

NORTH DORSET DISTRICT COUNCIL

STATEMENT OF ACCOUNTS - YEAR ENDED 31 MARCH 2007

LEADER OF THE COUNCIL

Councillor Peter Webb

CHIEF EXECUTIVE

Liz Goodall

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Explanatory Foreword

1. INTRODUCTION

The accounting statements that follow comprise:

- *The Income and Expenditure Account, detailing income and expenditure for the Council's services.*
- *The Statement of the Movement on the General Fund Balance*
- *The Statement of Total Recognised Gains and Losses, bringing together all the recognised gains and losses of the Council during the year.*
- *The Balance Sheet, setting out the financial position of the Council on 31 March 2007.*
- *The Cash Flow Statement, summarising the inflows and outflows of cash arising from both revenue and capital transactions with third parties.*
- *The Notes to the Accounts, providing further details and explanations of the figures making up the core financial statements.*
- *The Collection Fund, in which billing authorities record the transactions relating to Council Tax and Business Rates.*
- *The Statement on Internal Control which describes the control environment of the Council and any known weaknesses in internal control.*
- *These accounts include the Statement of Accounting Policies, which follows this foreword.*
- *This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of its financial position.*

2. CAPITAL

In 2006/07 the Council spent £1.996 million on capital projects. The schemes upon which expenditure was incurred were: -

	£000s
Gillingham Community Facility	44
Electronic Government	473
Disabled Facilities Grants	205
Car Parks	195
Capital Grants	462
Housing	226
Council Offices	153
Vehicles	207
Other	31
Total	<u>1,996</u>

Expenditure on the capital programme is funded from capital receipts, Government grants, contributions from third parties and revenue. The Council has capital resources, as shown in its budget book, of £9.0 million as at 1 April 2007 against a committed capital programme of £8.3 million.

3. 2006/07 ORIGINAL BUDGET

After consideration of the financial requirements for the year, the Council set its Council Tax for a Band D property at £88 to cover District Council net expenditure of £7,748,200 (excluding parish precepts).

4. 2006/07 OUTTURN

Net expenditure on the General Fund showed a surplus of £611,800 on the original budget.; this reduced the budgeted call on reserves from £927,500 to £179,700. The General Fund working balance has been reduced by £136,000 to bring them into line with the budgeted General Fund working balance agreed in the 2007/08 budget. The Council has £1.858 million set aside in revenue reserves earmarked for specific purposes. The table below shows a comparison of the actual expenditure for 2006/07 against the original budget: -

	Actual Expenditure £000s	Original Budget £000s	Variance £000s
Service Area			
Policy and Performance	1,761	1,665	96
Community Services	5,341	5,495	(154)
Development and Resources	1,161	1,323	(162)
Chief Executive	1,592	1,560	32
Net Cost of services	9,855	10,043	(188)
Town/Parish Precepts	1,328	1,328	0
Trading Account (surplus)/deficit	(11)	(15)	4
Interest Received	(1,070)	(949)	(121)
Pensions Interest Costs/Expected Return	181	0	181
Gain/Loss on the Disposal of Fixed Assets	(125)	0	(125)
Net Operating Expenditure	10,158	10,407	(249)
Income from Non-Domestic Rate Pool	(3,448)	(3,441)	(7)
Revenue Support Grant	(681)	(664)	(17)
Transfer from Collection Fund	(16)	(16)	0
Income from Ratepayers	(3,627)	(3,627)	0
Net (surplus)/deficit	2,386	2,659	(273)
Other amounts required to be debited or Credited to the General Fund balance	(2,250)	(2,659)	409
General Fund (surplus)/deficit	136	0	136

5. MEDIUM TERM FINANCIAL STRATEGY

The Council recognises that it faces severe pressure on its revenue resources. The Medium Term Financial Plan seeks to achieve a position whereby the council tax will increase at 5% per annum over the next five years. To achieve this net revenue expenditure will need to decrease by approximately £2 million over the same period and revenue reserves used to manage the transition. A programme of cost reduction measures, known as Tough Choices, has been agreed to achieve the cost reduction and comprises three elements:

- (i) Local Delivery: the transfer of services to other providers
- (ii) Focused Resources: cost reductions
- (iii) Business Transformation: generating efficiencies from new ways of working

Capital resources and the Capital Programme were reviewed in February 2007 to align resources with a five year capital programme.

