |
| Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | 18,466 | 35,175 |
| Decrease in General Fund Balance for the Year | (9,158) | 1,666 |
| General Fund Balance brought forward | 26,880 | 25,214 |
| General Fund Balance carried forward | 17,722 | 26,880 |
| Amount of General Fund Balance held by schools under local management schemes | 3,084 | 3,736 |
| Amount of General Fund Balance generally available for new expenditure | 14,638 | 23,144 |
| | 17,722 | 26,880 |

NOTE TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| | Notes | 2009/10 £'000 | Restated 2008/09 £'000 |
|---|---------|------------------|------------------------------|
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | | |
| Amortisation of intangible fixed assets | 16 & 33 | (593) | (139) |
| Depreciation of fixed assets | 16 & 33 | (16,353) | (14,738) |
| Write down of grant funding of revenue expenditure funded from Capital under Statute | 28 & 33 | 44,070 | 49,611 |
| Government Grants Deferred amortisation | 27 & 33 | 3,377 | 11,918 |
| Write down of revenue expenditure funded from Third Party Contributions | | - | 1,511 |
| Write down of revenue expenditure funded from capital under statute | 18 & 33 | (46,628) | (54,068) |
| Net (gain)/loss on sale of fixed assets | | 2,364 | (23,294) |
| Impairment of fixed assets | 16 & 33 | (15,672) | (8,066) |
| Amount by which Council tax Income included in the Income & Expenditure account is different from the amount taken to the General Fund in accordance with regulation | | (1,298) | 425 |
| Receipts received in year from housing stock transfer | | 549 | 896 |
| Net charges made for retirement benefits in accordance with FRS17 | 2 | (20,946) | (19,962) |
| | | (51,130) | (55,906) |
| Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year | | | |
| Statutory provision for the repayment of debt - minimum revenue provision | 7 & 33 | 1,986 | 1,785 |
| Principal repayment of Avon loan debt | 5 & 33 | 713 | 774 |
| Capitalisation direction | | - | - |
| Capital expenditure charged in-year to the General Fund Balance | | 306 | - |
| Transfer from Useable Receipts to meet payments to the Housing Capital Receipts Pool | | (12) | (11) |
| Employers contributions payable to the Avon Pension Fund and retirement benefits payable direct to pensioners | 2 | 15,589 | 14,547 |
| | | 18,582 | 17,095 |
| Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | | |
| Other transfers between reserves | | 3,041 | 917 |
| Net transfer to or from earmarked reserves | 30 | 11,041 | 2,719 |
| Net additional amount to be credited to the General Fund Balance for the Year | | (18,466) | (35,175) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate decrease in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits to the extent that this is not already reflected in the income and expenditure account and in accordance with 'FRS17 Retirement Benefits'.

| | Notes | 2009/10 £'000 | Restated 2008/09 £'000 |
|---|---------|------------------|------------------------------|
| Deficit for the year on the Income and Expenditure Account | | (27,624) | (33,509) |
| Surplus arising on revaluation of fixed assets | 16 & 34 | 13,889 | 12,892 |
| Impairments netted off the revaluation reserve | 16 & 34 | (6) | (763) |
| Other net movements | | (282) | (830) |
| Actuarial gains/(losses) on pension fund assets and liabilities | 2 | (47,070) | 18,914 |
| Total recognised gains/(losses) for the year | | (61,093) | (3,296) |

BALANCE SHEET as at 31 MARCH 2010

| | Notes | | 31 March 2010 | Restated 31 March 2009 |
|--|-------|-----------|------------------|------------------------------|
| | | £'000 | £'000 | £'000 |
| LONG TERM ASSETS | | | | |
| INTANGIBLE FIXED ASSETS | 16 | | 785 | 805 |
| TANGIBLE FIXED ASSETS | 16 | | | |
| Operational Assets : | | | | |
| - Other Land & Buildings | | 280,189 | | 284,499 |
| - Community Assets | | 3,183 | | 3,164 |
| - Infrastructure | | 42,488 | | 40,349 |
| - Vehicles, plant and equipment | | 4,953 | | 6,484 |
| Non-Operational Assets : | | | | |
| - Investment Properties | | 224,067 | | 223,216 |
| - Assets under Construction | | 19,086 | | 11,828 |
| - Surplus Assets held for Disposal | | 20,160 | | 17,228 |
| Net Fixed Assets | | | 594,911 | 587,573 |
| Investments | | | 6 | 6 |
| Long Term Debtors | 21 | | 457 | 410 |
| TOTAL LONG TERM ASSETS | | | 595,374 | 587,989 |
| CURRENT ASSETS | | | | |
| Stocks and Work in Progress | 22 | 600 | | 285 |
| Debtors and Prepayments | 23 | 28,902 | | 36,716 |
| Investments - Cash on Deposit | 24 | 69,594 | | 82,175 |
| Cash and Bank | | 11,325 | | 10,484 |
| | | | 110,421 | 129,660 |
| CURRENT LIABILITIES | | | | |
| Creditors | 26 | (60,995) | | (83,398) |
| Bank Overdraft | | (13,943) | | (6,337) |
| | | | (74,938) | (89,735) |
| NET CURRENTS ASSETS | | | 35,483 | 39,925 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 630,857 | 627,914 |
| Long Term Borrowing | 24 | (81,815) | | (81,818) |
| Capital Grants Deferred Account | 27 | (59,465) | | (44,263) |
| Capital Grants Unapplied | 28 | (9,216) | | (11,980) |
| Provisions for Liabilities | 29 | (570) | | (714) |
| Deferred Liability - Avon Loan Debt | 5 | (17,114) | | (17,796) |
| Deferred Liability - Finance Lease | 16 | - | | - |
| Pensions Liability | 2 | (193,563) | | (141,136) |
| | | | (361,743) | (297,707) |
| TOTAL ASSETS LESS LIABILITIES | | | 269,114 | 330,207 |
| FINANCED BY: | | | | |
| General Fund Balances and Reserves | 30 | | 35,693 | 33,810 |
| Collection Fund Adjustment Account | | | 973 | 1,255 |
| Useable Capital Receipts Reserve | 31 | | 903 | - |
| Deferred Capital Receipts | 32 | | 339 | 359 |
| Capital Adjustment Account | 33 | | 386,519 | 411,558 |
| Revaluation Reserve | 34 | | 38,250 | 24,361 |
| Pensions Reserve | 2 | | (193,563) | (141,136) |
| | | | 269,114 | 330,207 |

CASH FLOW STATEMENT - excluding Avon Pension Fund

| | Notes | 2009/10 £'000 | 2009/10 £'000 | Restated 2008/09 £'000 |
|---|-------|------------------|------------------|------------------------------|
| Revenue Activities | | | | |
| Cash Outflows | | | | |
| Cash Paid to & on behalf of Employees | | (118,742) | | (115,190) |
| Other Operating Costs | | (271,813) | | (224,369) |
| Housing Benefit Paid Out | | (41,306) | | (35,498) |
| Payments to the Housing Capital Receipts Pool | | (12) | | (22) |
| Precepts and Levies Paid | | (218) | | (214) |
| | | | (432,091) | (375,293) |
| Cash Inflows | | | | |
| Rents | | 16,261 | | 17,178 |
| Council Tax | | 69,482 | | 67,954 |
| Receipts from NNDR Pool | | 32,493 | | 33,796 |
| Revenue Support Grant | | 7,500 | | 4,705 |
| Dedicated Schools Grant | | 95,332 | | 92,611 |
| DWP Grants for rebates | | 40,262 | | 32,807 |
| Other Government Grants | d | 19,768 | | 11,270 |
| Other Operating cash receipts | | 160,589 | | 152,760 |
| | | | 441,687 | 413,081 |
| Net Cash Flow from Revenue Activities | a | | 9,596 | 37,788 |
| Returns on Investment & Servicing of Finance | | | | |
| Cash Outflows | | | | |
| Interest Paid | | (4,462) | | (4,359) |
| Cash Inflows | | | | |
| Interest Received | | 1,718 | | 4,222 |
| | | | (2,744) | (137) |
| | | | 6,852 | 37,651 |
| Capital Activities | | | | |
| Cash Outflows | | | | |
| Purchase of Fixed Assets | | (24,800) | | (25,372) |
| Other capital cash payments | | (46,814) | | (54,350) |
| | | (71,614) | | (79,722) |
| Cash Inflows | | | | |
| Sale of Fixed Assets | | 4,141 | | 4,079 |
| Capital Grants Received | | 62,024 | | 76,147 |
| Other Capital Cash receipts | | 901 | | 1,732 |
| | | 67,066 | | 81,958 |
| | | | (4,548) | 2,236 |
| Net Cash Inflow/(Outflow) before Financing | | | 2,304 | |
| Management of Liquid Resources | | | | |
| Net Increase/decrease in Short Term Deposits | | | 12,100 | (22,900) |
| Net Increase/decrease in Other Liquid Resources | | | (20,456) | (9,475) |
| Financing | | | | |
| Cash Outflows | | | | |
| Repayments of amounts borrowed | | (713) | | (774) |
| | | | (713) | (774) |
| Net Increase/(decrease) in cash | | | (6,765) | 6,738 |

NOTES TO THE CASH FLOW STATEMENT

Note a - Reconciliation of reported revenue surpluses/deficits to net cash flow

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Net deficit on the Income & Expenditure Account | (27,624) | (33,509) |
| Depreciation | 16,946 | 14,877 |
| Impairments | 15,672 | 8,066 |
| Gain/loss on fixed asset disposal | (2,364) | 23,294 |
| Amortisation of deferred grants | (3,377) | (11,918) |
| Write down of revenue expenditure funded from capital | 2,558 | 4,457 |
| Increase/decrease in debtors | 7,767 | (22) |
| Increase/decrease in creditors | (14,982) | 23,144 |
| Increase/decrease in stocks | (315) | 22 |
| Increase/decrease in provisions | (144) | 40 |
| Pensions costs | 12,201 | 8,043 |
| Interest payable & similar charges | 4,457 | 4,236 |
| Interest & investment income | (1,261) | (2,988) |
| Other movements | 62 | 46 |
| Net Cash Flow from Revenue Activities | 9,596 | 37,788 |

Note b - Reconciliation of the movement in cash to the movement in net debt

| | 2009/10 £'000 | 2008/09 £'000 |
|--|------------------|------------------|
| Increase/decrease in cash for the period | (6,765) | 6,738 |
| Cash inflow/outflow from increase/decrease in debt & lease financing | 682 | 725 |
| Cash inflow/outflow from increase/decrease in short term deposits | (12,100) | 22,900 |
| Cash inflow/outflow from increase/decrease in other liquid resources | (10,981) | (9,475) |
| Other non-cash changes | (478) | (501) |
| Movement in net debt for the period | (29,642) | 20,387 |
| Net debt at beginning of year | (22,767) | (43,154) |
| Net debt at balance sheet date | (52,409) | (22,767) |

Note c - Analysis of Net Debt

| | Balance Cashflows | | Other non | Balance |
|----------------------------------|--------------------|-----------------|--------------|-----------------|
| | at 1 April in year | | cash | 31 March |
| | 2009 | 2009 | changes | 2010 |
| | £'000 | £'000 | £'000 | £'000 |
| Cash and Bank | 10,484 | 841 | | 11,325 |
| Bank Overdraft | (6,337) | (7,606) | | (13,943) |
| Movement in Cash | 4,147 | (6,765) | - | (2,618) |
| Loans due within 1 year | - | - | - | - |
| Loans due after more than 1 year | (81,818) | | 3 | (81,815) |
| Deferred liabilities | (17,796) | 682 | | (17,114) |
| Short term investments | 82,175 | (12,100) | (481) | 69,594 |
| Other liquid resources | (9,475) | (10,981) | - | (20,456) |
| Net debt | (22,767) | (29,164) | (478) | (52,409) |

Note d - Other Government Grants

| | £'000 |
|----------------------|---------------|
| Growth Points | 998 |
| DSS admin grant | 1,469 |
| Area Based Grant | 7,493 |
| Council Tax Benefits | 9,808 |
| | 19,768 |

Note e - Other Liquid Resources

Other liquid resources is the difference between the net cash received from the Collection Fund and the major preceptor's share of cash collected from Council Tax debtors, together with the difference between cash received from non-domestic rates and the amount paid to the national pool.

NOTES TO MAIN FINANCIAL STATEMENTS

1 REPORTING FORMAT

These Accounts are prepared in compliance with the relevant Local Authority Statement of Recommended Practice (SORP). The Income and Expenditure account shows services reported according to the standard Best Value Accounting Code of Practice (BVACOP) reporting structure.

2 PARTICIPATION IN PENSIONS SCHEMES

The Council offers retirement benefits as part of the terms and conditions of employment. Whilst these benefits are not payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension schemes:

- The Local Government Pension Scheme via the Avon Pension Fund. This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into the fund which are calculated at a level intended to balance the pension liabilities with investment assets.
- Teachers employed by the authority are members of the Teachers Pension scheme, administered by Capita Teachers Pensions. It provides teachers with defined benefits upon retirement, and the authority contributes towards the costs by making contributions based on a percentage of members pensionable salaries.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers Pensions use a notional fund as the basis for calculating the employers contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme, attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers scheme. These benefits are fully accrued in the pensions liability.

In 2009/10 the Council paid £7.589m to Teachers Pensions in respect of teachers retirement benefits, representing 14.1% of pensionable pay. The figures for 2008/09 were £7.328m and 14.1%. There were no contributions remaining payable at the year end.

Transactions relating to retirement benefits

For pensions due from the Local Government scheme, the cost of these is recognised when there is a commitment rather than when the benefit is eventually paid. However the charge we are required to make against Council Tax is based on the contribution payable, so the full cost of retirement benefits is adjusted in the Statement of Movement on the General Fund.

NOTES TO MAIN FINANCIAL STATEMENTS

The following transactions have been made in the Income and Expenditure Accounts for 2009/10:

| Income and Expenditure Account | Local Government Pension Scheme | | Teachers' Unfunded Pensions | |
|----------------------------------|---------------------------------|---------------|-----------------------------|--------------|
| | 2009/10 | 2008/09 | 2009/10 | 2008/09 |
| | £'000 | £'000 | £'000 | £'000 |
| Net Cost of Services: | | | | |
| Current Service Costs | 7,904 | 11,430 | | |
| Past Service Cost | - | 121 | 143 | 48 |
| Loss on Curtailment | 698 | 320 | | |
| | 8,602 | 11,871 | 143 | 48 |
| Net Operating Expenditure: | | | | |
| Interest cost | 25,942 | 26,139 | 1,397 | 1,403 |
| Expected return on scheme assets | (15,138) | (19,499) | | |
| | 10,804 | 6,640 | 1,397 | 1,403 |

Statement of Movement in the General Fund Balance

| | | | | |
|---|---------|---------|--------|--------|
| Reversal of net charges made for retirement benefits in accordance with FRS17 | 19,406 | 18,511 | 1,540 | 1,451 |
| Actual amount charged against General Fund Balance for pensions in the year | 14,057 | 13,035 | 1,532 | 1,512 |
| Employers' contributions payable to scheme | (7,153) | (2,842) | 143 | 48 |
| Retirement benefits payable to pensioners | | | 24,223 | 20,448 |

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £47.070m (gains of £18.914m 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £43.843m.

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

| | Funded Liabilities | | Unfunded Liabilities | |
|--------------------------------------|---------------------------------|----------------|----------------------|---------------|
| | Local Government Pension Scheme | | Teachers' Pensions | |
| | 2009/10 | 2008/09 | 2009/10 | 2008/09 |
| | £'000 | £'000 | £'000 | £'000 |
| 1 April 2009 | 366,836 | 428,051 | 20,448 | 23,748 |
| Current service cost | 7,904 | 11,430 | | |
| Interest cost | 25,942 | 26,139 | 1,397 | 1,403 |
| Contributions by scheme participants | 4,682 | 4,455 | (1,532) | (1,512) |
| Actuarial gains and losses | 113,396 | (88,712) | 3,767 | (3,239) |
| Benefits paid | (15,505) | (14,968) | | |
| Past service costs | 698 | 441 | 143 | 48 |
| 31 March 2010 | 503,953 | 366,836 | 24,223 | 20,448 |

NOTES TO MAIN FINANCIAL STATEMENTS

Reconciliation of fair value of the scheme assets:

| | Local Government Pension Scheme | |
|--------------------------------------|---------------------------------|----------------|
| | 2009/10 | 2008/09 |
| | £'000 | £'000 |
| 1 April 2009 | 246,148 | 297,164 |
| Expected rate of return | 15,138 | 19,499 |
| Actuarial gains and losses | 70,093 | (73,037) |
| Employer contributions | 14,057 | 13,035 |
| Contributions by scheme participants | 4,682 | 4,455 |
| Benefits paid | (15,505) | (14,968) |
| 31 March 2010 | 334,613 | 246,148 |

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

The actual return on scheme assets in the year was -£85.231m (2008/09 -£53.538m).

Scheme History

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|-----------|-----------|-----------|-----------|-----------|
| | * | * | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present value of liabilities: | | | | | |
| Local Government Pension Scheme | (398,052) | (428,393) | (428,051) | (366,836) | (503,953) |
| Teachers' Pension Scheme | | (21,172) | (23,748) | (20,448) | (24,223) |
| Fair value of assets in the Local Government Pension Scheme | 289,781 | 309,053 | 297,164 | 246,148 | 334,613 |
| Surplus/(deficit) in the scheme: | | | | | |
| Local Government Pension Scheme | (108,271) | (119,340) | (130,887) | (120,688) | (169,340) |
| Teachers' Pension Scheme | | (21,172) | (23,748) | (20,448) | (24,223) |
| Total | (108,271) | (140,512) | (154,635) | (141,136) | (193,563) |

* the authority has elected not to restate fair value of scheme assets for 2005/06 and 2006/07

The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £194m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- > the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- > finance is only required to be raised to cover teachers' pensions when the pensions are actually paid.

Employer contributions to the Pension Fund in 2010/11 are estimated to be £14.06m.

NOTES TO MAIN FINANCIAL STATEMENTS

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both scheme liabilities have been assessed by an independent firm of actuaries Mercer Human Resource Consulting Ltd, estimates for the Local Government Pension Scheme being based on the latest full valuation of the scheme as at 31 March 2007.