6. BEST VALUE PERFORMANCE PLAN SUMMARY

There are no differences between the figures reported in Note 4 above and the Summary of Financial Performance as reported in the Best Value Performance Plan.

7. EXTERNAL DEBT

From 1 April 2004 Government controls on borrowing have been abolished and replaced with a Prudential Code issued by the Chartered Institute for Public Finance and Accountancy (CIPFA). The Council set its borrowing limits under the new Prudential Code in March 2006 and did not undertake any borrowing during 2006/07, thus remaining debt free through the year.

8. MATERIAL ASSETS ACQUIRED AND LIABILITIES INCURRED

The following material assets were acquired in 2006/07 : -

Refuse vehicles - £207,321

There were no material liabilities incurred for 2006/07.

9. PENSIONS

The notes to the Balance Sheet show the assets of the pension fund relating to the Council, as required by Financial Reporting Standard 17. This has reduced the costs shown against services in the Income and Expenditure Account and the effect is disclosed in Note 27 to the Core Financial Statements. Assets currently represent 72.7% of liabilities (69.9% 2005/06). The Council increased its contribution rate in 2006/07 to 17.6% (17.5% 2005/06) of employees' salaries, based upon the Actuarial Valuation of the Fund as at 31 March 2004, at which time the actuary advised that this rate would be sufficient to meet the full pension costs by the year 2025.

On 30 March 2006, amending regulations in respect of the Local Government Pension Scheme were laid before Parliament. These regulations remove the "Rule of 85" for benefits accruing after 1 October 2006, with transitional protection for those born before 31 March 1953. In addition scheme members will be able to exchange pension for additional lump sum benefits under the new tax rules which came into place on 6 April 2006. The removal of the "Rule of 85" will not affect the 2006/07 accounts but the ability of scheme members to opt for higher lump sum payments in return for lower pensions will impact on the valuation of accrued liabilities in 2006/07. It has been assumed in compiling the FRS 17 disclosures that 50% of retiring employees will opt to take higher lump sum payments and lower pensions.

10. MATERIAL CHARGES AND CREDITS

There are no unusual charges or credits on which to report for 2006/07.

11. CHANGES TO ACCOUNTING POLICIES

The accounts for 2006/07 have been prepared in accordance with the 2006 Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The 2006 SORP had had a material impact on the presentation of the accounts in that the core financial statements have been grouped together with notes to the core statements being provided as a single set of notes rather than as notes to each statement.

The 2006 SORP has also modified the accounting treatment for assets in that it is no longer required to include a notional interest element in calculating charges for the use of assets. This has substantially reduced the cost of services as shown in the Income and Expenditure Account and the figures for 2005/06 have been restated to provide comparative information. Note 1 to the core statements shows the effect of the change on

the accounts for 2005/06. The 2006 SORP also requires the gain or loss on disposal of assets to be shown in the Income and Expenditure Account but as the Council accounts for its assets on a current cost basis this has had no material affect on the Account. The new treatment will, however, result in changes in the valuation of assets during the year and this is reflected as valuation gains or losses and disclosed in the Statement of Recognised Gains and Losses. The impact of this is also shown in Note 1 to the core statements.

12. CHANGES TO STATUTORY FUNCTIONS

There were no changes to statutory functions which had a significant impact on the accounts.

13. GROUP ACCOUNTS

The 2006 Statement of Recommended Practice (SORP) requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The financial statements would include:-

- group income and expenditure account
- group statement of the movement on the general fund balance
- group statement of total recognised gains and losses
- group balance sheet
- group cash flow statement
- notes to the group accounts

In order to assess whether this authority has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:-

- the authority has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the authority.
- if the authority does not have control, whether its interests involve it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- if the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities and the following disclosures have been made:-

- Interests in other entities as shown in Note 9 to the Core Financial Statements.

There are no entities where the council's interest is such that it would give rise to the requirement to prepare group accounts.

This position is reviewed and updated on an annual basis.

14. FURTHER INFORMATION

Further information about the accounts is available from the Financial Services Division, North Dorset District Council, Nordon, Salisbury Road, Blandford Forum, Dorset DT11 7LL. It is the Council's policy to provide full information to the public about its affairs. Interested members of the public have a statutory right to inspect the accounts before the audit is completed, and further details are provided on the Council's website (www.north-dorset.gov.uk): the availability of the accounts for inspection is also advertised in the local press.

Statement of Accounting Policies

1. GENERAL

The statement of accounts summarises the Council's transactions for the financial year 2006/07 and its position at the year ending 31 March 2007. It has been prepared in accordance with all legislative requirements and in keeping with the *Code of Practice on Local Authority Accounting in the United Kingdom 2006: Statement of Recommended Practice* (the SORP) and the *Best Value Accounting Code of Practice 2006*, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The guidance notes issued by CIPFA on the application of accounting standards have also been followed unless otherwise stated. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The financial information in this Statement, including the techniques used for estimation, has been prepared after taking into account its relevance, materiality, reliability, comparability and understandability. All material transactions have been disclosed and the accounts include relevant accruals. The accounts have been prepared on a going concern basis, on the presumption that the Council will continue in operation.

Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. Therefore where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

2. CHANGES TO ACCOUNTING POLICIES

The 2006 SORP has modified the accounting treatment for assets to reflect more closely Generally Accepted Accounting Practices in the UK (UK GAAP). The new treatment will also make the compilation of Whole Government Accounts simpler in that differences between local government accounting and that applied in other parts of the public sector will be reduced.

Under the 2006 SORP it is no longer required to include a notional interest element in calculating charges for the use of assets the gain or loss on disposal of assets now has to be shown in the Income and Expenditure Account. This treatment has substantially reduced the cost of services as shown in the Income and Expenditure Account and the figures for 2005/06 have been restated to provide comparative information. Note 1 to the core statements shows the effect of the change on the accounts for 2005/06.

Since the Council accounts for its assets on a current cost basis the requirement to show gains or losses on disposal has had no material affect on the Income and Expenditure Account. The new treatment will, however, result in changes in the valuation of assets during the year and this is reflected as valuation gains or losses and disclosed in the Statement of Recognised Gains and Losses. The impact of this is also shown in Note 1 to the core statements.

3. ESTIMATION PROCEDURES

The following estimation procedures have been applied in presenting these accounts:

- *Pension costs charged to the Income and Expenditure Account as set out in Note 14.*
- *In order to assess the value of employers liabilities at 31 March 2007 the actuary has rolled forward the liabilities reported at the last full valuation allowing for the different assumptions required under FRS 17. In calculating the asset share they have rolled forward the assets allowing for investment returns (estimated where necessary), the effect of contributions paid into, and estimated benefits paid from, the Fund by and in respect of the employer and its employees. The actuary is confident that this approach should not introduce material distortions. The projected unit method has been used to calculate the service cost. A set of demographic assumptions consistent with those used in the valuation at 31 March 2004 has been used. It has also been assumed that in future 50% of retiring members will opt to increase their lump sums at retirement in exchange for lower pensions as allowed in the amending regulations laid before Parliament on 30 March 2006.*
- *Provisions for bad debts as set out in Note 28 to the Core Financial Statements*
- *Housing Benefit Subsidy income has been estimated on the basis of a unaudited draft final claim*

4. INTANGIBLE FIXED ASSETS

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

5. 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.