The principal assumptions used by the actuary have been:

| | Avon Pension Fund | | Teachers Pension | |
|--|-------------------|---------|------------------|---------|
| | 2009/10 | 2008/09 | 2009/10 | 2008/09 |
| Long term expected rate of return on assets in the scheme: | | | | |
| Equity investments | 7.5% | 7.5% | | |
| Government Bonds | 4.5% | 4% | | |
| Other Bonds | 5.2% | 6% | | |
| Other | 7.5% | 7.5% | | |
| Mortality assumptions : | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men | 21.2 | 21.2 | 21.2 | 21.2 |
| Women | 24.1 | 24 | 24 | 24 |
| Longevity at 65 for future pensioners: | | | | |
| Men | 22.2 | 22.2 | | |
| Women | 25 | 25 | | |
| Rate of inflation | 3.3% | 3.3% | 3.2% | 3.3% |
| Rate of increase in salaries | 4.55% | 4.55% | | |
| Rate of increase in pensions | 3.3% | 3.3% | 3.2% | 3.3% |
| Proportion of employees opting to take a commuted lump sum | 50% | 50% | | |
| Rate for discounting scheme liabilities | 5.6% | 7.1% | 5.5% | 7.1% |

Constitution of the fair value of scheme assets

The Teachers' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| Assets Held : | Assets at 31 March 2010 | | Assets at 31 March 2009 | |
|--------------------|-------------------------|---------------|-------------------------|---------------|
| | £'000 | % | £'000 | % |
| Equity investments | 217,498 | 65.0% | 149,411 | 60.7% |
| Government Bonds | 34,465 | 10.3% | 34,215 | 13.9% |
| Other Bonds | 32,123 | 9.6% | 21,169 | 8.6% |
| Other | 50,527 | 15.1% | 41,353 | 16.8% |
| Total | 334,613 | 100.0% | 246,148 | 100.0% |

History of experience gains and losses

Actuarial losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

| | 2009/10 | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|--|---------------|---------------|---------------|-----------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Difference between the expected and actual return on scheme assets: | | | | | |
| amount | (70,093) | (73,037) | (26,760) | (1,013) | 40,721 |
| percentage | 20.9 | 29.7 | 9 | 0.3 | 14.1 |
| Experience gains and losses on liabilities | | | | | |
| amount | 113,936 | 88,712 | 43,234 | (26,200) | (4,508) |
| percentage | 22.5 | 24.2 | 10.1 | 6.1 | 1.1 |
| | 43,843 | 15,675 | 16,474 | (27,213) | 36,213 |

NOTES TO MAIN FINANCIAL STATEMENTS

3 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2009/10 are as follows:

| | 2009/10 Central Expenditure £'000 | 2009/10 Individual Schools Budget £'000 | 2009/10 Total £'000 | 2008/09 Total £'000 |
|---|--|---|---------------------------|---------------------------|
| Final DSG for 2009/10 | | | 95,332 | 92,611 |
| Brought forward from 2008/09 | 344 | 5 | 349 | 247 |
| Agreed budgeted distribution in 2009/10 | 11,914 | 83,767 | 95,681 | 92,858 |
| Actual central expenditure | 11,246 | - | 11,246 | 11,363 |
| Actual ISG deployed to schools | - | 83,477 | 83,477 | 81,146 |
| Carry forward to 2010/11 | 668 | 290 | 958 | 349 |

4 TRADING SERVICES

The Council has the following Trading Services, which are various services provided to the public and third parties, or as support functions to other frontline Council Departments.

| | 2009/10 Inc £'000 | 2009/10 Exp £'000 | Deficit/ (Surplus) £'000 | 2008/09 £'000 |
|------------------------------|-------------------------|-------------------------|--------------------------------|------------------|
| School and Other Catering | (3,203) | 3,442 | 239 | 89 |
| Cleaning Services | (1,062) | 921 | (141) | (131) |
| Fleet Management | (1,837) | 1,796 | (41) | 21 |
| Passenger Transport Services | (5,308) | 5,250 | (58) | (7) |
| Trade Refuse Collection | (943) | 684 | (259) | (121) |
| Grounds Maintenance | (171) | 250 | 79 | 123 |
| Building Maintenance | (1,331) | 1,330 | (1) | 116 |
| Print Services | (678) | 713 | 35 | 20 |
| Bath Museum Shops | (1,857) | 1,676 | (181) | (169) |
| Surplus for Year | (16,390) | 16,062 | (328) | (59) |

NOTES TO MAIN FINANCIAL STATEMENTS

5 AVON COUNTY COUNCIL DEBT

Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment. The amount of residual debt outstanding at 31 March 2010 apportioned to this Council is £17.1m (£17.80m in 2008/09). The debt has now been included in the Council's Balance Sheet as a deferred liability which will reduce each year due to principle repayments.

| | 31 March 2009 | adjustment to correct 08/09 opening balance | Principal Repaid | 31 March 2010 |
|--|------------------|---|---------------------|------------------|
| | £000 | £001 | £000 | £000 |
| Ex- Avon loan debt principal repayment | 17,796 | 31 | (713) | 17,114 |

6 LEVY PAYMENTS TO OTHER BODIES

The Council paid the following levies to joint authorities:

| | 2009/10 £'000 | 2008/09 £'000 |
|-----------------------------------|------------------|------------------|
| Environment Agency | 197 | 192 |
| Avon & Somerset Magistrates Court | 21 | 22 |
| | 218 | 214 |

7 MINIMUM REVENUE PROVISION (MRP)

Minimum Revenue Provision - Provision for Repayment of External Debt

The net amount charged to revenue in compliance with the statutory requirement to set aside a Minimum Revenue Provision for the repayment of external debt is £1.986m calculated as follows:

| | 2009/10 £000 | 2008/09 £000 |
|---|-----------------|-----------------|
| 4% of Capital Financing Requirement (CFR) | 3,503 | 3,322 |
| Retrospective adjustment for 2007/08 | | 14 |
| Adjustment allowed under Capital Finance Regulations | (1,551) | (1,551) |
| Provision based on estimated useful life of new assets since 2008 | 34 | |
| Statutory Minimum Revenue Provision (MRP) | 1,986 | 1,785 |

The excess of depreciation, impairment and the effect of deferred charges and intangible assets charged to Net Operating Expenditure over the Minimum Revenue Provision is reversed through the Statement of Movement on the General Fund Balance by an adjustment with the Capital Adjustment Account.

New regulations regarding Minimum Revenue Provision introduced (effective from 31st March 2008), allow local authorities to choose from three calculation methods.

The provisional Council MRP Policy (subject to final published regulations) is:

Bath and North East Somerset has elected to make a prudent minimum revenue provision for all new unsupported borrowing from 1st April 2008, based on the estimated useful life of the asset or equal to depreciation as calculated in line with the Statement of Recommended Practice.

For all Government supported borrowing:

NOTES TO MAIN FINANCIAL STATEMENTS

- a) For existing schemes the Council will determine that its MRP is equal to the amount determined in accordance with the former regulations.
- b) For all new schemes after 1st April 2008 it will calculate MRP based on the estimated useful life of the asset.

When borrowing to construct an asset, the authority will treat the asset life as commencing in the year in which the asset becomes operational.

8 EMPLOYEES' EMOLUMENTS

The number of employees whose taxable remuneration, including employee pension contributions but excluding employers contributions was £50,000 or more was:

| Remuneration band | 2009/10 | 2009/10 | 2009/10 | 2008/09 | 2008/09 |
|---------------------|-----------|-----------|------------|-----------|-----------|
| | Teachers | Others | Total | Teachers | Others |
| £50,000 - £54,999 | 30 | 30 | 60 | 36 | 36 |
| £55,000 - £59,999 | 27 | 6 | 33 | 16 | 7 |
| £60,000 - £64,999 | 14 | 4 | 18 | 5 | 3 |
| £65,000 - £69,999 | 1 | 2 | 3 | 4 | - |
| £70,000 - £74,999 | 3 | 6 | 9 | 6 | 5 |
| £75,000 - £79,999 | 4 | 6 | 10 | 3 | 3 |
| £80,000 - £84,999 | 4 | - | 4 | - | 4 |
| £85,000 - £89,999 | 1 | 8 | 9 | 2 | 7 |
| £90,000 - £94,999 | - | 1 | 1 | - | 1 |
| £95,000 - £99,999 | - | 4 | 4 | - | 3 |
| £100,000 - £104,999 | 1 | - | 1 | - | - |
| £105,000 - £109,999 | - | 1 | 1 | - | 1 |
| £110,000 - £114,999 | - | 1 | 1 | - | 2 |
| £115,000 - £119,999 | - | - | - | - | - |
| £120,000 - £124,999 | - | - | - | - | - |
| £125,000 - £129,999 | - | - | - | - | - |
| £130,000 - £134,999 | - | 1 | 1 | - | 1 |
| £135,000 - £139,999 | - | - | - | - | - |
| £140,000 - £144,999 | - | - | - | - | - |
| £145,000 - £149,999 | - | - | - | - | 1 |
| £150,000 - £154,999 | - | - | - | - | - |
| £155,000 - £159,999 | - | - | - | - | - |
| £160,000 - £164,999 | - | 1 | 1 | - | - |
| £165,000 - £169,999 | - | - | - | - | - |
| £165,000 - £169,999 | - | - | - | - | - |
| £170,000 - £174,999 | - | - | - | - | - |
| £175,000 - £179,999 | - | 1 | 1 | - | 1 |
| | 85 | 72 | 157 | 72 | 75 |

The pay includes salary, redundancy compensation and the value of any benefits not paid as cash. The list above includes senior officers listed separately in note 9.

9 SENIOR OFFICER REMUNERATION

For the year ending 31st March 2010

Senior Officers emoluments-salary of £150,000 or more

| Post Holder | Salary | Expenses | Benefits in Kind eg Car Allowance | Employer Pension Contributions | Total Remuneration |
|--------------------------------|---------|----------|-----------------------------------|--------------------------------|--------------------|
| | £ | £ | £ | £ | £ |
| Chief Executive - John Everitt | 178,338 | 1,406 | 906 | 31,209 | 211,859 |

NOTES TO MAIN FINANCIAL STATEMENTS

Senior Officers emoluments-salary between £50,000 and £150,000 per year

| Post Holder | Salary | Expenses | Benefits in Kind eg Car Allowance | Employer Pension Contributions | Total Remuneration |
|---|---------|----------|-----------------------------------|--------------------------------|--------------------|
| | £ | £ | £ | £ | £ |
| Strategic Director Childrens Services | 129,699 | 1,800 | 906 | 22,697 | 155,102 |
| Strategic Director Adult Services * | 46,339 | 407 | 151 | 3,310 | 50,207 |
| Strategic Director Support Services | 113,490 | 391 | 763 | 19,861 | 134,505 |
| Strategic Director Customer Services | 108,081 | 1,912 | 7,470 | 18,915 | 136,378 |
| Council Solicitor | 97,275 | - | 906 | 17,023 | 115,204 |
| Divisional Director Improvement & Performance | 86,469 | - | 906 | 15,123 | 102,498 |
| Divisional Director - Finance ** | 39,142 | 35 | 2,814 | 6,850 | 48,841 |

- * The Strategic Director for Adult Services was only employed for four months of the year. A redundancy payment in accordance with normal Council policy of £115,868 was paid to the Strategic Director Adult Services for loss of office following the Council's partnership arrangement with the Primary Care Trust. The Strategic Director for Adult Services is now employed by the Primary Care Trust.
- ** The Divisional Director Finance has only been in post for five months. The previous post holder resigned in August 2009. The annualised salary was £94,572. The Strategic Director for Development & Major Projects is not an employee of the council (see note 11).

For the year ending 31st March 2009

Senior Officers emoluments-salary of £150,000 or more

| Post Holder | Salary | Expenses | Benefits in Kind eg Car Allowance | Employer Pension Contributions | Total Remuneration |
|--------------------------------|---------|----------|-----------------------------------|--------------------------------|--------------------|
| | £ | £ | £ | £ | £ |
| Chief Executive - John Everitt | 178,338 | 1,535 | 863 | 30,890 | 211,626 |

Senior Officers emoluments-salary between £50,000 and £150,000 per year

| Post Holder | Salary | Expenses | Benefits in Kind eg Car Allowance | Employer Pension Contributions | Total Remuneration |
|---|---------|----------|-----------------------------------|--------------------------------|--------------------|
| | £ | £ | £ | £ | £ |
| Strategic Director Childrens Services | 129,699 | 2,189 | 849 | 22,465 | 155,202 |
| Strategic Director Support Services | 113,490 | 580 | 191 | 18,721 | 132,982 |
| Strategic Director Adult Services | 113,490 | 673 | 849 | 19,861 | 134,873 |
| Strategic Director Customer Services* | 31,959 | 293 | - | 5,593 | 37,845 |
| Council Solicitor ** | 144,349 | - | 849 | 25,261 | 170,459 |
| Divisional Director Improvement & Performance | 87,969 | - | 849 | 15,240 | 104,058 |
| Divisional Director - Finance | 94,572 | - | - | - | 94,572 |

- * The Strategic Director Customer Services was only in post for four months. The previous post holder resigned in December 2008. The annualised salary was £108,081.
- ** The annualised salary for the Council Solicitor is £97,275. The additional salary is back pay covering a number of years.

10 OPERATING LEASES

The Council uses vehicles, computers and other equipment financed under the terms of various operating leases. The lease rentals paid in 2009/10 were £942,555 (£661,961 in 2008/09).

The future payments required under these leases in 2010/11 are £670,246, comprising the following elements:

| | £'000 |
|---|------------|
| Leases expiring in 2010/11 | 191 |
| Leases expiring between 2011/12 and 2015/16 | 447 |
| Leases expiring after 2015/16 | 32 |
| | <u>670</u> |

NOTES TO MAIN FINANCIAL STATEMENTS

The Council holds property under operating leases. The amount paid in rent for 2009/10 was £1,268,660 (2008/09 was £1,270,660).

The future commitments required under these leases in 2010/11 are £1,156,910, comprising the following elements:

| | £'000 |
|---|--------------|
| Leases expiring in 2010/11 | 201 |
| Leases expiring between 2011/12 and 2015/16 | 271 |
| Leases expiring after 2015/16 | 685 |
| | <u>1,157</u> |

In practice, although some leases are due for renewal, the Council expects to continue using many of its leased buildings beyond the renewal dates.

See note 16 for information on assets held under finance leases.

Rental income receivable from operating property leases totalled £12,850,070 (£12,821,339 in 2008/09). The net book value of these properties is £221,608,868 (£223,216,000 in 08/09).

All operating leases are investment properties and therefore are not subject to depreciation.

11 RELATED PARTIES TRANSACTIONS

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

Central Government

The funding from Government grants is the major source of the Council's finances. The grants

The following material grants have not been disclosed elsewhere in the accounts:

| | 2009/10 £'000 | 2008/09 £'000 |
|---------------------------------------|------------------|------------------|
| Education | | |
| Standards Fund | 8,532 | 7,107 |
| School Standards Grant | 5,140 | 5,081 |
| Learning & Skills Council | 9,843 | 9,278 |
| Early Years | 3,422 | 2,855 |
| Social Services | | |
| Supporting People Housing Programme * | 3,978 | 4,012 |
| Preserved Rights * | 920 | 963 |
| Carers * | 693 | 648 |
| Social Care Reform Grant | 589 | - |
| Area Based Grant | 7,493 | 7,179 |
| Concessionary Fares | 703 | 762 |
| Housing & Council Tax Benefit | | |
| Mandatory Rent Allowances | 39,867 | 36,048 |
| Council Tax Benefit | 9,913 | 8,911 |

NOTES TO MAIN FINANCIAL STATEMENTS

Capital Grants

| | | |
|------------------------------|--------|--------|
| Dept for Children & Families | 28,724 | 18,648 |
| English Partnerships | 22,013 | 38,034 |
| DCLG (formerly ODPM) | 1,178 | 2,178 |
| Regional Development Agency | - | 782 |
| Department of Transport | 4,704 | 2,573 |
| Department of Health | 235 | 186 |
| DEFRA | 325 | |
| Home Office | 52 | |

* Now part of Area Based Grant

Bath & North East Somerset Council is accountable body for the Growth Points Fund on behalf of the West of England Partnership. In 2009/10 capital grant of £6.4m was received from DCLG. £1.5m grant was approved and distributed to individual Unitary Authorities to fund specific projects. £1.0m revenue grant was received of which £0.3m was distributed via the West of England Partnership.

Pension Fund

Details of Contributions to the Avon Pension Fund are shown in note 2. As administering body to the Fund, the Council charges the fund for the direct costs - £1,192,938 (£1,208,115 08/09) and support services - £409,535 (£303,269 08/09) provided. Five B&NES Councillors are voting members on the Pensions Committee and there are seven non-council members.

Councillors & Officers

The Council made payments of £258,196 during 2009/10 (£224,533 in 08/09) to Hammond Project Management Services Limited for the services of the Strategic Director of Development and Major Projects. John Betty is the sole Director and sole employee of Hammond Management Project Services Limited. This arrangement was provided under a tendered contractual agreement entered into on 3rd January 2005 for the provision of management services to oversee the Council's major projects at Directorship level for a period of 5 years. The contract has now been extended for a further 3 years which expires in January 2013.

The Council made payments of £835,615 (£732,485 08/09) to voluntary bodies and organisations where members have an interest (either due to a Council nomination or in an independent capacity).

Two Members of the Council are members of the Avon Fire Authority. One Member is a member of the Avon & Somerset Police Authority. Three Members are members of the Bath Recreation Ground Trust.

The Council is in joint partnership with the Primary Care Trust (PCT) to provide social and community healthcare. A significant proportion of the Council's budget is managed through the joint board for Health & Wellbeing. The Council Chief Executive and councillors are on the board.

The Chief Executive of the Primary Care Trust is also on the Council management team. The Director of Childrens Services commissions child health care services. The chair of the PCT is also Resources Portfolio holder at the Council. (please see note 14 Pooled Budgets)

The Director of Childrens Services is a Director on the Connexions Company, also one Member of the Council is a non-executive director (see note 36 Controlled Companies).

Norton Radstock Regeneration Ltd.

The Council is a partner in a major project to re-develop land in Midsomer Norton - Radstock under the Government's Single Regeneration Budget (SRB) scheme. During 2000-01, a not for profit company, Norton Radstock Regeneration Ltd. was set up to develop the scheme.

The Council is a 'related party' of the regeneration company. However since less than 10% of the company's directors are Council nominees, the company is not an 'influenced' one under capital control regulations.

NOTES TO MAIN FINANCIAL STATEMENTS

12 MEMBERS ALLOWANCES

The total cost of Members Allowances for 2009/10 including employers national insurance, pensions contributions and expenses was £900,977 (£862,783 in 2008/09).

Payments to Members listed below do not include the cost of employers national insurance or pensions contributions.

| | | Basic & Special Allowance | Expenses | Total |
|------------|-----|---------------------------------|----------|--------|
| | | £ | £ | £ |
| APPLEYARD | R | 7,636 | 661 | 8,297 |
| BALL | S | 7,074 | 662 | 7,736 |
| BALL | TM | 15,032 | 736 | 15,768 |
| BARRETT | CV | 7,074 | 892 | 7,966 |
| BATT | GM | 10,611 | 1,036 | 11,648 |
| BEATH | CE | 7,074 | 706 | 7,780 |
| BELLOTTI | DF | 12,811 | 3,766 | 16,577 |
| BEVAN | SF | 8,757 | 2,482 | 11,238 |
| BRINKHURST | L | 7,162 | 927 | 8,088 |
| BULL | JA | 8,989 | 923 | 9,912 |
| BUTTERS | TN | 7,074 | 658 | 7,732 |
| CHALKER | BA | 14,270 | 1,543 | 15,814 |
| CLARKE | AK | 7,074 | 658 | 7,732 |
| CLARKE | VJ | 10,611 | 676 | 11,287 |
| COOMBES | NJ | 7,199 | 558 | 7,757 |
| CRAY | C | 11,908 | 682 | 12,590 |
| CROSSLEY | PN | 17,813 | 1,643 | 19,456 |
| CURRAN | GF | 7,074 | 658 | 7,732 |
| DARRACOTT | C | 7,249 | 758 | 8,007 |
| DAVIS | S | 15,917 | 703 | 16,619 |
| DEACON | DE | 7,074 | 727 | 7,801 |
| DEWEY | IC | 7,074 | 668 | 7,742 |
| DIXON | D | 16,042 | 704 | 16,745 |
| EDWARDS | A | 7,074 | 741 | 7,815 |
| EDWARDS | PM | 7,074 | 781 | 7,855 |
| FURSE | AJ | 7,366 | 851 | 8,217 |
| GAZZARD | TA | 31,833 | 878 | 32,711 |
| GERRISH | CD | 31,833 | 1,487 | 33,320 |
| GILCHRIST | IA | 7,374 | 711 | 8,085 |
| HAEBERLING | F | 37,137 | 808 | 37,945 |
| HALE | AD | 7,074 | 658 | 7,732 |
| HALL | ABG | 7,074 | 658 | 7,732 |
| HANNEY | MC | 31,833 | 5,522 | 37,355 |
| HARTLEY | N | 7,374 | 1,176 | 8,550 |
| HAWKINS | DJ | 9,656 | 671 | 10,327 |
| HEDGES | LM | 7,074 | 658 | 7,732 |
| HEDGES | SP | 7,397 | 413 | 7,809 |
| INKER | AW | 15,917 | 1,786 | 17,702 |
| JACKSON | EM | 7,636 | 942 | 8,578 |
| KEW | LJ | 17,160 | 2,148 | 19,307 |
| LEES | MJH | 7,074 | 658 | 7,732 |
| LONGSTAFF | M | 7,074 | 658 | 7,732 |
| MACRAE | BJ | 7,074 | 658 | 7,732 |
| MAYBURY | AR | 7,074 | 778 | 7,852 |
| MCGALL | SA | 7,374 | 887 | 8,261 |
| MCNEIR | M | 7,074 | 1,667 | 8,741 |
| ORGAN | BS | 7,074 | 658 | 7,732 |
| PARADISE | CA | 10,611 | 866 | 11,477 |

NOTES TO MAIN FINANCIAL STATEMENTS

| | | Basic & Special Allowance | Expenses | Total |
|--------------|----|---------------------------------|---------------|----------------|
| | | £ | £ | £ |
| PRITCHARD | VL | 31,833 | 3,349 | 35,182 |
| ROBERTS | CM | 15,917 | 764 | 16,681 |
| ROBERTS | N | 7,074 | 658 | 7,732 |
| ROMERO | UM | 7,074 | 658 | 7,732 |
| SANDRY | WA | 7,162 | 780 | 7,942 |
| SIMMONS | B | 9,656 | 1,511 | 11,167 |
| SPEIRS | DJ | 7,636 | 661 | 8,297 |
| STEEL | SJ | 7,074 | 1,142 | 8,216 |
| SYMONDS | RA | 7,249 | 2,128 | 9,377 |
| VEAL | M | 15,917 | 867 | 16,783 |
| WARREN | T | 11,495 | 680 | 12,175 |
| WATT | C | 31,833 | 2,055 | 33,888 |
| WHELAN | B | 7,074 | 658 | 7,732 |
| WHITTOCK | MJ | 7,074 | 919 | 7,993 |
| WILLCOX | SJ | 7,074 | 906 | 7,980 |
| WOOD | GJ | 11,495 | 680 | 12,175 |
| Total | | 729,550 | 70,000 | 799,550 |

13 AUDIT & INSPECTION FEES

| The Council has incurred the following fees payable to its auditors, the Audit Commission | Total 2009/10 £'000 | Total 2008/09 £'000 |
|--|---------------------------|---------------------------|
| Fees payable with regard to external audit services | 160 | 297 |
| Fees payable for statutory inspection | 144 | 127 |
| Fees payable for the certification of grant claims and returns | 52 | 54 |
| Fees payable for objections to previous years accounts | 17 | - |
| Additional fees for 2008/09 statutory inspection | 22 | - |
| Spa Litigation work | 5 | - |
| National Fraud Initiative | 2 | 2 |

NOTES TO MAIN FINANCIAL STATEMENTS

14 POOLED FUNDING

The Council established a partnership agreement with Bath and North East Somerset Primary Care Trust (PCT) , the Probation Service and Avon and Somerset Police using powers under Section 31 of the Health Act 1999 to pool funds and create a single budget. The budget is used to commission Drug and Alcohol Treatment Services for Adults and Substance Misuse Services for Young People.

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Balance Brought Forward from previous year | 49 | 38 |
| Gross Funding | | |
| Bath & North East Somerset Council | 540 | 763 |
| Bath & North East Somerset Council Community Safety | 27 | |
| Bath & North East Somerset Council Area Based Grant | 56 | |
| Bath & North East Somerset Council LAA Funding | 15 | |
| Bath & North East Somerset Primary Care Trust | 779 | 752 |
| South Gloucestershire Primary Care Trust | 4 | 4 |
| Bristol & Bristol South West Primary Care Trust | 10 | 10 |
| North Somerset Primary Care Trust | 3 | 3 |
| Probation Service (Avon & Somerset) | 19 | 19 |
| Home Office | 136 | 137 |
| Youth Justice Board | - | 25 |
| National Agency Treatment Plan (Dept of Health) | 1,078 | 1,037 |
| Interest on External Funding Balances | 5 | 24 |
| Total Funding | 2,721 | 2,812 |
| Expenditure | | |
| Spend on drug and alcohol services for Adults | 2,593 | 2,510 |
| Spend on drug and alcohol services for Young People | 67 | 254 |
| Total Expenditure | 2,660 | 2,764 |
| Net Underspend to be carried forward | 61 | 48 |

The Council established a partnership agreement with Bath and North East Somerset Primary Care Trust (PCT) , using powers under Section 31 of the Health Act 1999 to pool funds and create a single budget to provide services to adults with learning difficulties.

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Balance Brought Forward from previous year | - | - |
| Gross Funding | | |
| Bath & North East Somerset Council | 10,895 | 13,570 |
| Bath & North East Somerset Primary Care Trust | 10,190 | 6,100 |
| Bath & North East Somerset Council Area Based Grant | 112 | |
| Department of Health Campus Closure Grant | 43 | 17 |
| Interest on External Funding Balances | 61 | 156 |
| Other Income | 13 | 13 |
| Total Funding | 21,314 | 19,856 |
| Total Expenditure | 21,314 | 19,856 |
| Net Underspend /over spend | - | - |

NOTES TO MAIN FINANCIAL STATEMENTS

The Council established a partnership agreement with Bath and North East Somerset Primary Care Trust (PCT) , using powers under Section 31 of the Health Act 1999 to pool funds and create a single budget to provide equipment for the community.

| | Equipment | Rails | 2009/10 £'000 | 2008/09 £'000 |
|---|-----------|-------|------------------|------------------|
| Gross Funding | | | Total | Total |
| Bath & North East Somerset Council | 221 | 57 | 278 | 280 |
| Bath & North East Somerset Primary Care Trust | 190 | 25 | 215 | 214 |
| Interest on External Funding Balances | | | 1 | 3 |
| Total Funding | | | 494 | 497 |
| Spend on community equipment services | | | 413 | 412 |
| Spend on rail contract | | | 81 | 85 |
| Total Expenditure | | | 494 | 497 |
| Net Underspend / overspend | | | - | - |

The Council established a partnership agreement with Bath and North East Somerset Primary Care Trust (PCT) , using powers under Section 31 of the Health Act 1999 to pool funds and create a single budget to provide services to children with multiple and complex needs.

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Gross Funding | | |
| Bath & North East Somerset Council | 2,487 | 2,406 |
| Bath & North East Somerset Primary Care Trust | 127 | 125 |
| Total Funding | 2,614 | 2,531 |
| Total Expenditure | 2,516 | 2,523 |
| Net Underspend | 98 | 8 |

15 LANDFILL ALLOWANCE TRADING SCHEME (LATS)

The Landfill Allowance Trading Scheme (LATS) has been accounted for in 2009/10 in accordance with with the guidance provided in the LAAP Bulletin 64, February 2006. Accordingly the LATS allowances have been recognised on the Balance Sheet as a current asset, offset by the current liability to DEFRA for landfill usage. The LATS grant income has been credited to the Income and Expenditure Account. As 2009/10 is a Target Year, surplus LATS allowances cannot be carried forward out of a Target year, therefore no values are carried in the Balance sheet as assets or liabilities.

NOTES TO MAIN FINANCIAL STATEMENTS

16 MOVEMENT IN FIXED ASSETS TANGIBLE FIXED ASSETS

| Operational Assets | Other Land & Buildings £'000 | Community Assets £'000 | Infrastructure Assets £'000 | Veh'cls, Plant & Equipment £'000 | Sub-Total £'000 |
|--|------------------------------------|--|--|--|---|
| Cost or valuation as at 1 April 2009 | 293,379 | 3,345 | 43,910 | 8,600 | 349,234 |
| Adjustment to opening balance | (159) | | | | (159) |
| Additions | 9,379 | 418 | 6,462 | 1,602 | 17,861 |
| Impairment | (4,102) | | | | (4,102) |
| Disposals | (514) | | | | (514) |
| Revaluations | 1,355 | 1 | | | 1,356 |
| Reclassifications | (2,333) | (159) | | | (2,492) |
| Valuation as at 31 March 2010 | 297,005 | 3,605 | 50,372 | 10,202 | 361,184 |
| Accumulated depreciation as at 1 April 2009 | (8,880) | (181) | (3,561) | (2,116) | (14,738) |
| Depreciation in year | (8,655) | (242) | (4,323) | (3,133) | (16,353) |
| Depreciation written back | 719 | 1 | | | 720 |
| Accumulated depreciation as at 31 March 2010 | (16,816) | (422) | (7,884) | (5,249) | (30,371) |
| Balance sheet amount 31 March 2010 | 280,189 | 3,183 | 42,488 | 4,953 | 330,813 |
| Balance sheet amount 1 April 2009 | 284,499 | 3,164 | 40,349 | 6,484 | 334,496 |
| Nature of asset holding: | | | | | |
| Owned | 277,022 | 3,183 | 42,488 | 4,953 | 327,646 |
| Finance Leased | 3,167 | | | | 3,167 |
| | 280,189 | 3,183 | 42,488 | 4,953 | 330,813 |
| Non-Operational Assets | Investment Assets £'000 | Assets Under Construction £'000 | Surplus Assets for Disposal £'000 | Sub-total £'000 | Total Fixed Assets £'000 |
| Cost or valuation as at 1 April 2009 | 223,216 | 11,828 | 17,333 | 252,377 | 601,611 |
| Adjustment to opening balance | 454 | | | 454 | 295 |
| Additions | 204 | 7,601 | 1,038 | 8,843 | 26,704 |
| Impairment | (11,500) | (306) | (464) | (12,270) | (16,372) |
| Disposals | | | (1,270) | (1,270) | (1,784) |
| Revaluations | 9,360 | - | 3,327 | 12,687 | 14,043 |
| Reclassifications | 2,333 | (37) | 196 | 2,492 | - |
| Valuation as at 31 March 2010 | 224,067 | 19,086 | 20,160 | 263,313 | 624,497 |
| Accumulated depreciation as at 1 April 2009 | - | - | (105) | (105) | (14,843) |
| Depreciation in year | - | - | - | - | (16,353) |
| Depreciation written back | - | - | 105 | 105 | 825 |
| Accumulated depreciation as at 31 March 2010 | - | - | - | - | (30,371) |
| Balance sheet amount 31 March 2010 | 224,067 | 19,086 | 20,160 | 263,313 | 594,126 |
| Balance sheet amount 1 April 2009 | 223,216 | 11,828 | 17,333 | 252,377 | 586,873 |
| Nature of asset holding: | | | | | |
| Owned | 224,038 | 19,086 | 20,160 | 263,284 | 590,930 |
| Finance Leased | 29 | | | 29 | 3,196 |
| | 224,067 | 19,086 | 20,160 | 263,313 | 594,126 |

NOTES TO MAIN FINANCIAL STATEMENTS

Impairment of Fixed Assets are made up of the following categories:

| | Note | £'000 |
|---|------|---------------|
| Impairment due to consumption of economic benefits (to I & E) | 33 | 0 |
| Impairment due to revaluation (to Capital Adjustment Account via I & E) | 33 | 15,672 |
| Impairment on revaluation, netted off of balance on revaluation reserve | 34 | 279 |
| | | <u>15,951</u> |
| Transfer of depreciation on impairment | 33 | 421 |
| | | <u>16,372</u> |

Assets are depreciated on a straight line basis.

INTANGIBLE FIXED ASSETS

Intangible assets do not have a physical presence, such as computer software licences, a patent or trademark.

| Movements in intangible fixed assets: | £'000 |
|---------------------------------------|-------------------|
| Balance at 01/04/09 | 805 |
| Additions | 573 |
| Amortisation | (593) |
| Balance at 31/03/10 | <u><u>785</u></u> |

Assets are depreciated on a straight line basis over their useful lives of 3 years.

Fixed Assets Held Under Finance Leases (included in the table above)

| | Other Land & Buildings 2009/10 £'000 | Veh'cls, Plant & Equipment 2009/10 £'000 |
|--------------------------------|---|---|
| Balance at 01/04/08 | 3,400 | 111 |
| Accumulated depreciation | (116) | (62) |
| Net book value at 1 April 2009 | 3,284 | 49 |
| Additions | 29 | - |
| Depreciation in 2009/10 | (117) | (49) |
| Balance at 31/03/10 | <u><u>3,196</u></u> | <u><u>-</u></u> |

No deferred liability is disclosed in the Council's Balance Sheet for Other Land & Buildings as these properties are subject to peppercorn rents only.

The School Standards and Framework Act 1998 changed the status of Grant maintained schools to Foundation Schools maintained by the local education authority. The change for funding purposes took effect from 1st April 1999. This change has resulted in the inclusion of opening and closing balances for current assets and liabilities controlled by Foundation schools in this consolidated balance sheet. Fixed assets and long term liabilities controlled by Foundation schools remain vested in the Governing Bodies of individual Foundation schools and therefore values and amounts have not been consolidated in this balance sheet.

Similarly the opening and closing balances for current assets and liabilities are consolidated in the balance sheet for Voluntary Aided Schools but fixed assets and long term liabilities are not as these are vested in the church diocese.

17 ASSET VALUATIONS

The Council has a large number of properties including an investment estate which are revalued on a 5 year rolling programme to comply with the Statement of Recommended Practice.

Over the last two years as a consequence of the exceptional economic climate there have been falls in property values nationally. Bath has bucked this trend to a degree and arguably, over the year has been more resilient to the widespread effects of the recession.

Indeed the Council's Investment Estate key performance indicators show that income for 2009/10 exceeded expectations. Void levels and rent payments received have also not deteriorated over the financial year and moreover rent arrears levels have reduced by 30% over this period.

NOTES TO MAIN FINANCIAL STATEMENTS

The Council has undertaken a desktop re-valuation of its property assets using national indices. It has also considered other local factors, in order to determine what adjustment, if any, is required to the values derived from the normal 5 yearly revaluation process. The analysis has been undertaken by Bath & North East Somerset valuation officers and an independent review of the data has been undertaken by external property experts (BNP Paribas Real Estate).

The valuation dates are spread over a 5 year period as the council operates a 5 yearly valuation process. When account is taken both of the likely increase in value for those properties in the early cycle as well as recent likely fall, we are of the opinion that any overall impairment to property values is not material. An analysis shows that the perceived change in value is less than 10% for both the investment and operational estate. Consequently no adjustments have been made to the asset values in respect of impairments other than those that have been valued as part of the normal 5 year programme.

This opinion has been supported by independent external advisers who have confirmed the approach taken is consistent with other public bodies and verified the analysis as accurate.

18 CAPITAL EXPENDITURE

| Capital expenditure on fixed assets was as follows: | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Adult Social Services Facilities | 132 | 3,606 |
| School Improvements | 7,629 | 5,668 |
| Highways/Road Safety & Bridge Strengthening | 11,290 | 7,781 |
| Capitalised Buildings Maintenance | 1,321 | 1,397 |
| Western Riverside Project | 543 | 515 |
| Other | 6,363 | 3,585 |
| | 27,278 | 22,552 |

Capital Expenditure was categorised as follows:

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Fixed Assets | 27,278 | 22,552 |
| Revenue expenditure funded from capital under statute | 46,628 | 54,101 |
| Total expenditure | 73,906 | 76,653 |

Financed by:

| | | | |
|-------------------------|---------|---------------|---------------|
| Capital Receipts | Note 31 | 4,657 | 3,179 |
| Grants | Note 28 | 62,060 | 59,336 |
| Supported Borrowing | | 6,003 | 6,491 |
| Unsupported Borrowing | | - | 2,013 |
| 3rd Party Contributions | Note 27 | 589 | 4,734 |
| Revenue | | 597 | 900 |
| Total financing | | 73,906 | 76,653 |

Capital Commitments

Capital expenditure of £9.8 million was committed at the 31 March 2010, analysed as follows:

| | 2009/10 £'000 | 2008/09 £'000 |
|--|------------------|------------------|
| Resources (Property) Schemes | - | 48 |
| Housing - General Fund | 1,640 | 2,334 |
| Education & Childrens Services | 4,812 | 14,048 |
| Combe Down Stone Mines (costs will be met by English Partnerships) | 746 | 12,015 |
| Public Realm | 397 | - |
| Highways & Bridge Strengthening | 2,230 | 2,225 |
| Adult Social Services | - | - |
| | 9,825 | 30,670 |



NOTES TO MAIN FINANCIAL STATEMENTS

Capital Financing Requirement

The Capital Financing Requirement identifies the Council's underlying need to borrow. It represents previous and current financial year's capital expenditure less all cash backed funding available to fund that expenditure. An additional adjustment is made annually to account for Minimum Revenue Provision (see note 9).

| | | 2009/10 £'000 | 2008/09 £'000 |
|--|---------|------------------|------------------|
| Opening Capital Financing Requirement | | 89,595 | 82,869 |
| Capital Investment | | 73,906 | 76,653 |
| Sources of Finance: | | | |
| Capital Receipts | Note 31 | (4,657) | (3,179) |
| Government grants & other contributions | | (63,246) | (64,963) |
| Sums set aside from revenue (including MRP) | Note 7 | (1,986) | (1,785) |
| Closing Capital Financing Requirement | | <u>93,612</u> | <u>89,595</u> |
| Increase in underlying need to borrow supported by Government financial assistance | | 6,003 | 6,491 |
| Increase in underlying need to borrow unsupported by Government financial assistance | | - | 2,013 |
| Less minimum revenue provision repayment | | (1,986) | (1,785) |
| Increase / (decrease) in Capital Financing Requirement | | <u>4,017</u> | <u>6,719</u> |

19 NET ASSETS EMPLOYED

Net assets employed are held by the General Fund. The assets used by the former DSOs are mainly 'owned' by the client department and the majority of vehicles are leased.

20 ASSETS HELD

The Council's main assets are :

| | |
|-----------------------|--------------------------------|
| Schools | 71 |
| Leisure Centres | 4 |
| Libraries | 8 |
| Mobile Libraries | 2 |
| Elderly Persons Homes | 5 |
| Depots | 6 |
| Commercial Properties | 301 |
| Car Parks | 50 |
| Park & Ride Car Parks | 3 |
| Parks & Open spaces | 9 formal parks (49 hectares) |
| Highways | 1,150 kilometres |
| Museums & Art Gallery | 3 (see heritage assets below) |

21 LONG TERM DEBTORS

These are debtors that will be recovered over a period longer than 12 months.

| | 2009/10 £'000 | 2008/09 £'000 |
|----------------------------------|------------------|------------------|
| Car loans to employees | 314 | 250 |
| Mortgages | 50 | 67 |
| Other long term debtors | 93 | 93 |
| Total - Long Term Debtors | <u>457</u> | <u>410</u> |

NOTES TO MAIN FINANCIAL STATEMENTS

22 STOCKS AND WORK IN PROGRESS

| | 2009/10 | 2008/09 |
|------------------|------------|------------|
| | £'000 | £'000 |
| Stocks | | |
| Mementos Shop | 200 | 135 |
| Other | 170 | 150 |
| Work in Progress | 230 | - |
| | 600 | 285 |

23 DEBTORS

| | 2009/10 | Restated 2008/09 |
|----------------------------------|----------------|---------------------|
| | £'000 | £'000 |
| Amounts falling due in one year: | | |
| Government departments | 3,578 | 3,395 |
| Housing Rents | 5 | 6 |
| Sundry Debtors | 24,302 | 32,676 |
| Prepayments | 3,968 | 4,039 |
| | 31,854 | 40,116 |
| Provision for doubtful debts | (2,952) | (2,986) |
| Total - Current Assets | 28,902 | 37,130 |

24 FINANCIAL INSTRUMENTS

Balances: The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

| | Long-Term | | Current | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 March 2009 £'000 | 31 March 2010 £'000 | 31 March 2009 £'000 | 31 March 2010 £'000 |
| Financial liabilities at amortised cost - loans | 80,497 | 80,493 | - | - |
| Accrued Interest (1) | | | 1,321 | 1,321 |
| Financial liabilities at amortised cost trade creditors | | | 57,781 | 29,795 |
| Total borrowings | 80,497 | 80,493 | 59,102 | 31,116 |

The Council does not have any Financial Liabilities at fair value through profit and loss.

| | 31 March 2009 £'000 | 31 March 2010 £'000 | 31 March 2009 £'000 | 31 March 2010 £'000 |
|-------------------------------------|---------------------------------------|---------------------------|---------------------------|---------------------------|
| | Loans & receivables (cash on deposit) | - | - | 81,400 |
| Accrued Interest (1) | | | 775 | 294 |
| Loans & receivables - trade debtors | | | 4,216 | 5,468 |
| Total Investments | - | - | 86,391 | 75,062 |

(1) Accrued interest reflects interest on financial liabilities/loans & receivables which is payable within 12 months of the balance sheet date.

NOTES TO MAIN FINANCIAL STATEMENTS

The Council does not have any Available for Sale Assets or Unquoted Equity Instruments at Cost.

The Council has not granted any financial guarantees or soft loans.