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

Measurement: Fixed assets are initially measured at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). They are classified into groupings required by the 1993 Code of Local Authority Accounting, and valued on the following bases:

- *Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.*
- *Non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value; in the case of investment properties, this is normally open market value.*
- *Infrastructure assets and community assets are included in the balance sheet at historical cost, net of any depreciation.*

The surpluses arising on the initial valuation of fixed assets have been credited to the Fixed Asset Restatement Account. Assets are included in the balance sheet at current value and are revalued where there have been a material changes to their value, but as a minimum every five years as part of a rolling programme of revaluation. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

Impairment: The Council undertakes an annual impairment review of all assets held on the balance sheet to ensure that assets are held at no more than their recoverable value. Where an impairment loss on a fixed asset occurs, the loss, if caused by a clear consumption of economic benefits (e.g. physical damage), is charged to the service revenue account; other impairments are written off against the Fixed Asset Restatement 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. The balance of capital receipts arising from the disposal of assets is credited to the Useable Capital Receipts Reserve and can then only be used to finance new capital investment. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written off value of disposals is not a charge against council tax as the cost of assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Financing 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 and land, by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use according to the following policy:

- *Depreciation is calculated using the straight-line method.*
- *Newly acquired assets are depreciated from the following year, although assets in the course of construction are not depreciated until they are brought into use.*
- *Depreciation periods are disclosed in Note20 to the Core Financial Statements.*
- *Where an asset has major components with different estimated useful lives these are depreciated separately.*

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 account, in line with the depreciation policy applied to them.

6. CHARGES TO REVENUE FOR FIXED ASSETS

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

- Depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- 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. These charges 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 Finance Account.

7. DEFERRED CHARGES

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

8. LEASES

The only lease arrangements entered into by the Council are operating leases. The rental costs of the leases are charged to revenue accounts on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable. (See Note 18 to the Core Financial Statements).

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

Government grants and other contributions are accounted for on an accruals basis, and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

10. 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 and receivable is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment;*
- *Where income or 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. Debtors are reduced by a provision for doubtful debts based on the age of the debt;*
- *Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.*

11. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Income and Expenditure Account after the Net Operating Expenditure line. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year. The reserve is then appropriated back into the Income and Expenditure Account after net Operating Expenditure so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the authority. The purpose of the Council's reserves is explained in Note 26 to the Core Financial Statements.

12. PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement but where the timing is uncertain. Provisions are charged to the appropriate revenue account when 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. Where some or all of the payment to settle a provision is expected to be met by another party, this is only recognised as income if it is virtually certain that reimbursement will be received if the obligation is settled.

13. OVERHEAD COSTS

All costs of management and administration have been fully allocated to services in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The total absorption costing principle is used – the full cost of overheads and support services is 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 costs of discretionary benefits awarded to employees retiring early.

These two costs are accounted for as separate headings in the Income and Expenditure Account as part of the Net Cost of Services.

The bases of allocation used for the main costs of management and administration are outlined below:

Cost	Basis of Allocation
• <i>All Central Departments</i>	<i>Actual time spent by staff</i>
• <i>Civic, Members & Related Expenses</i>	<i>Charged to Democratic Representation and Management Service</i>
• <i>Administrative Buildings</i>	<i>Area occupied</i>
• <i>I. C.T. Services</i>	<i>Actual use</i>

14. RETIREMENT BENEFITS

Employees of the council are members of the Local Government Pension Scheme administered by Dorset County Council, which is accounted for as a defined benefit scheme:

- The liabilities of the Dorset County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method (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 5.4% (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Dorset County Council pension fund attributable to the council are included in the balance sheet at their fair value:
 - quoted securities – mid market value
 - unquoted securities – professional estimate
 - property – market value

The change in the pensions liability is analysed into seven components

- current service cost – the increase in liabilities as a result of years of service earned this year and 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 and 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 and 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 the average of the expected long term return and credited to the Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees and debits 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 and debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the Dorset County Council pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movements 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. This adjustment is estimated pro-rata to the actual charges made.

The council has also 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 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.

15.VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to H.M. Revenue and Customs and all VAT paid is recoverable from them.

16.INVESTMENTS

Investments are shown in the Balance Sheet at cost. If the value of an investment falls below cost it is written down to its market value and a provision for the unrealised loss is made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

17.STOCKS AND WORK IN PROGRESS

Stocks and work-in-progress are included in the Balance Sheet at the lower of cost or net realisable value.

Responsibility for the Statement of Accounts

The Council's Responsibilities

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: in this Council, that officer is the Financial Services Manager;*
- *manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;*
- *approve the Statement of Accounts.*

The Financial Services Manager's Responsibilities

The Financial Services Manager, as the Responsible Financial Officer, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice')*.