Financial Instruments Gains & Losses

| | Financial Liabilities 31 March 2009 | Financial Assets 31 March 2009 | Total | Financial Liabilities 31 March 2010 | Financial Assets 31 March 2010 | Total |
|---|--|---|----------------|--|---|----------------|
| | Liabilities measured at amortised cost | Loans & Receivables | £'000 | Liabilities measured at amortised cost | Loans & Receivables | £'000 |
| Interest Expense * | (3,427) | - | - | (3,426) | - | - |
| Interest payable & similar charges | (3,427) | - | (3,427) | (3,426) | - | (3,426) |
| Interest Income | - | 2,911 | - | - | 1,248 | - |
| Interest & investment income | - | 2,911 | 2,911 | - | 1,248 | 1,248 |
| Net gain/(loss) for the Year | (3,427) | 2,911 | (516) | (3,426) | 1,248 | (2,178) |

*The Council also paid £1.74m (of which £0.71m related to principle), in respect of its share of debt relating to the former Avon County Council which is managed by Bristol City Council. (see note 5)

The fall in interest income achieved in 2009/10 compared to 2008/09 reflects the reduction in short term interest rates.

Fair value of assets and liabilities carried at amortised cost

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

+ cash flows arising from Public Works Loan Board loans have been discounted at the premature repayment rates published by the Board, so that the fair value equals the amount at which the authority could repay its loans on balance sheet date.

+ For other loans and investments, rates were obtained from the market on 31st March by our Treasury advisors, taking into account the credit rating of the counterparty.

+ cash flows arising from investments have been discounted at money market rates available for investments of similar remaining maturities on the balance sheet date.

+ the fair value of trade receivables and payables is taken to be the invoiced amount.

+ The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the balance sheet date we have also included accrued interest in the fair value calculation.

NOTES TO MAIN FINANCIAL STATEMENTS

The fair values calculated are as follows:

| | 31 March 2009 | | 31 March 2010 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying Amount £'000 | Fair Value £'000 | Carrying Amount £'000 | Fair Value £'000 |
| Financial Liabilities - PWLB Loans | 60,914 | 61,732 | 60,914 | 59,705 |
| Financial Liabilities - Market Loans | 20,905 | 18,417 | 20,901 | 24,295 |
| Financial Liabilities - trade creditors | 57,781 | 57,781 | 29,795 | 29,795 |
| | 139,600 | 137,930 | 111,610 | 113,795 |

The fair value as at 31st March 2010 on PWLB loans is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of loans.

The fair value as at 31st March 2010 on market loans is more than the carrying amount because the indicative exit prices quoted for similar loans by the market during the year were lower than the interest coupon rate the Council currently pays. This commitment to pay interest above market exit prices increases the amount that the Council would have to pay if it requested early repayment of the loan.

The market loan method of fair value calculation as at 31st March 2010 differs from that used in last years accounts. This years calculation uses market prices based on the exit costs of similar loans, whereas last year due to the financial crisis in late 2008 there was no active market in Lender Option Borrower Option loans as banks were unable to offer them at rates lower than the PWLB. In the absence of market prices an estimate was made as at March 2009 based on PWLB rates with an added premium to reflect the higher funding costs to banks.

The Fair Value of the market loans as at 31st March 2009 would have been £25.060m rather than the £18.417m shown above, if calculated on the same valuation method used for the fair value calculation as at 31st March 2010.

| | 31 March 2009 | | 31 March 2010 | |
|-------------------------------------|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying Amount £'000 | Fair Value £'000 | Carrying Amount £'000 | Fair Value £'000 |
| Loans & Receivables - investments | 82,175 | 82,593 | 69,594 | 69,687 |
| Loans & Receivables - trade debtors | 4,216 | 4,216 | 5,468 | 5,468 |

The fair value of loans and receivables is higher than the carrying amount as at 31st March 2010 due to fixed interest investments being held by the authority where the interest rate is higher than the prevailing rate estimated to be available on the balance sheet date.

Disclosure of nature and extent of risks arising from financial instruments

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

- * credit risk - the possibility that other parties might fail to pay amounts due to the authority
- * liquidity and refinancing risk - the possibility that the authority might not have funds available, or that it may have to borrow funds at a high rate of interest, to meet its financial obligations.
- * market risk - the possibility that changes in market variables such as interest rates and asset prices may place an unexpected burden on the authority's finances.

NOTES TO MAIN FINANCIAL STATEMENTS

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. The Council's approved Treasury Management Strategy for 2009/10 set the minimum credit ratings for the banks and financial institutions with which deposits can be made. The minimum Fitch credit ratings were Short-term rating F1, Long-term rating A, Individual rating C, and Support rating 3. The Council also set additional criteria in relation to the time limit and amount of monies which will be invested with financial institutions based on the level of their credit rating with a maximum lending limit £20m restricted to UK banks with high credit ratings, on the basis that they either had already or were likely to receive support from the UK Government should they experience financial difficulties.

In line with recent years, the Council continued to take a pro-active risk management approach to its investment decisions during 2009/10 due to the continued volatility of the financial markets and banking sector. This approach included the following actions:

- a) For the first three quarters of the financial year all investments were made in line with the restricted counterparty list approved as part of the 2009/10 treasury management strategy report. Around 20-25% of investments were placed with the UK Government's Debt Management Office (LT rating AAA). Remaining investments were placed with highly rated financial institutions, primarily with UK banks, where it was assessed there was implied or explicit Government support.
- b) In the final quarter the amount invested with the Debt Management Office was gradually reduced to between 10-15% of total investments as the banking sector stabilised, and two short term investments of £3m each were made with two UK Building Societies (Fitch LT rating A) from the Council's wider counterparty list.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectibility over the last five years, adjusted to reflect current market conditions.

| | Amount at 31 March 2010 | Historical Experience of default | Historical experience adjusted for market conditions at 31 March 2010 | Estimated maximum exposure to default & uncollectability |
|--|--|--|--|--|
| | £'000 | % | % | £'000 |
| Deposits with banks & financial institutions (grouped by LT credit rating): | | | | |
| Government Debt Management Office - AAA rated | 8,300 | 0.00 | 0.00 | 0 |
| Banks with Fitch rating AA/AA- | 55,286 | 0.03 | 0.07 | 24 |
| Banks with Fitch rating of A | 6,008 | 0.08 | 0.19 | 11 |
| Total deposits with Banks & Financial Institutions | 69,594 | - | - | 35 |
| | | 2010 | 2009 | |
| Trade Debtors | | 5,468 | 4,216 | |
| Total debtors at 31st March including trade debtors provision for bad debts | | 31,854 | 37,168 | |
| | | 2,952 | 3,083 | |

The historical experience of default for deposits is based on credit rating agencies records since 1981 adjusted for current market conditions.

NOTES TO MAIN FINANCIAL STATEMENTS

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits due to its tight investment policy.

The authority does not generally allow credit for customers, such that the balance of £5.4m outstanding at 31st March 2010 is all past its due date for payment.

The past due amount can be analysed by age as follows:

| | 2009/10 | 2008/09 |
|------------------------|---------------------|--------------|
| | £'000's | £'000's |
| Less than three months | 4,003 | 2,701 |
| Three to six months | 332 | 278 |
| Six months to one year | 336 | 418 |
| More than one year | 797 | 819 |
| | <u>5,468</u> | <u>4,216</u> |

The following table provides analysis of investment balances (including accrued interest) as at 31st March by the country of the counterparty. If the financial institution is part of a group, the country is assessed by the parent financial institution.

| | Amount at | | Amount at | |
|--|----------------------|-------------|----------------------|--------------|
| | 31 March | | 31 March | |
| | 2,009 | % | 2,010 | % |
| | £'000's | | £'000's | |
| Loans & Receivables (Cash on Deposit) by Country Analysis | | | | |
| UK Debt Management Office | 12,502 | 15.2% | 8,300 | 11.9% |
| UK - Other Financial Institutions | 55,770 | 67.9% | 41,169 | 59.2% |
| Australia | 4,503 | 5.5% | 5,000 | 7.2% |
| Singapore | - | 0.0% | 5,008 | 7.2% |
| Spain | 9,400 | 11.4% | 5,071 | 7.3% |
| Sweden | - | 0.0% | 5,046 | 7.3% |
| Total | <u>82,175</u> | 100% | <u>69,594</u> | 100% |

Liquidity and Refinancing Risk

As the authority has ready access to borrowings from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Following the recent transition from being debt free, with long term borrowing only starting in 2004/05, the Council's debt maturity profile is mainly in the 45-50 year range, with the earliest maturity in 2034/35. As the borrowing portfolio develops in the future the maturity profile will be structured to ensure an even spread.

The maturity analysis of borrowing is as follows:

| | 31 March 2009 | 31 March 2010 |
|------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Borrowing due for repayment: | | |
| Between 25 and 30 years | 10,000 | 10,000 |
| Between 40 and 45 years | 10,000 | 20,000 |
| Between 45 and 50 years | 60,497 | 50,493 |
| | <u>80,497</u> | <u>80,493</u> |

Trade creditors and interest on borrowing are not included in the above table. They fall due to be paid in less than one year.

The Council does hold £20m of borrowing through loans called LOBOs (Lenders Option Borrowers Option) where after an initial fixed interest period, the lender has six monthly options to increase the coupon rate of the loan. If the lender decided to increase the coupon rate the Council would

NOTES TO MAIN FINANCIAL STATEMENTS

have the option to either agree the increased rate or to repay the loan. In the event that the Council decided to repay the loan and long term rates were unfavourable, it is likely that short term borrowing would be undertaken until long term rates return to target levels. The fixed interest period has expired on all LOBO loans and the lender has options to change the rate of interest in April and October of each year for as long as the loan continues.

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

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

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

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

To manage the interest rate risk, a maximum limit for borrowings in variable rate loans is set at 50% of total borrowings. The effect of interest rates is monitored throughout the year and the impacts are reflected in budget monitoring reports which identify performance against the budget. This allows any adverse changes to be accommodated.

For indication purposes, at 31st March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £'000 |
|--|--------------|
| Increase in interest payable on variable rate borrowings | - |
| Increase in interest receivable on variable rate investments | (147) |
| Impact on Income and Expenditure Account | <u>(147)</u> |
| Decrease in fair value of fixed rate investment assets (no impact on I & E or STRGL) | 138 |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on I & E or STRGL) | 9,662 |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The authority does not invest in equity shares and doesn't have shareholdings in any joint ventures and is therefore not exposed to losses arising from movements in the prices of shares. Changes in the price of fixed interest investments are managed as part of the authority's interest rate risk management strategy.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and it makes few purchases or sales in foreign currencies. It therefore has no material exposure to loss arising from movements in exchange rates.

25 Financial Instruments Adjustment Account & Available-for-Sale Instruments Reserve

There are no balances or transactions on these accounts.

NOTES TO MAIN FINANCIAL STATEMENTS

26 CREDITORS

| | 2009/10 | Restated 2008/09 |
|--|---------------|---------------------|
| | £'000 | £'000 |
| Inland Revenue | 3,602 | 4,489 |
| Government Departments | - | 23 |
| Sundry Creditors | 39,269 | 39,355 |
| Income Received in Advance | 7,945 | 9,850 |
| Pensions Fund | 10,179 | 29,632 |
| Short term Finance Lease (see note 16) | - | 49 |
| | 60,995 | 83,398 |

27 GOVERNMENT GRANTS DEFERRED

These comprise the following balances as at 31 March:

| | 31 March 2009 | Applied in 2009/10 | Written Down | 31 March 2010 |
|---------------------------|------------------|-----------------------|-----------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Government grants | 37,189 | 17,990 | (3,236) | 51,943 |
| Third party contributions | 7,074 | 589 | (141) | 7,522 |
| | 44,263 | 18,579 | (3,377) | 59,465 |

28 GOVERNMENT GRANTS UNAPPLIED

These comprise the following balances as at 31 March:

| | 31 March 2009 | Grants Received in 2009/10 | Grants Applied 2009/10 | 31 March 2010 |
|--|------------------|----------------------------------|------------------------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | 7,387 | 17,161 | (18,579) | 5,969 |
| Revenue expenditure funded from capital under statute | 4,593 | 42,724 | (44,070) | 3,247 |
| | 11,980 | 59,885 | (62,649) | 9,216 |

29 PROVISIONS FOR LIABILITIES

| Provisions comprise: | Opening balance | New Provisions | Utilised in Year | Written Back | 31 March 2010 |
|--------------------------------|--------------------|-------------------|---------------------|-----------------|------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Provision for back pay | 586 | - | - | (586) | - |
| Social Services | 56 | - | - | - | 56 |
| Spa right of lights provision | 40 | - | (2) | - | 38 |
| Provision for child care costs | - | 444 | - | - | 444 |
| Chew Valley Bus Partnership | 32 | - | - | - | 32 |
| | 714 | 444 | (2) | (586) | 570 |

* The Single Status provision for back pay is no longer required as all claims have now been withdrawn.

* The Social Services provision is for a compensation claim, the outcome of which is uncertain.

* The Spa right of lights provision is in relation to a possible claim arising from the Spa project.

* The provision for child care costs is to provide for fees and charges in relation to a recent court case, the amount of which is unknown.

* Chew Valley Bus Partnership is a provision for repayment of grant funding not spent.

The amounts payable and the timing of the outflow of economic benefits is unknown.

NOTES TO MAIN FINANCIAL STATEMENTS

30 GENERAL FUND BALANCES AND RESERVES

These comprise the following balances as at 31 March:

| | 31 March 2009 £'000 | transfers to £'000 | transfers from £'000 | 31 March 2010 £'000 |
|------------------------------------|---------------------------|--------------------------|----------------------------|---------------------------|
| General Fund Balances unearmarked | 23,144 | 2,652 | (11,158) | 14,638 |
| LMS Schools Balances | 3,736 | - | (652) | 3,084 |
| Corporate Earmarked Reserves | 4,760 | 14,838 | (3,807) | 15,791 |
| Service Specific Reserves | 784 | 212 | (219) | 777 |
| General Service Earmarked Reserves | 1,386 | 311 | (294) | 1,403 |
| | 33,810 | 18,013 | (16,130) | 35,693 |

| | 31 March 2009 £'000 | transfers to £'000 | transfers from £'000 | 31 March 2010 £'000 |
|--|---------------------------|--------------------------|----------------------------|---------------------------|
| Corporate Earmarked Reserves | | | | |
| Insurance Fund | 1,431 | 7 | (114) | 1,324 |
| Service Supported Borrowing | 469 | 199 | - | 668 |
| Revenue Funding of capital | 121 | 477 | (598) | - |
| Exceptional Risk Reserve | 2,743 | - | (2,555) | 188 |
| Cost of Early Retirement | (278) | 620 | (342) | - |
| Affordable Housing & Capital Development | - | 3,000 | - | 3,000 |
| Pensions Increase Reserve | - | 1,000 | - | 1,000 |
| Other | 274 | 9,535 | (198) | 9,611 |
| | 4,760 | 14,838 | (3,807) | 15,791 |

During 2006/07 an exceptional risk reserve was set up to provide for future liabilities which may arise e.g. Spa Claims and Single Status.

The Insurance Fund exists in order to meet the cost of claims which fall below the policy excesses.

| | 31 March 2009 £'000 | transfers to £'000 | transfers from £'000 | 31 March 2010 £'000 |
|---|---------------------------|--------------------------|----------------------------|---------------------------|
| General Service Earmarked Reserves | | | | |
| Replacement PC's Reserve | 331 | 96 | (4) | 423 |
| Desktop Licences Reserve | 653 | - | (150) | 503 |
| Resources Systems Reserve | 287 | - | (140) | 147 |
| Ward Councillors Initiatives Reserve | - | 24 | - | 24 |
| Finance VAT Advice Reserve | - | 100 | - | 100 |
| Heritage Services Reserve | 115 | 91 | - | 206 |
| | 1,386 | 311 | (294) | 1,403 |

31 USEABLE CAPITAL RECEIPTS

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Balance at 1 April | - | 544 |
| Receipts received in year from property disposals | 4,118 | 1,739 |
| Other capital receipts received in year | 1,442 | 896 |
| Receipts used for capital expenditure | (4,657) | (3,179) |
| Balance at 31 March | 903 | - |

NOTES TO MAIN FINANCIAL STATEMENTS

32 DEFERRED CAPITAL RECEIPTS

Deferred Capital Receipts are amounts derived from the sale of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on the sale of council dwellings. The balance as at 31 March 2010 was £338,994 (£358,663 2009).

| 33 CAPITAL ADJUSTMENT ACCOUNT | Note | 2009/10 £'000 | 2008/09 £'000 |
|--|---------|------------------|------------------|
| Opening balance | | 411,558 | 443,461 |
| Capital financing for year | | | |
| - from capital receipts | 18 & 31 | 4,657 | 3,179 |
| - from revenue | 18 | 598 | 900 |
| Write down of Revenue expenditure funded from capital under statute | 18 | (46,628) | (54,068) |
| Write down of grant funding of revenue expenditure funded from capital under statute | 28 | 44,070 | 51,122 |
| Write down of government grants deferred & 3rd party contr'n | 27 | 3,377 | 11,918 |
| Transfer of depreciation on revalued assets | 16 | 421 | 52 |
| Transfer of balances on revaluation reserve re impairments | 34 | - | 299 |
| Transfer of revaluation reserve balance on asset disposal | 34 | - | 81 |
| Impairment of fixed assets due to consumption | 16 | - | (5,947) |
| Impairment of fixed assets due to revaluation | 16 | (15,672) | (2,119) |
| Carrying value of fixed assets disposed of | 16 | (1,784) | (25,002) |
| Deferred liability - Repayment of Avon Loan Debt | 5 | 713 | 774 |
| Deferred liability - finance lease | 16 | 49 | |
| Adjustment to impairment of fixed assets | | 151 | |
| Adjustment to Avon loan debt opening balance | 5 | (31) | |
| Adjustment between depreciation and MRP | | | |
| - depreciation | 16 | (16,946) | (14,877) |
| - MRP | 7 | 1,986 | 1,785 |
| Balance at 31 March | | <u>386,519</u> | <u>411,558</u> |

34 REVALUATION RESERVE

The Revaluation Reserve is charged with gains or losses on fixed assets arising from changes in market values or impairments due to consumption of economic benefits.

| | Note | 2009/10 £'000 | 2008/09 £'000 |
|---|------|------------------|------------------|
| Balance at 1 April | | 24,361 | 12,664 |
| Adjustment to opening balance | | (2) | |
| Transfer of depreciation on revalued assets | 33 | (265) | (299) |
| Transfer of revaluation reserve balance on asset disposal | 33 | - | (81) |
| Impairment of fixed assets - consumption of economic benefits | 33 | - | (52) |
| Impairment of fixed assets - transfer | 16 | (6) | (763) |
| Impairment of fixed assets | | (279) | |
| Adjustments to valuations during the year | | 14,441 | 12,892 |
| Balance at 31 March | | <u>38,250</u> | <u>24,361</u> |

35 COLLECTION FUND ADJUSTMENT ACCOUNT

From 1 April 2009 billing authorities and major preceptors must include accrued Council Tax income for the year in the Income and Expenditure Account. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund must be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

NOTES TO MAIN FINANCIAL STATEMENTS

36 TRUST FUNDS

The Council is the trustee of a small number of Trusts which were inherited from the predecessor authorities. These include bequests, schools prize and scholarship funds and grave maintenance.

| The only Trusts with material assets are: | 2009/10 Income £ | 2009/10 Assets £ |
|---|------------------------|------------------------|
| Alice Park Trust | (707) | 141,395 * |
| Sydney Garden Fund | (184) | 36,856 |
| Bath Recreation Ground Trust | (149,801) | not separately valued |

* Includes external investments valued at £11,928

The purpose of these funds is to provide for the maintenance of specific parks or recreation grounds in Bath.

Bath Recreation Ground Trust

The Council has included the leisure centre in its balance sheet even though it is built on land owned by the charity. The financial regulations determine that as the Council is bearing the risks and rewards of ownership, in accordance with FRS5 it should stay on the Council's balance sheet. The Charity Commission has agreed to a lease being signed to allow the council to remain on the recreation ground land for the period of the life of the building but the lease has not been signed yet.

Other Trust Funds of which B&NES is the sole trustee, relate to assets held:

| | £'s |
|-----------------------------|----------------|
| Educational Funds | 49,244 |
| Graves/memorial maintenance | 14,704 |
| Parks & Gardens maintenance | 6,066 |
| Client accounts | 187,917 |
| Twinning Fund | 26,130 |
| Bequests | 42,704 |
| Total | 326,765 |

37 CONTROLLED COMPANIES

Bath Tourism Plus Limited

During 2003/04 the Council set up the above as a company to provide tourism information and marketing services, in partnership with the private sector. The company is limited by guarantee. The Council and Initiative have equal rights to appoint directors. The directors have day to day control over the management of the company.

There were no acquisition or merger costs arising.

The Company's unaudited accounts show a turnover of £1,873,439, a net profit of £74,590 and net current assets of £79,678 (turnover of £1,656,547, a net profit of £21,320 and net current assets of £33,878 in 2008/09). The turnover and assets held by this company are not considered significant enough to produce Group Accounts.

A copy of the accounts can be obtained from Bath Tourism Plus at Abbey Chambers, Abbey Churchyard, Bath.

Connexions West of England Limited

On 1 September 2007 responsibility for Connexions West of England was transferred jointly to Bath & North East Somerset Council, Bristol City Council, South Gloucestershire Council and North Somerset Council. The company provides services to 13 to 19 year olds, including career education and guidance, supporting post 16 transition for young people with learning disabilities and encouraging participation in education and training.

NOTES TO MAIN FINANCIAL STATEMENTS

The company is limited by guarantee. The Council does not profit from the company's activities and has no rights to its' assets. The turnover and assets of this company are not considered material and therefore group accounts have not been prepared.

Future Bath Plus - City Centre Management Company

Futures Bath Plus is a company set up by the council in partnership with the private sector to promote the cultural interests of Bath, including arts and leisure.

The company is limited by guarantee. The Council and Initiative have equal rights to appoint directors. The directors have day to day control over the management of the company.

The turnover and assets of this company are not considered material and therefore group accounts have not been prepared.

38 West of England Partnership (WEP)

The West of England Partnership was established in 2004 comprising the 4 unitary authorities, Bath & North East Somerset, Bristol, North Somerset and South Gloucestershire. The partnership is not a partnership in law, or a formal decision making body and does not have the power to bind the 4 unitaries.

The partnership board contains a range of social, economic and environmental partners and is advised by a range of specialist, advisory and programme groups. The authority acts as the lead authority for the partnership.

WEP aims to facilitate inward investment into the area bounded by the four councils, with funding for projects being sought from Government via the Government office South West (GOSW), from the private sector and from other funding bodies.

Priorities are:-

- Transport;
- Planning;
- Waste;
- Housing;
- Economic competitiveness and inclusion
- Culture, leisure and tourism.

A key driver for the formation of the WEP is to facilitate large complex cross boundary projects to achieve better service outcomes than would be likely by the Councils acting individually.

West of England Pooled Budget

| | Partnership Office | | | Joint Waste Development | | Sub-total £'000 |
|-----------------------|--------------------|--------------------|-------------------------------|-------------------------|---------------------|--------------------|
| | Planning £'000 | Transport £'000 | Inward Investment £'000 | Plan £'000 | Procurem't £'000 | |
| Expenditure | 314 | 454 | 169 | 244 | 108 | 1,289 |
| Funding | | | | | | |
| Grant | 30 | - | - | - | - | 30 |
| Contributions | 10 | - | - | - | - | 10 |
| Internal Recharges | 34 | - | - | - | - | 34 |
| Recoveries | - | 12 | - | - | - | 12 |
| BANES | 60 | 110 | 42 | 61 | 15 | 288 |
| Bristol | 60 | 111 | 42 | 61 | 41 | 315 |
| North Somerset | 60 | 110 | 43 | 61 | 24 | 298 |
| South Gloucestershire | 60 | 110 | 42 | 62 | 28 | 302 |
| Total funding | 314 | 453 | 169 | 245 | 108 | 1,289 |

NOTES TO MAIN FINANCIAL STATEMENTS

| | Transport | | TOTAL £'000 |
|-----------------------|-------------------|--------------------|----------------|
| | Hengrove £'000 | Framework £'000 | |
| Expenditure | 41 | 11 | 1,341 |
| Funding | | | |
| Grant | - | - | 30 |
| Contributions | - | - | 10 |
| Internal Recharges | - | - | 34 |
| Recoveries | - | - | 12 |
| BANES | - | 11 | 299 |
| Bristol | 41 | - | 356 |
| North Somerset | | - | 298 |
| South Gloucestershire | | - | 302 |
| Total funding | 41 | 11 | 1,341 |

Only the authority's share of partnership income and expenditure are included in authority's accounts

Bath & North East Somerset Council is accountable body for the Growth Points Fund on behalf of the West of England Partnership. In 2009/10 capital grant of £6.4m was received from DCLG. £1.5m was approved and distributed to individual Unitary Authorities to fund specific projects. £1.0m revenue grant was received of which £0.3m was distributed via the West of England Partnership.

39 CONTINGENT LIABILITIES

A report to the Council's Strategic Directors Group identified the potential significant liabilities arising from appeals or objections to the Council's actions. There are a small number of such cases. The most significant are:

Transfer of Housing Stock - in transferring the Council's housing stock to Somer Community Housing Trust, the Council made a number of warranties relating to the properties and land transferred. To date there is no known breach of the warranties made, therefore the Council expects there will be no transfer of economic benefits.

Leisure Trust - the Council has transferred its Leisure functions to an external company. As is usual with this type of Private/Public agreement, the Council would be liable for costs should it breach its obligations or warranties. There is no known breach of these warranties.

Bath Recreation Ground Trust - This is a charitable trust where Bath & North East Somerset Council is the Trustee. The Council as Trustee is ultimately responsible for any liabilities or deficits incurred by the Trust. The Trust is developing a strategy to manage its finances going forward.

Section 117 Aftercare Services - In 1999 the High Court decided that people receiving section 117 aftercare services under the Mental Health Act should not be charged for Community Care. As a result of the High Court ruling the Council has received claims for reimbursement of charges in the region of £205,000. The Council's best estimate of total claims is £393,000 with a balance of £188,000 set aside.

Social Care for Children - The outcome of a recent social care court case could result in additional legal fees for the Council. The outcome of the case has been decided but the extent of fees and charges is still to be determined.

There are three companies which are limited by guarantee by the Council. The amounts are not material and there is no expectation that any liability will arise.

40 CONTINGENT ASSETS

There are no contingent assets.

NOTES TO MAIN FINANCIAL STATEMENTS

41 EXCEPTIONAL ITEMS

Combe Down Stone Mines Project

This expenditure requires to be reported as an exceptional item due to the substantial sums involved in order to infill the old mine workings and make the environment safe. As no tangible asset is produced this is classified as revenue expenditure financed by capital under statute.

Spa Project

The Council settled its dispute with the architects and contractors responsible for the design and construction of the Bath Spa in November 2009. This brought to a close the legal dispute and relevant disclosures were subsequently made within the 2008/09 Statement of Accounts.

The settlement provided for net payments to the Council by Carillion JM Limited and Nicholas Grimshaw and Partners. The compensation is treated as an exceptional item within the accounts and shown against Corporate Services with £2.785m deemed to relate to the financial year to 31 March 2010 (£4.177m 2008/09).

The settlement reflects a legal agreement that takes into account the claims made by the Council against the architects and contractors as well as claims that were previously being made against the Council by the contractors.

42 AUTHORISED FOR ISSUE

The statement of accounts are authorised for issue by the Director of Resources and Support Services on 30th June 2010.

43 POST BALANCE SHEET EVENTS

Pension Liabilities

In his budget statement on 22 June, the Chancellor 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 Avon 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 obligation by between 5% and 8% (£8.5m & £13.5m) for most employers. The precise financial effect will be taken into account in the FRS17/IAS19 figures for the financial year ending 31 March 2011.

COLLECTION FUND 2009/10

| | Notes | £'000 | 2009/10 £'000 | 2008/09 £'000 |
|--|----------|----------|------------------|------------------|
| INCOME | | | | |
| Council Tax | 2 | (81,909) | | (79,625) |
| Council Tax Benefit | 2 | (9,901) | | (8,842) |
| Non-Domestic Rates | 3 | (48,924) | | (48,115) |
| | | | (140,734) | (136,582) |
| EXPENDITURE | | | | |
| Precepts and demands | | | | |
| Bath & North East Somerset | | 77,802 | | 74,095 |
| Avon & Somerset Police | 1 | 10,431 | | 9,836 |
| Avon Fire | 1 | 3,792 | | 3,570 |
| | | | 92,025 | 87,501 |
| Non Domestic Rates | | | | |
| Payment to National Pool | | 48,619 | | 47,797 |
| Interest on repayments | | 45 | | 60 |
| Cost of Collection Allowance | | 260 | | 258 |
| | | | 48,924 | 48,115 |
| Provision for uncollectible amounts | | | 119 | 463 |
| | | | 141,068 | 136,079 |
| Surplus/(Deficit) for the Year | | | (334) | 503 |
| Surplus/(Deficit) Brought Forward as at 1 April | | | 1,483 | 980 |
| Surplus as at 31 March | 5 | | 1,149 | 1,483 |
| Less surplus to be refunded to Police & Fire Authorities | | | (179) | (225) |
| Bath & North East Somerset Surplus | 5 | | 970 | 1,258 |

NOTES TO THE COLLECTION FUND

1 The Collection Fund

The Collection Fund Account is a statutory fund for the collection and distribution of amounts due in respect of Council Tax and National Non- Domestic Rates (NNDR). The year end surplus on the Fund is due to the Council as 'billing authority' and the major precepting authorities, Avon & Somerset Police Authority and Avon Fire Authority.

| | Precept 2009/10 £'000 | Surplus 2009/10 £'000 | Precept 2008/09 £'000 | Deficit 2008/09 £'000 |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| The Avon & Somerset Police Authority | 10,296 | 135 | 9,727 | 109 |
| The Avon Fire Authority | 3,743 | 49 | 3,530 | 40 |

2 Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Bath & North East Somerset Council, the Police Authority and the Fire Authority for the forthcoming year and dividing this by the Council Tax base adjusted for discounts (£63,842.90 for 2009/10). This amount of Council Tax for a Band D property £1,422.62 (£1,372.76 - 2008/09) is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills were based on the following proportions from Bands A to H:

| | Discounted Properties | Ratio to Band D | Band D Equivalents |
|--|----------------------------------|----------------------------|-------------------------------|
| Band A - Disabled Relief | 13.00 | 5/9 | 7.2 |
| Band A | 5,676.75 | 6/9 | 3,784.5 |
| Band B | 14,840.25 | 7/9 | 11,542.4 |
| Band C | 16,166.25 | 8/9 | 14,370.0 |
| Band D | 11,504.75 | 9/9 | 11,504.8 |
| Band E | 7,978.00 | 11/9 | 9,750.9 |
| Band F | 4,578.75 | 13/9 | 6,613.8 |
| Band G | 4,092.50 | 15/9 | 6,820.8 |
| Band H | 320.75 | 18/9 | 641.5 |
| Contributions in Lieu | | | 17.0 |
| | | | <u>65,052.9</u> |
| Allowance for Doubtful Debts & Appeals | | | -1,210.0 |
| Tax Base | | | <u><u>63,842.9</u></u> |

The income for 2009/10 is receivable from the following sources:-

| | 2009/10 £'000 | 2008/09 £'000 |
|------------------------------|--------------------------|--------------------------|
| Billed to Council Tax payers | (81,908) | (79,625) |
| Council Tax benefits | (9,901) | (8,842) |
| | <u><u>(91,809)</u></u> | <u><u>(88,467)</u></u> |

NOTES TO THE COLLECTION FUND

3 National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies a national 'rate' of 48.1 pence in 2009/10 for properties that qualify for Small Business Rate Relief, and 48.5 pence for all others, subject to transitional arrangements. Local businesses pay rates calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the Pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

The NNDR income after reliefs and provisions of £48.924 million for 2009/10 (£48.115 million in 2008/09) resulted from a total rateable value at 31 March 2010 of £154.057 million.

4 Write Offs

During the year, the following Collection Fund debts were written off :

| | £'000 |
|-------------|-------|
| Council Tax | 235 |
| NNDR | 307 |

These write offs were made against bad debt provisions set up in previous years.

| | £'000 |
|--------------------------------|------------|
| The remaining provisions are : | |
| Council Tax | 604 |
| NNDR | 367 |
| | <u>971</u> |

5 Balance of Fund & Distribution

As at 31 March 2010, the balance on the Collection Fund stood at a surplus of £1,149,121

This credit balance due to the Council, Police and Fire Authority is as follows:

| | £'000 |
|----------------------------|--------------|
| Bath & North East Somerset | 970 |
| Avon & Somerset Police | 132 |
| Avon Fire | 47 |
| | <u>1,149</u> |

PENSION FUND ACCOUNTS 2009/10

Statement of Accounts

Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2009 to 31 March 2010.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2009: A Statement of Recommended Practice as published by the Chartered Institute of Public Finance and Accountancy. As required by the Code of Practice the Pension Fund accounts have been prepared in accordance with the provisions of the Statement of Recommended Practice' of the pension SORP 2009. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

1.4 Actuarial Valuations

As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2007. The market value of the Fund's assets at the valuation date was £2,184 million. The actuary has estimated that the value of the Fund was sufficient to meet 83% of its expected future liabilities in respect of service completed to 31 March 2007.

- 1.5 The deficit recovery period is currently set at a maximum of 20 years.

The actuarial valuation was carried out using the projected unit actuarial method. The main actuarial assumptions, on the basis of which the employer's contributions are set, are set out below:

1.6

| | Past Service | Future Service |
|-----------------------------------|--|----------------|
| Rate of Discount | 6.75% per annum (pre retirement) 5.6% per annum (post retirement) | 6.5% per annum |
| Rate of pensionable pay inflation | 4.35% per annum | 4% per annum |
| Rate of price inflation | 3.1% per annum | 2.8% per annum |

- 1.7 The Actuary has estimated that the funding level as at 31 March 2010 is around 80%. This estimate takes into account the announcement in the 22 June 2010 Emergency Budget that public sector pension payments will be linked to the Consumer Price Index rather than the retail Price Index in the future. This change reduces the Fund's liabilities which offset, to some extent, the impact on the funding level of lower than expected investment returns since the 2007 valuation.

PENSION FUND ACCOUNTS 2009/10

- 1.8 The 2010 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2010. This will set the employer contribution rates with effect from 1 April 2011.
- 1.9 The Fund's Funding Strategy Statement, can be found on the Fund's website (www.avonpensionfund.org.uk) or supplied on request from Liz Feinstein, Investments Officer.

Statement of Investment Principles

- 1.10 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website (www.avonpensionfund.org.uk) or supplied on request from Liz Feinstein, Investments Officer.

Statement of Accounting Policies

Basis of Preparation

- 2.1 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

- 2.2 Investments are shown in the accounts at market value, which has been determined as follows:
- i) Quoted Securities have been valued at 31 March 2010 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value.
 - ii) Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
 - iii) Pooled investments are stated at the bid price or at the Net Asset Value quoted by their respective managers at 31 March 2010.
 - iv) Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2010.
 - v) Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
 - vi) Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.
 - vii) Acquisition costs of investments (e.g. stamp duty) are treated as part of the investment cost.
 - viii) Additional Voluntary Contributions used to acquire money purchase benefits by scheme members are not included in the Fund's financial statements.
 - ix) Investment debtors and creditors at the year end are included in investment assets in accordance with the Pensions SORP.

Contributions

- 2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

Benefits, Refunds of Contributions and Cash Transfer Values

- 2.4 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

Statement of Accounting Policies (cont'd)

2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

Investment Income

2.6 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

Investment Management & Administration

2.7 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.8 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.9 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to Accounts.

PENSION FUND ACCOUNTS 2009/10

Fund Account

For the Year Ended 31 March 2010

| | Notes | 2009/10 £'000 | 2008/09 £'000 |
|---|-------|------------------|------------------|
| Contributions and Benefits | | | |
| Contributions Receivable | 4 | 134,681 | 125,349 |
| Transfers In | | 14,934 | 14,118 |
| Other Income | 5 | 361 | 272 |
| | | 149,976 | 139,739 |
| Gross Benefits Payable | 6 | 121,232 | 111,161 |
| Less Benefits Recharged to Employers | 7 | (6,131) | (5,957) |
| | | 115,101 | 105,204 |
| Payments to and on account of Leavers | 7 | 14,618 | 9,259 |
| Administrative Expenses | 8 | 2,340 | 2,254 |
| | | 132,059 | 116,717 |
| Net Additions from dealings with members | | 17,917 | 23,022 |
| Returns on Investments | | | |
| Investment Income | 10 | 16,014 | 19,847 |
| Change in Market Value of Investments | 11 | 612,435 | (396,433) |
| Investment Management Expenses | 9 | (6,860) | (5,020) |
| Net Returns on Investments | | 621,589 | (381,606) |
| Net Decrease in the Fund during the year | | 639,506 | (358,584) |
| Net Assets of the Fund | | | |
| At 1 April | | 1,819,082 | 2,177,666 |
| At 31 March | | 2,458,588 | 1,819,082 |

PENSION FUND ACCOUNTS 2009/10
Net Assets Statement at 31 March 2010

| | Notes | 31 March 2010 £'000 | % | 31 March 2009 £'000 | % |
|---|-------|---------------------------|-------|---------------------------|-------|
| INVESTMENT ASSETS | | | | | |
| Fixed interest securities : Public Sector | | 134,999 | 5.5 | 96,356 | 5.3 |
| Equities | | 241,264 | 9.8 | 167,867 | 9.2 |
| Index Linked securities : Public Sector | | 147,483 | 6.0 | 107,086 | 5.9 |
| Pooled Investment vehicles: | | | | | |
| - Property | | 102,713 | 4.2 | - | - |
| - Other (including Hedge Funds) | | 1,746,573 | 71.0 | 1,273,801 | 70.0 |
| Derivative Contracts: FTSE Futures | | 152 | - | 723 | - |
| Cash Deposits | | 63,042 | 2.5 | 131,231 | 7.2 |
| Other Investment balances | | 4,150 | 0.2 | 3,455 | 0.2 |
| INVESTMENT LIABILITIES | | | | | |
| Derivative contracts (Foreign Exchange hedge) | | - | - | (56) | - |
| Other Investment balances | | (738) | - | (1,130) | - |
| TOTAL INVESTMENT ASSETS | 12 | <u>2,439,639</u> | | <u>1,779,333</u> | |
| Net Current Assets | | | | | |
| Current Assets | 13 | 21,149 | 0.9 | 40,285 | 2.2 |
| Current Liabilities | 13 | (2,200) | (0.1) | (536) | - |
| TOTAL NET ASSETS | | <u>2,458,588</u> | 100.0 | <u>1,819,082</u> | 100.0 |

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2010.

Non-adjusting post balance sheet events: It was announced in the Budget on 22 June 2010 that from April 2011 the Government intends to adopt the Consumer Price Index (CPI) in place of the retail price index (RPI), for the indexation of public service pensions. Consequently future pensions increases under the Avon Pension Fund are expected to be slightly lower. This change is estimated to reduce benefit obligations by between 5% and 8%.

PENSION FUND ACCOUNTS 2009/10

Notes to Accounts - Year Ended 31 March 2010

1 GENERAL

The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of admitted bodies, a list of which can be found in note 18.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

2 MEMBERSHIP

Membership of the Fund at the year-end was as follows:-

| | 31 March 2010 | 31 March 2009 |
|--|--------------------------|------------------|
| Employed Members | 34,800 | 35,264 |
| Pensioners | 21,313 | 20,361 |
| Members entitled to Deferred Benefits | 24,544 | 22,579 |
| TOTAL | <u>80,657</u> | <u>78,204</u> |

3 TAXATION

(i) Value Added Tax

The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

(ii) Income Tax

The Fund is a wholly exempt fund and some UK income tax is recoverable from the Inland Revenue. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

(iii) Capital Gains Tax

No capital gains tax is chargeable.