In preparing this statement of accounts, the Financial Services Manager has:

- *selected suitable accounting policies and then applied them consistently;*
- *made judgements and estimates that were reasonable and prudent;*
- *complied with the Code of Practice.*

The Financial Services Manager has also:

- *kept proper accounting records which are up to date;*
- *taken reasonable steps for the prevention and detection of fraud and other irregularities;*
- *ensured that a proper system of internal control is in place;*
- *provided all accounting records to the Council's auditors and ensured that all transactions undertaken by the Council have been properly reflected and recorded in the accounting records;*
- *provided and made available proper and full information to the Council's auditors.*

The Financial Services Manager also confirms that:

- *there are no other contingent liabilities other than those that have been properly disclosed and recorded in the financial statements;*
- *there is no significant pending or threatened litigation other than that already disclosed in the financial statements;*
- *there are no material commitments or contractual issues other than those already disclosed in the financial statements;*
- *there are no other material transactions with related parties, other than those which have been properly recorded and disclosed in the financial statements;*
- *all debtor and creditor balances between the Council and external bodies have been identified and are accurately disclosed in the financial statements;*

- *the assets contained within the statements are either owned or leased by the Council and are supported by adequate provisions for dilapidation and impairment and shown with appropriate residual asset lives;*
- *expenditure on fixed assets is assumed to increase the value of that asset by the amount spent and this figure is used until the next revaluation;*
- *since the date of approval of the financial statements by Members of the Council, there have been no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements;*
- *there are no other material transactions relating to losses, financial statements, third party assets and other commitments other than those disclosed in the financial statements;*
- *there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finance or operation of the Council;*
- *the assets of the Council have not been used as security for loans;*
- *the Council has no plans or intentions that materially affect the existing valuation or classification of assets and liabilities.*

I certify, that I have complied with my responsibilities as set out above and that the accounts present fairly the financial position of the Council at the accounting date of 31 March 2007, and its income and expenditure, total recognised gains and losses and cash flows for the financial year then ended.

V. SMITH C.P.F.A.
FINANCIAL SERVICES MANAGER
27 June 2007

I confirm that these accounts were approved by the Accounts and Audit Committee as council minute [redacted].

S. HITCHINGS
CHAIRMAN of the ACCOUNTS & AUDIT COMMITTEE

27 June 2007

Income and Expenditure Account

2005/06 Net Expenditure £000s		2006/07 Gross Expenditure £000s	2006/07 Income £000s	2006/07 Net Expenditure £000s
	Service Expenditure			
1,011	Central Services to the Public	4,165	3,509	656
5,910	Cultural, Environmental & Planning Services	8,528	2,367	6,161
133	Highways, Roads & Transport Services	570	409	161
1,401	Housing Services	11,789	10,380	1,409
1,333	Corporate & Democratic Core	1,736	274	1,462
0	Non Distributed Costs	6	0	6
<hr/>	9,788 NET COST OF SERVICES	<hr/>	<hr/>	<hr/>
	Other Operating Expenditure: -			
0	Gain/Loss on the Disposal of Fixed Assets	0	125	(125)
1,224	Parish & Town Council Precepts	1,328	0	1,328
243	Trading Account (surplus)/deficit	0	11	(11)
(1,072)	Interest & Investment Income	0	1,070	(1,070)
302	Pensions Interest Costs/Expected Return	181	0	181
<hr/>	697	<hr/>	<hr/>	<hr/>
<hr/>	10,485 NET OPERATING EXPENDITURE	<hr/>	<hr/>	<hr/>
	SOURCES OF FINANCE			
(3,378)	Council Taxpayers			(3,627)
(1,849)	Non-Domestic Rate Income			(3,448)
(1,867)	Revenue Support Grant			(681)
(42)	Transfer from Collection Fund (Previous Year's Surplus)			(16)
<hr/>	3,349 Net (surplus)/deficit			<hr/>
				<hr/> 2,386 <hr/>

Statement of the 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 compares the council's spending 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.