(iv) Taxation of Overseas Investment Income

The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

PENSION FUND ACCOUNTS 2009/10

4 CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|--|---------------------------|---------------------------|
| Employers' normal contributions | | |
| Scheduled Bodies | 84,394 | 78,342 |
| Admitted Bodies | 7,564 | 7,271 |
| | <u>91,958</u> | <u>85,613</u> |
| Employers' contributions - Augmentation | | |
| Scheduled Bodies | 3,548 | 2,106 |
| Admitted Bodies | 814 | 468 |
| | <u>4,362</u> | <u>2,574</u> |
| Employers' deficit Funding | | |
| Admitted Bodies | 241 | 453 |
| | <u>241</u> | <u>453</u> |
| Members' normal contributions | | |
| Scheduled Bodies | 33,582 | 32,382 |
| Admitted Bodies | 3,595 | 3,485 |
| | <u>37,177</u> | <u>35,867</u> |
| Members' added years contributions | | |
| Scheduled Bodies | 901 | 801 |
| Admitted Bodies | 42 | 41 |
| | <u>943</u> | <u>842</u> |
| Total | <u><u>134,681</u></u> | <u><u>125,349</u></u> |

The added years contributions above represent members' purchase of added years or additional benefits under the Scheme.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Provident on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 16.

5 OTHER INCOME

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|----------------------------------|---------------------------|---------------------------|
| Recoveries for services provided | 356 | 269 |
| Cost recoveries | 5 | 3 |
| | <u>361</u> | <u>272</u> |

'Recoveries for services provided' refers to administrative and accounting services provided to employing bodies.

PENSION FUND ACCOUNTS 2009/10

6 BENEFITS PAYABLE

Analysis of Gross Benefits Payable by Type:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|--|---------------------------|---------------------------|
| Retirement Pensions | 86,016 | 79,879 |
| Unfunded Pensions | 6,131 | 5,957 |
| | <u>92,147</u> | <u>85,836</u> |
| Commutation of Pensions and Lump Sum Retirement Grants | 26,536 | 22,248 |
| Lump Sum Death Grants | 2,549 | 3,077 |
| | <u>29,085</u> | <u>25,325</u> |
| | <u>121,232</u> | <u>111,161</u> |

Analysis of Gross Benefits Payable by Employing Body:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|-------------------------------|---------------------------|---------------------------|
| Scheduled & Resolution Bodies | 113,126 | 104,249 |
| Admitted Bodies | 8,106 | 6,912 |
| | <u>121,232</u> | <u>111,161</u> |

7 BENEFITS RECHARGED TO EMPLOYERS

Benefits recharged include all pension payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. There are also a small number of other pension supplements which are recharged and included in the figures below.

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|--|---------------------------|---------------------------|
| Benefits Recharged | <u>6,131</u> | <u>5,957</u> |
| Leavers | 31 March 2010 £'000 | 31 March 2009 £'000 |
| Refunds to members leaving service | 77 | 118 |
| Individual Cash Transfer Values to other schemes | 14,541 | 9,141 |
| Bulk Cash Transfers | - | - |
| | <u>14,618</u> | <u>9,259</u> |

There have been no bulk transfers during the year.

PENSION FUND ACCOUNTS 2009/10

8 ADMINISTRATION EXPENSES

Costs incurred in the management and administration of the Fund are set out below.

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|--|---------------------------|---------------------------|
| Administration and processing | 1,680 | 1,641 |
| Actuarial fees | 178 | 243 |
| Audit fees | 71 | 70 |
| Legal and professional fees | 1 | 1 |
| Central recharges from Administrating Body | 410 | 299 |
| | <u>2,340</u> | <u>2,254</u> |

9 INVESTMENT EXPENSES

Expenses incurred in the management of the Fund are set out below.

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|-------------------------|---------------------------|---------------------------|
| Portfolio management | 6,469 | 4,818 |
| Global custody | 74 | 68 |
| Investment advisors | 171 | 31 |
| Performance measurement | 33 | 32 |
| Investment accounting | 22 | 24 |
| Other advisory fees | 91 | 47 |
| | <u>6,860</u> | <u>5,020</u> |

10 INVESTMENT INCOME

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|---------------------------|---------------------------|
| Interest from fixed interest securities | 4,135 | 4,731 |
| Dividends from equities | 6,275 | 5,686 |
| Income from Index Linked securities | 3,840 | 2,282 |
| Income from pooled investment vehicles | 1,574 | 1,114 |
| Interest on cash deposits | 172 | 6,012 |
| Other - stock lending | 18 | 22 |
| TOTAL | <u>16,014</u> | <u>19,847</u> |

The Fund has an arrangement with its custodian (ABN AMRO Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004.

The value of the stock on loan as at 31 March 2010 was £9.42 million (31 March 2009 £62.16m). This was secured by collateral worth £9.73 million comprising OECD sovereign debt.

PENSION FUND ACCOUNTS 2009/10

11 INVESTMENTS

| | Value at 01/04/09 £'000 | Purchases at Cost £'000 | Sales Proceeds £'000 | Change in Market Value £'000 | Value at 31/03/10 £'000 |
|--|-------------------------------|-------------------------------|----------------------------|---------------------------------------|-------------------------------|
| UK Fixed Interest Gilts | 150,878 | 121,202 | (82,901) | (4,767) | 184,412 |
| UK Index Linked Gilts | 107,086 | 53,164 | (19,800) | 7,033 | 147,483 |
| Sterling Bonds | 96,156 | 41,103 | (48,000) | 35,168 | 124,427 |
| Non-Sterling Bonds | 58,642 | 13,000 | - | 707 | 72,349 |
| Equities | 1,040,142 | 307,817 | (365,004) | 545,873 | 1,528,828 |
| Hedge Funds | 192,928 | 311 | - | 19,734 | 212,973 |
| Property | - | 132,224 | (32,327) | 2,816 | 102,713 |
| | 1,645,832 | 668,821 | (548,032) | 606,564 | 2,373,185 |
| Cash Deposits | 131,231 | | (68,719) | 530 | 63,042 |
| Debtors/Creditors | 2,270 | | | 1,142 | 3,412 |
| Total Investment Assets | 1,779,333 | 668,821 | (616,751) | 608,236 | 2,439,639 |
| | | | | 660,306 | |
| Adjustments for Revenue Debtors & Creditors | 39,749 | | | (47,871) | 18,949 |
| Total Net Assets | 1,819,082 | | | 612,435 | 2,458,588 |

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents gains on foreign currency deposits and foreign exchange transactions during the year.

Investment Transaction Costs totalling £831,338 are included in the above. These consist of any fees, commissions or taxes due in regard to transactions.

PENSION FUND ACCOUNTS 2009/10

12 INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|---------------------------|---------------------------|
| UK Equities | | |
| Quoted | 191,718 | 124,288 |
| Pooled Investments | 456,708 | 441,712 |
| FTSE Futures | 152 | 723 |
| | <u>648,578</u> | <u>566,723</u> |
| Overseas Equities | | |
| Quoted | 49,546 | 43,579 |
| Pooled Investments | 830,704 | 429,840 |
| | <u>880,250</u> | <u>473,419</u> |
| UK Fixed Interest Gilts | | |
| Quoted | 134,999 | 96,356 |
| Pooled Investments | 49,413 | 54,522 |
| | <u>184,412</u> | <u>150,878</u> |
| UK Index Linked Gilts | | |
| Quoted | 147,483 | 107,086 |
| Pooled Investments | - | - |
| | <u>147,483</u> | <u>107,086</u> |
| Sterling Bonds (excluding Gilts) | | |
| Pooled Investments | 124,427 | 96,156 |
| | <u>124,427</u> | <u>96,156</u> |
| Non-Sterling Bonds | | |
| Pooled Investments | 72,348 | 58,642 |
| | <u>72,348</u> | <u>58,642</u> |
| Hedge Funds | | |
| Pooled Investments | 212,973 | 192,928 |
| | <u>212,973</u> | <u>192,928</u> |
| Property | | |
| Pooled Investments | 102,713 | - |
| | <u>102,713</u> | <u>-</u> |
| Cash Deposits | | |
| Sterling | 52,627 | 130,953 |
| Foreign Currencies | 10,415 | 278 |
| | <u>63,042</u> | <u>131,231</u> |
| Investment Debtors/Creditors | | |
| Investment Income | 3,231 | 2,617 |
| Sales of Investments | 919 | 839 |
| Foreign Exchange Hedge | - | (56) |
| Purchases of Investments | (737) | (1,130) |
| | <u>3,413</u> | <u>2,270</u> |
| TOTAL INVESTMENT ASSETS | <u><u>2,439,639</u></u> | <u><u>1,779,333</u></u> |

POOLED INVESTMENTS ANALYSIS

| | 31 March 2010 £'000 |
|---------------------------------------|---------------------------|
| Property | |
| Unit Trusts | 43,608 |
| Unitised Insurance Policies | 33,034 |
| Other Managed Funds | 26,071 |
| Non Property | |
| Unitised Insurance Policies | 873,040 |
| Other Managed Funds | 873,533 |
| TOTAL POOLED INVESTMENT ASSETS | <u>1,849,286</u> |

DERIVATIVES ANALYSIS

| | 31 March 2010 £'000 |
|--------------------|---------------------------|
| "Over the Counter" | - |

Exchange Traded

Contract Type

FTSE Futures

Expiration

Less than 3 months

Book Cost

20,887,180

Unrealised Gain

152,195

PENSION FUND ACCOUNTS 2009/10

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a short term passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are sometimes held by one of the investment managers to eliminate the impact of the currency on the sterling return.

The proportion of the market value of investment assets managed by each external manager at the end of the financial year was:-

| | 31 March | | 31 March | |
|-------------------------------------|-------------------------|--------------|-------------------------|--------------|
| | 2010 | | 2009 | |
| | £'000 | % | £'000 | % |
| Barclays Global Investors | 1,402,836 | 57.5 | 1,121,178 | 63.0 |
| Capital International | 57 | - | 130 | - |
| Threadneedle Pensions | 4 | - | 38 | - |
| Wellington Management International | 18 | - | 22 | - |
| Jupiter Asset Management | 94,451 | 3.9 | 65,064 | 3.6 |
| Genesis | 130,211 | 5.3 | 51,923 | 2.9 |
| Invesco | 158,223 | 6.5 | 109,894 | 6.2 |
| State Street | 85,675 | 3.5 | 58,061 | 3.3 |
| Partners | 26,100 | 1.1 | - | - |
| Royal London Asset Management | 122,185 | 5.0 | 96,156 | 5.4 |
| TT International | 124,756 | 5.1 | 82,937 | 4.7 |
| Man Investments | 95,047 | 3.9 | 88,409 | 5.0 |
| Gottex Asset Management | 51,280 | 2.1 | 44,799 | 2.5 |
| Stenham Asset Management | 11,544 | 0.5 | 11,006 | 0.6 |
| Signet Capital Management | 45,279 | 1.9 | 39,708 | 2.2 |
| Lyster Watson Management | 9,823 | 0.4 | 9,006 | 0.5 |
| Schroder Investment Management | 76,798 | 3.1 | 1,002 | 0.1 |
| Bank of New York Mellon | 5,352 | 0.2 | - | 0.0 |
| TOTAL INVESTMENT ASSETS | <u>2,439,639</u> | 100.0 | <u>1,779,333</u> | 100.0 |

Residual values held by former Managers Capital International, Threadneedle Pensions and Wellington Management International relate to reclaimable tax.

PENSION FUND ACCOUNTS 2009/10

13 DEBTORS AND CREDITORS

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2010.

Debtors and creditors included in the accounts are analysed below:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|------------------------------------|---------------------------|
| DEBTORS | | |
| Bath & North East Somerset Council Contributions Receivable | 10,027 | 29,480 |
| - Employers | 7,267 | 6,152 |
| - Members | 2,985 | 2,593 |
| Discretionary Early Retirement Costs | 498 | 8 |
| Other Debtors | 372 | 2,052 |
| | <u>21,149</u> | <u>40,285</u> |
| CREDITORS | | |
| Management Fees | (393) | (454) |
| Lump Sum Retirement Benefits | (1,712) | - |
| Other Creditors | (95) | (82) |
| | <u>(2,200)</u> | <u>(536)</u> |
| NET CURRENT ASSETS | <u>18,949</u> | <u>39,749</u> |

The debtor with Bath & North East Somerset Council represents monies held by the Administering Authority and is the surplus of contributions over pensions. This variance was high at 31 March 2009 pending the review of investment strategy in 2009. A normal commercial rate of interest is paid on this money.

Lump Sum Retirement benefits due as at 31st March 2009, but not paid have been accrued in accordance with recommended practice. In the year ending 31st March 2009 Lump Sum Retirement Benefits were accounted for on a payments basis. Lump Sum Retirement Benefits due as at 31st March 2009 but not accrued as debtors, amounted to £1,502,000.

14 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2010. (March 2009 – NIL)

15 TRANSFERS IN

Transfers in during the year were all in relation to individuals. There were no group transfers into the fund during the year ending 31 March 2010.

16 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Provident, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2009/10 were £7,319 (2008/09 - £6,785). Additional Voluntary Contributions received from employees and paid to Friends Provident during 2009/10 were £527,655 (2008/09 - £416,269).

PENSION FUND ACCOUNTS 2009/10

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|----------------------------------|------------------------------------|---------------------------|
| <u>Equitable Life</u> | | |
| With Profits Retirement Benefits | 917 | 1,067 |
| Unit Linked Retirement Benefits | 449 | 333 |
| Building Society Benefits | 327 | 378 |
| | <u>1,693</u> | <u>1,778</u> |
| | | |
| Death in Service Benefit | <u>296</u> | <u>297</u> |
| | | |
| <u>Friends Provident</u> | | |
| With Profits Retirement Benefits | 263 | 284 |
| Unit Linked Retirement Benefits | 3,227 | 2,590 |
| Cash Fund | 482 | 501 |
| | <u>3,972</u> | <u>3,375</u> |

AVC investments are not included in the Fund's financial statements.

17 RELATED PARTIES

In 2009/10, £36,893 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£18,422 in 2008/09). The increase reflects the greater number of Members entitled to vote on the Committee.

Two Independent Trustees were paid allowances of £4,726 and £10,332 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They were also entitled to claim reasonable expenses.

Five voting members and three non voting members of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2009/2010. (Three in 2008/2009, all B&NES Councillor Members). The increase reflects the widening of the entitlement to vote on the Avon Pension Fund Committee. The Independent Trustees are not eligible to join the Local Government Pension Scheme.

There are no other related party transactions except as already disclosed elsewhere.

PENSION FUND ACCOUNTS 2009/10

18 OUTSTANDING COMMITMENTS

As at 31st March 2010 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the investment Managers totalling £73,034,402.

19 EMPLOYING BODIES

As at 31 March 2010 the following employing bodies had scheme members in the Avon Pension Fund:

Scheduled Bodies

Principal Councils and Service Providers

Avon County Council
Avon Fire Brigade
Avon Magistrates' Courts Committee
Avon Probation Service
Bath & North East Somerset Council
Bristol City Council
North Somerset Council

Designating Bodies

Bath Tourism Plus
Backwell Parish Council
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Destination Bristol
Dodington Parish Council
Downend & Bromley Heath Parish Council
Easton in Gordano Parish Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Parish Council
Hanham Abbots Parish Council
Keynsham Town Council
Long Ashton Parish Council
Mangotsfield Parish Council
Nailsea Town Council
Norton Radstock Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Portishead & North Weston Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Westerleigh Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yate Town Council

Admitted Bodies

Active Community Engagement Ltd
Agincare Ltd *
Aquaterra Leisure Ltd. *
Aramark Ltd *
Ashley House Hostel
BAM Construct UK Ltd (for Henbury School)

Education Establishments

Bath Spa University College
Bristol Cathedral Choir School
Cabot Learning Federation
City Academy Bristol
City of Bath College
City of Bristol College
Colston Girl's School Academy
Filton College
Merchant's Academy
Oasis Academy Brightstowe
Oasis Academy Bristol
Norton Radstock College
St. Brendan's College
The Ridings Federation Winterbourne
The Ridings Federation Yate
University of the West of England
Weston College

Admitted Bodies - continued

Bath & North East Somerset Racial Equality Council
Bespoke Cleaning *
Brislington Neighbourhood Centre
The Care Quality Commission
Centre For Deaf People
Churchill Contract Services
Clifton Suspension Bridge Trust
Community Action
Connexions West of England
Eden Food Services *
English Landscapes*
Holburne Museum of Art
ISS Mediclean Bristol*
ISS Mediclean Cabot Learning Federation
Mama Bears Baby Nursery Ltd
Merlin Housing Society (SG)
Merlin Housing Society Ltd
MLA South West
Mouchel *
Mouchel Business Services*
Mouchel Business Services Ltd (Nailsea IT)*
North Somerset Housing
Northgate Information Solutions *
Off The Record Bath & North East Somerset
Prospect Services Ltd *
RM Data Solutions
Shaw Healthcare (North Somerset) Ltd. *
SMA Holdings UK Ltd. *

PENSION FUND ACCOUNTS 2009/10

Admitted Bodies continued

Skanska (Cabot Learning Foundation)*
Skanska Rashleigh Westerfoil *
SLM Community Leisure *
SLM Fitness and Health *
Somer Community Housing Trust
Somer Housing Group Ltd.
South Gloucestershire Leisure Trust*
Southern Brooks Community partnership
Southwest Grid for Learning Trust
STA Travel *
Team Clean Ltd *
The Brandon Trust *
Quadron Services *
University of Bath
West of England Sports Trust
Woodspring Association for Blind People
Yes Dining Ltd *

* Scope bodies: A body that provides, by means of contract, a service in connection with the exercise of a function of a scheme employer.

STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS

The Council is required to:

- * Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Divisional Director of Finance responsible for financial administration.
- * Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- * Approve the statement of accounts for the year.

Divisional Director of Finance responsibilities:

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

In preparing this Statement of Accounts, the Divisional Director of Finance has:

- * Selected suitable accounting policies and then applied them consistently
- * Made judgements which were reasonable and prudent
- * Complied with the local authority Code of Practice

The Divisional Director of Finance has also:

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

Statement of the Divisional Director of Finance

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Council at the accounting date and the income and expenditure for the year ended 31 March 2010.

SIGNED:



Divisional Director Finance (s.151 officer)

DATE: 29 June 2010

Tim Ritchens



Chairperson, Corporate Audit Committee

DATE: 29 June 2010

Councillor Andy Furse

The Statement of Accounts were Authorised for Issue on 30 June 2010.

1 Scope of Responsibility

Bath and North East Somerset Council is responsible for ensuring that its business is conducted in accordance with law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its services are delivered in terms of economy, efficiency and effectiveness in order to demonstrate 'Best Value'.

In meeting its responsibilities, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The Council's system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve organisational objectives. Therefore the Annual Governance Statement only provides reasonable assurance around effectiveness.

The Council has adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. A copy of the Code is accessible through the Council's website at www.bathnes.gov.uk or can be obtained from the Head of Risk & Assurance, Guildhall, High Street, Bath BA1 5AW.

This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2 The Purpose of the Governance Framework

Our definition of Corporate Governance is -

Ensuring the organisation is doing the right things, in the right way, for the people, in an open, honest, inclusive and timely manner.

This definition is underpinned by our internal values of Integrity, Making a Difference and Innovation. The purpose of the governance framework is to allow the Authority to-

- Focus on the outcomes for the area and its community and create a vision for the local area which it
- * can play a leadership role in helping to implement;
- * Engage with local people and its other stakeholders to ensure robust public accountability;
- * Foster a leadership community that sees Members and Officers working together to achieve a common purpose with clearly defined roles and responsibilities;
- * Promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct;
- * Take informed and transparent decisions which manage risk and opportunity and are subject to effective scrutiny;
- * Develop the capacity and capability of its Members and Officers to be effective and innovative.

The governance framework has been in place at B&NES Council for the year ended 31 March 2010 and up to the date of approval of the Statement of Accounts.