2005/06 Net Expenditure £000s		2006/07 Net Expenditure £000s	Note
3,349	Income & Expenditure Account (surplus)/deficit	2,386	
(3,522)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(2,250)	11
<u>(173)</u>	General Fund (surplus)/deficit	<u>136</u>	
(666)	Balance on General Fund brought forward	(839)	
(173)	(Surplus)/Deficit for the year	136	
<u>(839)</u>	Balance on General Fund carried forward	<u>(703)</u>	

Statement of Total Recognised Gains and Losses

2005/06 £000s		2006/07 £000s	Note
3,349	Income & Expenditure Accounts (Surplus)/Deficit	2,386	
(1,965)	(Gains)/losses on revaluation of fixed assets	(1,961)	13
(414)	Actuarial (Gains)/losses on Pensions Fund	(944)	27
23	(Increase)/decrease on Collection Fund Balance	1	
(366)	Other (Gains)/Losses	(207)	
<u>627</u>	Total Recognised (Gains) and Losses	<u>(725)</u>	

Balance Sheet

	31 March 2006	31 March 2007	
	£000s	£000s	£000s
FIXED ASSETS			
Intangible Fixed Assets	217		159
Tangible Fixed Assets:			
Operational Assets:			
- Land & Buildings	11,320	12,975	
- Vehicles, Plant & Equipment	2,047	1,421	
- Infrastructure Assets	333	329	
- Community Assets	447	447	
Non-Operational Assets			
- Investment Properties	2,583	2,720	
- Assets Under Construction	260	530	
- Surplus Assets	1,606	1,558	
	18,813	20,139	
Long-Term Investments	2,500	0	
Long-Term Debtors	198	39	
TOTAL LONG-TERM ASSETS	21,511	20,178	
CURRENT ASSETS			
Stocks in Hand	85	85	
Debtors	2,704	1,747	28
Short Term Investments	15,470	18,520	
Cash	14	59	
	18,273	20,411	
CURRENT LIABILITIES			
Creditors	(4,719)	(6,086)	29
Cash Overdrawn	(574)	(286)	
	(5,293)	(6,372)	
TOTAL ASSETS LESS CURRENT LIABILITIES	34,491	34,217	
Capital Grants & Contributions Reserve	(4,470)	(4,382)	25
Deferred Capital Receipts	(11)	(9)	
Provisions	(555)	(436)	22
Government Grants Deferred	(690)	(504)	
Pensions Asset/(Liability)	(9,461)	(8,857)	27
TOTAL ASSETS LESS LIABILITIES	19,304	20,029	
Fixed Asset Restatement Account	(5,603)	(3,642)	23
Capital Financing Account	28,247	26,439	24
Useable Capital Receipts Reserve	3,185	3,470	25
Earmarked Reserves	2,038	1,858	26
Pensions Reserve	(9,461)	(8,857)	27
Balances:			
- General Fund	839	703	26
- Collection Fund	59	58	
- Trading Accounts	0	0	
TOTAL EQUITY	19,304	20,029	