3 The Governance Framework

The key elements of the systems and processes that comprise the Council's governance framework are described below. Further details in relation to each element can be viewed through the Council's website <http://www.bathnes.gov.uk> or can be requested from the Council, e-mail Councilconnect@bathnes.gov.uk

a Sustainable Community Strategy - The Sustainable Community Strategy 2009 - 2026 has been created by the Local Strategic Partnership (LSP) to create a framework for the long term economic, social and environmental wellbeing of the area as a whole. It contains six drivers for change:-

- * Climate Change
- * Demographic Change
- * Growth
- * Inequalities
- * Locality
- * The Economy

The strategy provides a starting point for the Council and its partners in building a better place to live and work and a direction for the future. It will be regularly reviewed to ensure it is up to date by reflecting what is currently happening in the area.

b Corporate Plan - The Corporate Plan was adopted in 2008 at full Council and was refreshed in February 2009. The Plan represents the Council's high level strategic plan and encapsulates the activity that will contribute to the achievement of the Sustainable Community Strategy and the Local Area agreement. The plan is divided in terms of -

- * A Story of Place - Community, Economic and Environmental issues affecting the district.
- * Our Vision - A distinctive place, with vibrant communities and where everyone fulfills their potential.
- * Our Priorities - Improving transport and public realm; Building communities where people feel safe and secure; Addressing the causes and effects of climate change; Improving the availability of affordable housing; Promoting the independence of older people; Improving the life chances of disadvantaged children and young people; Improving school buildings; Sustainable growth.
- * Value for Money, Resources and Delivery - Explains how the plan will be implemented effectively using its limited resources, working closely with external partners and implementing the organisational change programme designed to help enable the Council to achieve its objectives.

c Council Constitution - The Council Constitution sets out how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Each agenda for a Council or business meeting contains an item requiring members at the outset of the meeting to declare any relevant interest. The agendas and minutes of all the public meetings of the Council and its Committees are available on our website. The Constitution is formally reviewed each year at the Annual Council meeting in May.

d Council Structure - The Council operates under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios.

- * Leader of the Council
- * Resources and Deputy Leader
- * Adult Social Services and Housing
- * Development and Major Projects
- * Customer Services
- * Children's Services
- * The Council as Corporate Trustee

ANNUAL GOVERNANCE STATEMENT 2009/10

The Cabinet can only make decisions which are in line with the Council's overall Policy and Budget Framework. If it wishes to make a decision which is contrary to the Policy and Budget Framework, it must be referred to the full Council to decide. The Cabinet collectively make recommendations to the Council about the policy framework and take decisions that ensure that services are provided within the framework. Full Council will decide whether to allocate decision making responsibilities to individual members of the Cabinet. If the Council decides to allocate these powers, it will also determine the scope of these powers and the range of service responsibilities allocated to each Cabinet Member. For most 'key' decisions made by the Cabinet, by Cabinet Members or by Officers, the Council is required to publish in advance information about a) the matter to be decided; b) who will be making the decision and c) the date or timescale for the decision and the place where the decision will be made. Most day to day service decisions are taken by Council Officers. The Council appoints committees with power to carry out non-executive and other functions (eg planning and licensing where there is a statutory requirement for the Council to maintain committees). Non-executive functions are those which the Cabinet does not have the power to carry out.

e Overview & Scrutiny - The activity of the Cabinet is monitored by Overview & Scrutiny Panels. Overview & Scrutiny is the name given to the system of checks and balances implemented by the rest of the Council as they monitor the activity of the Cabinet and also assist them in developing policy. Following the local elections in May 2007 the following Overview & Scrutiny Panels were established:

- * Children & Young People
- * Corporate Performance & Resources
- * Enterprise & Economic Development
- * Healthier Communities & Older People
- * Safer & Stronger Communities

f Standards Committee - The Standards Committee is made up of three Councillors, three independent people and three Parish Councillors. The roles and responsibilities of the Committee include:

- * Promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent representatives on school governing bodies.
- * Assisting the councillors, co-opted members and church and parent representatives on school governing bodies to observe the Members' Code of Conduct.
- * To recommend to the Council one or more Codes of Conduct and Practice or protocols for members and/or employees of the Council.

To deal with Parish issues a Sub-Committee has been appointed.

g Corporate Audit Committee - The Corporate Audit Committee is made up of seven Councillors. and for the first time an independent member was appointed.

The Council has delegated to this Committee responsibilities including:

- * To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance.
- * To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year.
- * To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations).
- * To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement.
- * To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements.
- * To review periodically the Council's key financial governance procedures.
- * To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance.
- * To consider the Annual Audit & Inspection Letter from the External Auditor.

- h Head of Paid Service** - The Chief Executive is designated Head of Paid Service and has overall corporate management and operational responsibility (including overall management responsibility for and authority over all officers). He provides professional advice to all parties in the decision making process; and, together with the Monitoring Officer, is responsible for the system of record keeping for all Council's decisions. He represents the Council on partnership and external bodies as required by statute or by the Council.
- i Monitoring Officer** - The Council Solicitor is designated as Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulations, and reporting any actual or potential breaches of the law or maladministration to the full Council and/or to the Cabinet.
- j Chief Finance Officer** - The Strategic Director of Resources & Support Services was designated as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 until the Annual Council meeting on 13th May 2010 when the role was transferred to the Divisional Director Finance. He has responsibility for establishing sound financial management within the Council and ensuring adherence to the Council's own financial standards and rules including the Budget Management Scheme (November 2007), Financial Regulations (May 2002) and Contract Standing Orders (November 2007). The Council has put in place a Financial Plan to support the aims of the Corporate Plan and a system of regular reporting of its financial position and performance during the year.
- k Code of Corporate Governance** - In May 2008 the Council approved a 'local' Code of Corporate Governance. The 'local' Code sets out the Council's definition of corporate governance, the Values it stands for and the Key Principles of Corporate Governance that it has adopted.
- l Anti Fraud and Corruption Arrangements** - The Council has an Anti-Fraud and Corruption Policy demonstrating its commitment to tackling fraud and corruption whether within or external to the Council. It details:
- * The key principles of the policy;
 - * The roles and responsibilities of Members and Officers;
 - * Investigation procedures to be followed in a suspected case of fraud.
- The Council's Whistleblowing Policy is a component of the Anti-Fraud & Corruption Policy.
- m Corporate Complaints System** - The Council has a Corporate Complaints Policy and Procedure which describes how complaints can be made and how the Council will monitor complaints and use that information to improve services and identify training needs. The Council has adopted a two stage approach to ensure that if the complainant is dissatisfied with the Stage 1 response they can have the complaint investigation reviewed again. This review is carried out internally by officers independent of the service area to which the complaint was received. If the complainant is still dissatisfied they can request that their complaint is examined by the Local Government Ombudsman.
- n Stakeholder Communication** - In 2008, the Council established a Communications Strategy to engage with citizens and the Community. Four main methods are used to communicate the Council's objectives and achievements to citizens and service users.
- * **Your Local Council Spending & Council Tax Guide** including an A-Z of Council Services is sent to all Bath & North East Somerset Council households. As well as providing statutory information relating to the Council tax and budget setting process it provides full details of the Council's Vision & Priorities and a review of progress in achieving them;
 - * **The Council Website**, which is updated daily, and provides information about the Council and online access to services;
 - * **The 'Inform' newsletter**, which is sent weekly via email to all subscribers providing detailed news stories;
 - * **Council News** is produced quarterly and sent to all households within Bath and North East Somerset.

The Council also undertakes consultation exercises with stakeholders, through either one off consultations on specific subjects, or through the Voicebox satisfaction surveys which are carried out twice a year.

- o Partnership Governance** - Partnerships are a key component for service provision. The Council's key partnerships are:-
- * **The Local Strategic Partnership (LSP)** - it is made up of public services such as the Council, the Avon & Somerset Police, the NHS Bath and North East Somerset and Somer Housing Group - as well as voluntary, community and business sector representatives. The prime function of local strategic partnerships is to produce a 'community strategy' a plan for working together to improve the quality of life in local communities. The partnership has clearly documented governance arrangements that are available from the LSP website.
 - * **NHS Bath & North East Somerset (PCT)** - Whilst each organisation retains accountability for their particular functions, partnership arrangements enable a joint approach to prioritising resources and service provision. In 2007/08 a Partnership Board for Health and Wellbeing was established. Membership of the Board comprises the Leader of the Council, the Chair of the PCT, Council Officers, PCT Officers, non executive PCT board members and two Council Cabinet Members. The Partnership Board oversees the development of strategy and performance management for Health and Social Care within the framework set by the Council and the PCT Board. The Partnership Board is responsible for overseeing delivery, performance management and setting strategies to deliver the framework, reporting to the Council and the PCT Board on the delivery of the Health and Social Care Services and the operation of the Partnership Agreement. Partnership Board meetings are held in public and are scheduled to take place every 2 months.
 - * **West of England Partnership (WoEP)** - WoEP was established on a voluntary basis by the four unitary councils in the sub-region in 2005 to :
 - > Reflect the economic geography of the sub-region
 - > Set clear long term direction and support the development and delivery of spatial planning, housing, transport, waste, economic development and employment and skills objectives
 - > Provide the leadership and strategic capacity to support and secure these objectives. The Partnership prepares sub-regional strategies and plans, joins up the agenda of strategic partners, bids for investment in strategic infrastructure and co-ordinates delivery. Details of its current governance arrangements are available from www.westofengland.org.
- p Performance Management** - Performance is managed through the Council's Performance Management Framework. The approach adopted is based on the Balanced Scorecard, with Directorates, Services and Teams each having their own Scorecard. The Chief Executive with support from the Council's section 151 officer and the Strategic Performance Manager has quarterly 1:1 meetings with Directors to discuss performance management. A comprehensive performance pack is produced each quarter for review by Strategic Directors Group, Divisional Directors Group, Cabinet and Overview & Scrutiny panels. A 'Dashboard' report has been compiled to simplify reporting.
- q Risk & Opportunity Management** - The Council Risk & Opportunity Management Strategy was first approved in June 2003 and has been reviewed on an annual basis. The Cabinet and Strategic Directors Group maintain a Corporate Risk Register which defines and assesses risks to Council's objectives and records actions to manage these risks. The risks and actions are monitored on a quarterly basis. Strategic and Divisional Directors review Service risk management processes quarterly e.g. the maintenance of Service/Team risk registers. The Corporate Audit Committee monitors the risk management plan periodically.
- r Internal Audit** - Internal Audit operates to the standards set out in the Chartered Institute of Public Finance Accountant's 'Code of Practice for Internal Audit in Local Government'. The Council's appointed External Auditor will then assess Internal Audit against this code and its most recent assessment is that Internal Audit satisfied all elements of this code. The Head of Risk & Assurance reports annually to the Corporate Audit Committee on the performance of the Internal Audit function.
- s External Inspectorates** - The Council maintains an objective and professional relationship with external auditors and statutory inspectors to seek assurance that the Council is providing efficient, effective and economic services and are proactive in securing continuous improvement in the way its functions are exercised.

4 Review of Effectiveness

The Council has responsibility for conducting an annual review of the effectiveness of its governance framework including the system of internal control. In accordance with best practice, the Council has adopted a methodology (Process & Assurance Framework) to formally review the governance framework for the purposes of this Statement. The components are as follows:

Management Assurance -

- * A review of compliance with the recently adopted Local Code of Corporate Governance.
- * A review of the implementation of the risk and opportunity management strategy.
- * A review of Internal Audit report findings and recommendations.
- * A review of fraud and special investigations completed during the year by Internal Audit.

Statutory Officer Assurance -

- * Meeting with the Council's Statutory Officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) to discuss their roles and responsibilities and issues identified during the year.

Service Assurance -

- * Service Assurance questionnaires being completed by Divisional Directors to enable the completion of service assurance statements.
- * These questionnaires covered the following areas - Significant Issues, Governance, Service Planning, Financial Management, Risk Management, Information Governance, Internal Control, Procurement, Project Management, Partnerships, Human Resource Management, Health and Safety, Corporate Equality and Environmental Sustainability and Climate Change.

Performance Management -

- * A review of performance management reporting.
- * Outcomes from national and local performance indicators.
- * A review of financial management reporting.
- * A review of robustness statements.

External Review Assurance -

- * An examination of external inspection reports.
- * An examination of external audit reports.
- * A review of complaints to the Local Government Ombudsman.

Other Sources -

- * An examination of the work of the Corporate Audit Committee.
- * An examination of Standards Committee and Overview and Scrutiny Panels minutes.
- * A review of the adequacy of the complaints procedure including monitoring and reporting outcomes.
- * A review of Strategic Director meetings reports/minutes.

5 Production of the Annual Governance Statement

The publication of the Annual Governance Statement represents the end result of the review of the effectiveness of the governance framework. Corporate involvement in the production of the statement included:

- * **Divisional Directors** - The Divisional Directors Group were briefed on the 22nd of January 2010 on the process and their roles and responsibilities.
- * **Statutory Officers** - The S151 Officer and Monitoring Officer were briefed during January and February 2010 on the process and their roles and responsibilities.
- * **Corporate Audit Committee** - The Committee were appraised of the latest position of the Annual Governance Review and commented on a 'List of Potentially Significant Issues' on the 18th May 2010.
- * **Strategic Directors** - The Annual Governance Review and the 'List of Potentially Significant Issues' were considered by Strategic Directors Group on the 7th June 2010.

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- * **Cabinet** - The Annual Governance Review and the 'List of Issues' were considered by Informal Cabinet on 23rd June 2010.
- * **Corporate Audit Committee** - The Committee reviewed and approved the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive on the 29th June 2010.
- * **Leader of the Council & Chief Executive** - The approved Annual Governance Statement 2009/10 was signed by the Leader of the Council and the Chief Executive following its approval by the Corporate Audit Committee.

6 Update on Significant Governance Issues 2008/09

The following issues were identified on last years Annual Governance Statement:

| | Issue | Action Plan - Current Position |
|---|--|--|
| 1 | <p>Health & Safety In April 2008 a member of Environmental Services staff died as a result of an industrial accident. The Council is currently subject to an ongoing Health & Safety Executive (HSE) investigation.</p> | <p>* Recommendations from the Council's internal review have been implemented. The Council has made a presentation to the HSE in relation to how the Council manages waste collections. Following this presentation the HSE has written to the Council saying that no further enforcement action will be taken.</p> |
| 2 | <p>Impact of the Current Economic Climate In February 2009 the Council's Corporate Plan was updated for the possible impact of the recession. The Council has not yet felt the full impact of the recession, but has already seen a reduction in income in some areas (Land Charges, Planning and Building Control fees, Parking income) that can be directly linked to the economic climate. There has also been an impact on the Council's development & regeneration programme with a noticeable slowdown in the construction and property sectors. Housing development has come to a virtual halt impacting on the programme of affordable housing provision. Sales and lettings of surplus and commercial properties is becoming more challenging. Demand on advice services, not least money advice, is increasing.</p> | <p>* Regular reports are submitted to Strategic Directors Group through the performance management system. * A summary report was presented to Cabinet (02/09/09) and to Corporate Performance & Resources Overview & Scrutiny (14/09/09) * A further report was submitted to Cabinet on 3rd March 2010 by the Director of Resources and Support Services. An analysis compiled by the South West Regional Development Agency put B&NES economic position in context - regional and national.</p> |
| 3 | <p>West of England Partnership The West of England Partnership was a significant issue in 2007/08. During 2008/09 an independent review of the West of England Partnership (WoEP) was completed on behalf of the partnership. The report highlighted governance and programme management issues. 1) The governance structure is insufficiently developed/illustrated to enable a clear understanding by all parties of the roles and responsibilities of all groups and members. Governance and management of the partnership is complex due to the numerous relationships and interdependencies across the four councils. Financial control is in need of improvement within the partnership. Tighter control of WoEPs programme of works is required. 2) The structuring of resources in both the WoEP team and supporting councils is not appropriate to efficiently deliver the workload anticipated.</p> | <p>* WoEP was subject to Audit Commission review by all four external auditors in the WOE during 2009 and received a positive report on governance. * Additional resources have been brought in to assist the WoEP partnership office and they have now adopted B&NES key governance systems around project management, performance management, finance and risk. * Constitution agreed and governance structures in place. * Risk register developed at programme level and presented to all Leaders, Chief Executives and Board in 2009. An ongoing review of the risk register will form part of regular monitoring arrangements.</p> |

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|---|--|
| <p>4 Safeguarding / Integration with NHS Bath & North Somerset (Primary Care Trust) During September 2008 there was a national media reporting on the baby 'P' case in the borough of Haringey. This prompted the Children's Secretary to request an independent review of the case. The independent review report dated 1st December 2008, identified a number of issues around this case including</p> <ol style="list-style-type: none"> 1) Failure to identify children at risk of harm. 2) Agencies acting in isolation. 3) Poor gathering, recording and sharing of information. 4) Insufficient supervision by management. 5) Failure to implement Victoria Climbié recommendations. <p>In October 2008 the Department of Health commenced consultation on updating the 'No Secrets Guidance' (statutory guidance - section 7 of the Local Authorities Social Services Act 1970) with relation to safeguarding of adults. The consultation has highlighted discrepancies between local authorities and NHS arrangements in a number of areas for improvement.</p> <p>Integrating the Primary Care Trust (PCT) and the Council has complicated the safeguarding processes of both organisations and this has been difficult to manage.</p> <p>During 2008/09 there has been a number of issues in relation to safeguarding including the failure to promptly allocate the information management role of Caldicott Guardian.</p> | <p>The Council and PCT have undertaken detailed work to ensure effective governance of its safeguarding responsibilities for children. The Council and PCT have and will continue to review their safeguarding processes in line with the Lord Laming recommendations. The Council and PCT have worked on a scheme for safeguarding adults, identifying sound processes in relation to governance, assurance and practice to cover their responsibilities. The scheme has been externally audited and arrangements are being made for the procedures to be annually reviewed.</p> <p>The Caldicott Guardian roles within the Council and Bath & North East Somerset NHS have been allocated but are subject to further review.</p> |
| <p>5 Information Management/ Business Continuity During the autumn of 2008 the electricity supply to the council offices in Keynsham was affected by an external technical fault. For health & safety reasons the offices were shut for normal operations including access to the applications on the computer network servers.</p> <p>In January 2009 there was a shut down of the main council's server when only 0.3% of the storage capacity remained available for new storage. Between January and April 2009 a series of actions have been taken to mitigate this situation.</p> | <p>* A Business Continuity toolkit has been completed and rolled out across the council's webpages including the external web site to give advice/guidance to the business sector.</p> <p>* Desktop exercises were conducted with council services identified as 'critical' functions in relation to the 'Swine Flu' outbreak. Lessons learned were shared and improvements made to plans and ongoing actions with regard to the Swine Flu outbreak during 2009.</p> <p>* Business Continuity plans were tested during the severe weather in January 2010.</p> <p>Electronic storage capacity is being monitored to ensure action is taken promptly to ensure access to systems is maintained.</p> |

7 Significant Governance Issues 2009/10

The following issues have been identified for action by 31st March 2011.


| No. | Issue | Action |
|-----|---|---|
| 1 | <p>Economic Downturn & Financial Challenge to the Council</p> <p>The economic downturn issue was raised in the 2008/09 Annual Governance Statement and at that time the impact of the recession was only just being felt by services and the community. During 2009/10 the Council's Cabinet and Corporate Performance & Resources Overview & Scrutiny panel received regular monitoring reports on the Council's pro-active efforts to reduce the impact on the Community through the use of its recession reserve. It remains too early to say whether the recession is fully behind us as recovery in the economy is still weak and there remains the risk of a 'double dip'. During the year the demand for council services has changed and the council has responded to the financial challenge of managing budgets in key areas within the Customer Services Directorate. The organisational change process was complex and required staffing issues to be managed. The 22nd June 2010 Emergency Budget announced a significant reduction in public spending and the savings required will impact on service provision.</p> | <p>In relation to support the local economy the majority of actions were complete as at end of year when a full report on the use of Recession Reserve was made to Cabinet.</p> <p>The financial challenge to council services is however still being assessed in detail following the elections and the appointment of a coalition government and the 22nd June Emergency Budget.</p> <p>The Council has made prudent assumptions of the likely impacts on its budget and services have started the Medium Term Resource and Service Plan exercise early. The assumptions will be updated when the impact of the Emergency Budget has been analysed and these will then be reviewed again following the Comprehensive Spending review scheduled for the 20th October 2010.</p> |

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| <p>2</p> | <p>Bath Transport Package - Planning During 2009/10 the Bath Transport package continued to progress, however it received 'significant public interest' which is a key criteria for consideration. Events during 2009/10 included:- * 20th May 2009 - 4 planning applications comprising the Bath Transport Package submitted to Development Control Committee. Three of the applications approved, the fourth (Newbridge Park & Ride and Bus Transit System) was deferred to obtain further technical detail. * 6th August 2009 - Applications for Newbridge Park & Ride/BTS and A4 Eastern Park & Ride subject to consideration by Secretary of State. * 8th October 2009 - Government announced two outstanding applications will not be subject to Public Enquiry. * November 2009 - Decision notices for Newbridge Park & Ride/BTS and Eastern Park & Ride issued. * February 2010 Compulsory Purchase Orders - Council serve 'Statement of Case for making the Order' for each CPO. Further developments: * May 2010 - Public Inquiry date of 1st September to decide on compulsory purchase of parcels of land in Bath. * June 2010 - Government announcement that the Public Inquiry is to be postponed. * June 2010 Emergency Budget and scheduling of the Capital Spending Review for 20th October 2010. There remain significant funding risks as the project proceeds and the situation will therefore need to be carefully monitored and managed.</p> | <p>1) Action taken and required to prepare for a Public Inquiry will be monitored through the Council's Built Environment Leadership Group and the Transport Board. 2) Government funding plans will be monitored and reported to Cabinet. In the mean time, further expenditure will be minimised pending the outcome of the comprehensive spending review.H3830H3786</p> |
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| <p>3</p> | <p>Severe Weather Between 5th and 15th January severe weather was experienced both locally and nationally, resulting in heavy snow falls, severe ice and freezing temperatures within the B&NES area. The results of this weather impacted directly on the ability of all sectors of business and Council services to continue to deliver their full range of services. In these situations this inevitably places significant strain on front-line and critical services where services have the biggest impact on the community and vulnerable individuals. The situation was exacerbated in key areas such as refuse by a period of cold weather pre-Christmas and the impact of the Christmas holidays which meant delays to providing services were even longer than normal. An 'Outcomes of Severe Weather' report was submitted to the Council's Strategic Directors Group on 15th February 2010 recording achievements and issues. This reported the emergency had been managed well. However as with all incidents of this nature, areas of improvement were identified.</p> | <p>A paper will be submitted to Strategic Directors Group in the late Summer of 2010 to verify that the Council is in an improved position if exceptional circumstances are experienced again during the Winter 2010/11.</p> |
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| <p>4</p> | <p>Information Security During 2009/10, three Internal Audit reviews relating to the management of key information management systems within the Council assessed the system of internal control as weak. These included the ONE system in Children's Services, ParkMobile system in Parking Services and the ResourceLink system in Human Resources. Issues included - - Audit trails deactivated - Lack of effective management and exception reports - Weaknesses in access and password management - Accessibility to personal information - Training of system administrators - Third Party access - Unnecessary retention of records - Separation of duties - Business continuity planning All of these issues/weaknesses identified were accepted by management and action plans are being monitored. Internal audit will follow up all these areas during 2010.</p> | <p>A proposal has been made to look at the options for centralising, simplifying and sharing the role of key system administrator tasks. The purpose of this proposal will be to reduce risk, simplify information security requirements and achieve efficiencies through economies of scale. This would tackle the vast majority of issues being raised. In addition Internal Audit will carry out follow-up reviews on the relevant systems.</p> |
|-----------------|---|--|

We propose over the next financial year (2010/11) to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of the next annual governance review.



SIGNED:

**FRANCINE HAEBERLING
 LEADER OF THE COUNCIL**

DATE: 30 June 2010



JOHN EVERITT, CHIEF EXECUTIVE:

DATE: 30 June 2010

ACCOUNTING POLICIES

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end 31 March 2010. It has been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom - A Statement of Recommended Practice 2009 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- * Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- * Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received, and their consumption, they are carried as stocks on the balance sheet.
- * Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- * Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- * Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- * Income and expenditure are credited and debited to the relevant service account, unless they properly represent capital receipts or capital expenditure.
- * Employee costs are accounted for on an accruals basis.

3 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

4 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

ACCOUNTING POLICIES

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent useable resources for the council - these reserves are explained in the relevant policies below. Capital reserves are not available for revenue purposes.

5 Government Grants and Contributions (revenue)

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

6 Retirement Benefits

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

- * The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- * The Local Government Pensions Scheme, administered by Bath & North East Somerset Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year. The authority is however responsible for the costs of additional benefits awarded upon early retirement outside of the terms of the teachers scheme. These benefits are fully accrued in the pensions liability.

The Local Government Pension Scheme

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

- * The liabilities of the Avon Pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- * Liabilities are discounted to their value at current prices, using a discount rate of 5.6% (based on the indicative rate of return on high quality corporate bonds).
- * The assets of the Avon Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - quoted securities - bid price
 - unquoted securities - professional estimate
 - unlisted securities - average of the bid and offer rates
 - property - market value.
 - The change in the net pensions liability is analysed into seven components:
 - current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs
 - interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account
 - expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account

ACCOUNTING POLICIES

- gains/losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Total Statement of Recognised Gains and Losses
- contributions paid to the Avon Pension Fund - cash paid as employer's contributions to the pension fund.

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

8 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2008*. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of :

- * Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
- * Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

9 Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment (3 years) on a straight line basis to reflect the pattern of consumption of benefits.

10 Tangible Fixed Assets

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

ACCOUNTING POLICIES

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

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

- * investment properties and assets surplus to requirements - lower of net current cost or net realisable value
- * dwellings, other land and buildings, vehicles, plant and equipment - lower of net current replacement cost or net realisable value in existing use
- * infrastructure assets and community assets - depreciated historical cost.

Net current replacement cost is assessed as:

- * non-specialised operational properties - existing use value
- * specialised operational properties - depreciated replacement cost
- * investment properties and surplus assets - market value.

Fixed assets are valued in accordance with the Manual published by the Royal Institute of Chartered Surveyors. Valuations are undertaken by the Council's Property Services division on a 5 year rolling programme.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Impairment: the value of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- * where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account
- * otherwise - written off against revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

ACCOUNTING POLICIES

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

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

Depreciation is calculated on the following bases:

- * other buildings - straight-line allocation over the life of the property as estimated by the valuer
- * vehicles, plant and equipment - straight-line allocation over the life of the asset as advised by a suitably qualified officer
- * community assets - straight line allocation over the life of the property as estimated by the valuer
- * infrastructure - straight-line allocation over 10 years.

Assets under construction and surplus assets not in operational use are not depreciated.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11 Charges to Revenue for Fixed Assets

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

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

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

12 Revenue expenditure funded from capital by statute

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

ACCOUNTING POLICIES

13 Leases

Finance Leases

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

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

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

Operating Leases

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

14 Financial Liabilities

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

15 Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

ACCOUNTING POLICIES

The Council has no soft loans.

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

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

Available-for-sale Assets

The Council has no available-for-sale assets.

Instruments Entered into Before 1 April 2006

The council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 3.

16 Stocks and Work in Progress

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

17 Controlled Companies

The Council has two controlled companies - Bath Tourism Plus Ltd and Connexions West of England.

The turnover and assets held by these companies are not considered significant and therefore no Group Accounts have been produced. If they were material they would be treated as an investment.

18 Contingent Liabilities

Contingent Liabilities are not recognised in the accounting statements but disclosed by way of a note giving a brief explanation of any possible obligations and an estimate of the likely financial effect if known.

19 Exceptional Items

Items which require a degree of prominence in order to give a fair presentation of the accounts are shown separately on the face of the Income and Expenditure Account. A description of any exceptional items is given in a note to the accounts.

20 Joint Working Arrangements

Where the Council has a joint working arrangement with other organisations, the authority's share of income and expenditure is accounted for only in the Council's accounts. An example of this the the West of England Partnership.

21 Comparative Figures

To comply with the change of accounting policy for Council Tax and National Non-domestic Rate income collection, introduced in the 2009 SORP, the Income and Expenditure Account, Balance Sheet and Cash Flow Statement have been restated for the 2008/09 accounts for comparative purposes.

GLOSSARY OF TERMS

Accounting Policies

Rules and practices adopted by the Council that dictate how transactions and events are shown or costed.

Accruals

Income and expenditure are recognised as they are earned or incurred not as money is received or paid.

Actuary

An independent professional who advises on the position on the Pension Fund.

Actuarial Valuation

The Actuary reviews the assets and liabilities of the pension fund every three years.

Appropriation

The assignment of revenue for a specific purpose.

Balance Sheet

Statement of recorded assets and liabilities and other balances at the end of the accounting period.

Capital Charges

A charge made to service revenue accounts, for depreciation to reflect the cost of fixed assets used in the provision of services.

Capital Expenditure

Expenditure on new fixed assets such as land and buildings or on enhancement of existing assets so as to significantly prolong their useful life or increase their market value.

Capital Receipts

Income received from the disposal of land, buildings and other capital assets.

Collection Fund

A fund operated by the billing authority into which all receipts of Council tax and National Non-Domestic Rates (NNDR) are paid.

Contingent Liabilities

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 a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Council Tax

A tax on domestic properties introduced 1st April 1993 to replace the community charge.

Creditors

Amounts owed by the Council for goods and services received on or before 31st March.

GLOSSARY OF TERMS

Debtors

Amounts owed to the Council for goods and services provided on or before 31st March.

Deferred Charges

Items for which expenditure is charged to capital, but there is no tangible asset.

Depreciation

The loss in value of an asset due to age, wear and tear, deterioration and obsolescence.

Earmarked Reserves

Amounts set aside for a specific purpose or a particular service or type of expenditure.

Fixed Assets

Tangible assets that result in benefits to the local authority and the services it provides for more than a year.

Fixed Asset Restatement Account

Balance of surpluses or deficits arising on periodic revaluation of fixed assets.

General Fund

The account that summarises the revenue costs of providing services that are met by the Council's demand on the Collection Fund, specific government grants and other income.

Gross Expenditure

Total expenditure before deducting income.

Infrastructure Assets

Fixed assets that cannot be easily disposed of, expenditure on which is only recovered by continued use of assets.

Minimum Revenue Provision

The minimum amount the Council must charge to its revenue account to provide for repayment of debt.

National Non-Domestic Rates (NNDR)

A flat rate in the pound set by government and levied on businesses in the Council area.

Net Expenditure

Gross expenditure less income.

GLOSSARY OF TERMS

Operating Lease

A lease under which the asset is not the property of the lessee.

Outturn

Actual income and expenditure for the financial year.

Precept

The charge made by one authority to another to finance its net expenditure.

Private Finance Initiative (PFI)

Government initiative under which councils buy the services of the private sector to design, build, finance and operate a public facility.

Provision

Amounts set aside for any liability or loss that is likely to be incurred, but where the exact amount and date is uncertain.

Rateable Value

The value of a property for rating purposes set by the inland revenue. Business rates payable are calculated by multiplying the rateable value of the property by the rate in the pound set by government.

Reserves

The amount held in balances and funds that are free from specific liabilities or commitments.

Revenue Expenditure

The regular day-to-day running costs incurred in providing services.

Revenue Support Grant (RSG)

The main grant paid by central government to a local authority towards the cost of all its services.

Statement of Recommended Practice (SORP)

Recommendations on accounting practices issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), with which the Council must comply.

Support Services

Activities of a professional, technical and administrative nature, which are not local authority services in their own right, but support the front line service.

Trading Accounts

The profit and loss account of any trading organisation that needs to be disclosed separately in the Council's account.

**APPENDIX 4
INCOME AND EXPENDITURE ACCOUNT 2009/10**

| | Pre Audit 2009/10 Net Exp £'000 | Post Audit 2009/10 Net Exp £'000 | Variance |
|--|--|---|--------------|
| EXPENDITURE ON SERVICES | | | |
| Central Services to the Public | (686) | (686) | - |
| Cultural Environmental & Planning | 39,444 | 39,444 | - |
| Childrens & Education Services | 33,062 | 33,062 | - |
| Highways, Roads & Transport | 11,452 | 11,452 | - |
| Housing Services | 4,573 | 4,573 | - |
| Adult Social Care Services | 46,556 | 46,556 | - |
| Corporate and Democratic core | 1,710 | 1,510 | (200) |
| Non Distributed pensions costs | 841 | 841 | - |
| Stone Mines projects | | - | - |
| | 136,952 | 136,752 | (200) |
| Net Cost of Services | | | |
| Gain on disposal of Fixed Assets | (2,364) | (2,364) | - |
| Parish Precepts | 1,927 | 1,927 | - |
| Levy payments to Joint Bodies | 218 | 218 | - |
| Net Deficit/(Surplus) on Trading Services | (328) | (328) | - |
| Contribution to Housing Pooled Receipts | 12 | 12 | - |
| Interest payable | 4,457 | 4,457 | - |
| Stone Mines projects | - | - | - |
| Reimbursement of VAT & Interest on leisure Admissions | (200) | - | 200 |
| Interest & Investment Income | (1,261) | (1,261) | - |
| Pensions Interest Cost & Expected Return on Pension Assets | 12,201 | 12,201 | - |
| | 151,614 | 151,614 | - |
| Net Operating Expenditure | | | |
| Income from Council Tax | (76,504) | (76,504) | - |
| Revenue Support Grant | (7,500) | (7,500) | - |
| Contribution from Non-domestic Rate Pool | (32,493) | (32,493) | - |
| Area Based Grant | (7,493) | (7,493) | - |
| | 27,624 | 27,624 | - |
| Deficit for the Year | | | |

Reimbursement of VAT & Interest on leisure admissions now included

Now included in Net cost of services as not material

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| | Pre Audit | Post Audit | Variance |
|---|---------------|---------------|----------|
| | 2009/10 | 2009/10 | |
| | £'000 | £'000 | |
| Deficit for the year on the Income and Expenditure Account | (27,624) | (27,624) | - |
| Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | 18,466 | 18,466 | - |
| | <hr/> | <hr/> | |
| Decrease in General Fund Balance for the Year | (9,158) | (9,158) | - |
| General Fund Balance brought forward | <hr/> 26,880 | <hr/> 26,880 | <hr/> - |
| General Fund Balance carried forward | <u>17,722</u> | <u>17,722</u> | - |
| Amount of General Fund Balance held by schools under local management schemes | 3,084 | 3,084 | - |
| Amount of General Fund Balance generally available for new expenditure | 14,638 | 14,638 | - |
| | <hr/> | <hr/> | |
| | <u>17,722</u> | <u>17,722</u> | - |

NOTE TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| | Pre Audit | Post Audit | Variance |
|--|-----------------|-----------------|----------|
| | 2009/10 | 2009/10 | |
| | £'000 | £'000 | |
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | | |
| Amortisation of intangible fixed assets | (593) | (593) | - |
| Depreciation of fixed assets | (16,353) | (16,353) | - |
| Write down of grant funding of revenue expenditure funded from Capital under Statute | 44,070 | 44,070 | - |
| Government Grants Deferred amortisation | 3,377 | 3,377 | - |
| Write down of revenue expenditure funded from Third Party Contributions | - | - | - |
| Write down of revenue expenditure funded from capital under statute | (46,628) | (46,628) | - |
| Net (gain)/loss on sale of fixed assets | 2,364 | 2,364 | - |
| Impairment of fixed assets | (15,672) | (15,672) | - |
| Amount by which Council tax Income included in the Income & Expenditure account is different from the amount taken to the General Fund in accordance with regulation | (1,298) | (1,298) | - |
| Receipts received in year from housing stock transfer | 549 | 549 | - |
| Net charges made for retirement benefits in accordance with FRS17 | (20,946) | (20,946) | - |
| | <u>(51,130)</u> | <u>(51,130)</u> | - |

NOTE TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE - continued

Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year

| | | | |
|---|----------|----------|---|
| Statutory provision for the repayment of debt - minimum revenue provision | 1,986 | 1,986 | - |
| Principal repayment of Avon loan debt | 713 | 713 | - |
| Capitalisation direction | - | - | - |
| Capital expenditure charged in-year to the General Fund Balance | 306 | 306 | - |
| Transfer from Useable Receipts to meet payments to the Housing Capital Receipts Pool | (12) | (12) | - |
| Employers contributions payable to the Avon Pension Fund and retirement benefits payable direct to pensioners | 15,589 | 15,589 | - |
| | <hr/> | <hr/> | |
| | 18,582 | 18,582 | - |
| Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | | |
| Other transfers between reserves | 3,041 | 3,041 | - |
| Net transfer to or from earmarked reserves | 11,041 | 11,041 | - |
| | <hr/> | <hr/> | |
| Net additional amount to be credited to the General Fund Balance for the Year | (18,466) | (18,466) | - |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | Pre Audit | Post Audit | Variance |
|---|-------------|-------------|-------------|
| | 2009/10 | 2009/10 | |
| | £'000 | £'000 | |
| Deficit for the year on the Income and Expenditure Account | (27,624) | (27,624) | - |
| Surplus arising on revaluation of fixed assets | 24,480 | 13,889 | (10,591) |
| Impairments netted off the revaluation reserve | (6) | (6) | - |
| Other net movements | (282) | (282) | - |
| Actuarial gains/(losses) on pension fund assets and liabilities | (47,070) | (47,070) | - |
| | <hr/> | <hr/> | <hr/> |
| Total recognised gains/(losses) for the year | (50,502) | (61,093) | (10,591) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Remove addition of EPH extra care re
new legislation

BALANCE SHEET as at 31 MARCH 2010

| | Pre Audit 2009/10 £'000 | Post Audit 2009/10 £'000 | Variance |
|------------------------------------|-------------------------------|--------------------------------|----------|
| LONG TERM ASSETS | | | |
| INTANGIBLE FIXED ASSETS | 785 | 785 | - |
| TANGIBLE FIXED ASSETS | | | |
| Operational Assets : | | | |
| - Other Land & Buildings | 293,239 | 280,189 | (13,050) |
| - Community Assets | 3,183 | 3,183 | - |
| - Infrastructure | 42,488 | 42,488 | - |
| - Vehicles, plant and equipment | 4,953 | 4,953 | - |
| Non-Operational Assets : | | | |
| - Investment Properties | 221,608 | 224,067 | 2,459 |
| - Assets under Construction | 19,086 | 19,086 | - |
| - Surplus Assets held for Disposal | 20,160 | 20,160 | - |
| Net Fixed Assets | <u>605,502</u> | <u>594,911</u> | (10,591) |
| Investments | 6 | 6 | - |
| Long Term Debtors | 457 | 457 | - |
| TOTAL LONG TERM ASSETS | <u>605,965</u> | <u>595,374</u> | (10,591) |
| CURRENT ASSETS | | | |
| Stocks and Work in Progress | 600 | 600 | - |
| Debtors and Prepayments | 28,902 | 28,902 | - |
| Investments - Cash on Deposit | 69,594 | 69,594 | - |
| Cash and Bank | 11,325 | 11,325 | - |
| | 110,421 | 110,421 | - |
| CURRENT LIABILITIES | | | |
| Creditors | (64,042) | (60,995) | 3,047 |
| Bank Overdraft | (13,943) | (13,943) | - |
| | <u>(77,985)</u> | <u>(74,938)</u> | 3,047 |
| NET CURRENTS ASSETS | 32,436 | 35,483 | 3,047 |

Remove addition of EPH extra care re
new legislation and change of asset
classification

Change of asset classification

Change of classification from creditor
to reserve

BALANCE SHEET as at 31 MARCH 2010 - continued

| | | | |
|--|------------------|------------------|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | 638,401 | 630,857 | (7,544) |
| Long Term Borrowing | (81,815) | (81,815) | - |
| Capital Grants Deferred Account | (59,465) | (59,465) | - |
| Capital Grants Unapplied | (6,854) | (9,216) | (2,362) Reclassification - moved from creditors |
| Provisions for Liabilities | (570) | (570) | - |
| Deferred Liability - Avon Loan Debt | (16,429) | (17,114) | (685) Change of classification from short |
| Deferred Liability - Finance Lease | - | - | - term debt to long term debt (creditor) |
| Pensions Liability | (193,563) | (193,563) | - |
| | <u>(358,696)</u> | <u>(361,743)</u> | (3,047) |
| TOTAL ASSETS LESS LIABILITIES | 279,705 | 269,114 | (10,591) |
| FINANCED BY: | | | |
| General Fund Balances and Reserves | 35,693 | 35,693 | - |
| Collection Fund Adjustment Account | 973 | 973 | - |
| Useable Capital Receipts Reserve | 903 | 903 | - |
| Deferred Capital Receipts | 339 | 339 | - |
| Capital Adjustment Account | 386,519 | 386,519 | - |
| Revaluation Reserve | 48,841 | 38,250 | (10,591) Remove addition of EPH extra care re |
| Pensions Reserve | (193,563) | (193,563) | - new legislation |
| | <u>279,705</u> | <u>269,114</u> | (10,591) |