V. SMITH C.P.F.A.
FINANCIAL SERVICES MANAGER

Cash Flow Statement

2005/06 £000s	ACCOUNTING STATEMENT REVENUE ACTIVITIES	2006/07 £000s	£000s	Notes
	Cash Outflows			
7,202	Cash paid to and on behalf of employees	7,351		
2,542	Other operating cash payments	4,491		
11,685	Housing Benefit paid out	9,555		
9,742	Payment to National Non-Domestic Rate Pool	10,745		
30,973	Precepts to other authorities	32,787		
<u>62,144</u>			64,929	
	Cash Inflows			
(30,123)	Council Tax income	(32,518)		
(1,867)	Receipts from National Non-Domestic Rate Pool	(3,448)		
(9,494)	National Non-Domestic Rate income	(12,377)		
(1,867)	Government Grants - Revenue Support Grant	(681)		34
(12,243)	Government Grants - Benefit Subsidy	(12,837)		34
(341)	Government Grants - Other	(307)		34
(3,436)	Cash received for goods and services	(3,951)		
(0)	Other operating cash receipts	0		
<u>(59,371)</u>			(66,119)	
2,773	Net Cash Outflow/(Inflow) from Revenue Activities		(1,190)	30
	SERVICING OF FINANCE			
	Cash Outflows			
0	Interest paid	0		
	Cash Inflows			
(1,184)	Interest received	(1,064)		
<u>(1,184)</u>	Net Cash Inflow from Servicing of Finance		<u>(1,064)</u>	
	CAPITAL ACTIVITIES			
	Cash Outflows			
2,128	Purchase of fixed assets	1,149		
1,412	Other capital cash payments	846		
<u>3,540</u>			1,995	
	Cash Inflows			
(68)	Sale of fixed assets	0		
(2,164)	Capital grants received	(349)		34
(1,323)	Other capital cash income	(275)		
<u>(3,555)</u>			<u>(624)</u>	
(15)	Net Cash Outflow/(Inflow) from Capital Activities		1,371	
1,574	Net Cash Outflow/(Inflow) before Financing		(883)	33
	MANGEMENT OF LIQUID RESOURCES			
(1,210)	Movements in Short Term Investments		550	31
364	FINANCING			
	(Increase)/Decrease in Cash		(333)	32

Notes to the Core Financial Statements

1. PRIOR PERIOD ADJUSTMENT

The 2006 Statement of Recommended Practice requires that the notional interest element of asset rental charges no longer be charged to service accounts. Net expenditure figures in the Income and Expenditure Accounts for 2005/06 have been adjusted to reflect this new requirement and allow comparisons to be made with 2006/07. Service expenditure in the Income and Expenditure Account has been reduced by £500,000 and has been matched by a reduction in the income to the Asset Management Revenue Account.

	2005/06 Net Expenditure Unadjusted £000s	2005/06 Net Expenditure Adjusted £000s	2005/06 Variance £000s
Central Services	1,023	1,011	(12)
Cultural, Environmental & Planning	6,239	5,910	(329)
Highways, Roads & Transport	251	133	(118)
Housing	1,422	1,401	(21)
Corporate & Democratic Core	1,353	1,333	(20)
Unapportionable Central Overheads	0	0	0
NET COST OF SERVICES	10,288	9,788	(500)

The 2006 Statement of Recommended Practice also requires that gains or losses on the disposal of fixed assets is charged to the income and expenditure account. Local authorities account for assets on a current value accounting basis and so gains or losses will rarely arise. The Council sold two properties in 2005/06 for £16,000 against a carrying value of £68,951. In order to provide comparative figures the asset has been nominally revalued and a revaluation gain of £72,802 recognised in the Statement of Total Recognised Gains and Losses. This has been offset by an increase in the value of assets disposed of in the year from £68,950 to £141,752. This adjustment is also reflected in Note 11.

2. TRADING OPERATIONS

The Council administers two open-air markets, several industrial units and a large conference facility with office units. Trading operations, including capital charges, produced a surplus of £11,311 in the year (£242,532 deficit in 2005/06) analysed as follows:

2005/06 £000's	Trading Activity	Expenditure £000's	Income £000's	Total £000's
(15)	Markets	22	(36)	(14)
208	Industrial Units	91	(128)	(37)
50	Wincombe Business Centre	83	(43)	40
243		196	(207)	(11)

3. SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 empowers local authorities, subject to various conditions and limits, to incur expenditure, which in their opinion is in the interest of their area or any part of it. Under this section local authorities are required to account separately for any such expenditure. The Council was permitted to spend £336,664 under this power in 2006/07 and its actual expenditure was £225 in respect of grants to various organisations (2005/06 £6,400).

4. PUBLICITY EXPENDITURE

Set out below, under the requirements of Section 5(1) of the Local Government Act, 1986, is the Council's spending on publicity: -

	2005/06 £000s	2006/07 £000s
Recruitment Advertising	60	36
Tourism Publicity	14	1
Other Publicity	135	79
	<u>209</u>	<u>116</u>

5. BUILDING CONTROL

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function.

From 1 April 1999, the Council was required to set its own charges for Building Regulation application work, so as to recover its costs over any consecutive three-year period. The costs and income relevant to the Building Control function are shown in the Income and Expenditure Account in the cost of services. In 2006/07, this service in total cost £389,945 and attracted income of £319,491, resulting in a deficit of £70,454 (2005/06 £19,113). The chargeable part of the service has made a surplus of £197,954 over the last three years of operation.

Certain activities performed by the Building Control Section cannot be charged for. The statement below shows the total cost of operating the Building Control Section divided between the chargeable and non-chargeable activities.

Chargeable Building Control 2005/06 £000s	Building Regulations Charging Account	Chargeable 2006/07 £000s	Non- Chargeable 2006/07 £000s	Total Building Control 2006/07 £000s
	Expenditure			
0	Employees expenses	0	0	0
18	Supplies and services	17	1	18
345	Support costs	264	107	371
<u>363</u>	Total Expenditure	<u>281</u>	<u>108</u>	<u>389</u>
	Income			
(344)	Building Regulation fees	(319)	(0)	(319)
<u>(344)</u>	Total Income	<u>(319)</u>	<u>0</u>	<u>(319)</u>
<u>19</u>	(Surplus)/Deficit for Year	<u>(38)</u>	<u>108</u>	<u>70</u>

6. BUSINESS IMPROVEMENT DISTRICTS

The Council does not operate a Business Improvement District.

7. MEMBERS' ALLOWANCES

A total of £205,044 in Members' Allowances was paid in 2006/07, (£203,340 in 2005/06).

8. EXECUTIVE REMUNERATION

During 2006/07 the number of employees whose remuneration exceeded £50,000 (including benefits in kind, but excluding pension contributions) were as follows: -

Total Remuneration	2005/06 Employees	2006/07 Employees
Between £80,001 and £90,000	1	1
Between £70,001 and £80,000	0	0
Between £60,001 and £70,000	0	3
Between £50,000 and £60,000	3	0

9. RELATED PARTY 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. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with central government are disclosed in Note 34.

Members and officers have interests in the following bodies where the following material transactions arose during the year:-

Payments

	£000s
• Dorset Community Action (Councillors I A Campbell & M Cox)	136
• Three Rivers Partnership (Councillors H James, S James, D Milsted & I Stewart)	64
• Treads (Councillor J Tanner)	30
• Arts Reach (Mr I McNeil)	25
• Gillingham Festival (Councillor I Stewart)	21

Amounts due to and from related parties are disclosed in Notes 28 and 29. A register of members interests is maintained and is open to public inspection.

Related parties also include:

- Dorset Police Authority and Dorset Fire Authority (as major precepting authorities) as disclosed in the Collection Fund.

- Dorset County Council (as a major precepting authority and administrator of the Dorset County Council Pension Fund) as disclosed in Note 27 and the Collection Fund.

10. AUDITOR REMUNERATION

The Council was audited by the Audit Commission in 2006/07 and was due to pay £108,388 for audit services in 2006/07 (£105,943 in 2005/06) as shown below.

	2005/06 £000's	2006/07 £000's
Fees payable for audit services carried out by the appointed auditor	85	87
Fees payable in respect of statutory inspection	0	0
Fees payable for the certification of grant claims and returns	17	21
Fees payable for other services provided by the appointed auditor	4	1
Total	<u>106</u>	<u>109</u>

11. GENERAL FUND

The Income and Expenditure Account does not include certain adjustments required by statute or non-statutory proper practices but are required to be charged to the General Fund. These are shown below.

	2005/06 £000's	2006/07 £000's
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	(119)	(149)
Reversal of Depreciation/Impairment	(1,517)	(1,564)
Amortisation of Government Grants Deferred	372	335
Deferred Charges	(653)	(320)
Net (Gain)/Loss on Sale of Fixed Assets	0	125
Net changes made for retirement benefits	(1,206)	(1,248)
Commutation Adjustment	0	(109)
Amounts not 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		
Employer's contributions payable to the pension fund	825	859
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		
Transfers to/(from) Earmarked Reserves	<u>(1,224)</u>	<u>(179)</u>
Total	<u>(3,522)</u>	<u>(2,250)</u>

12. INTANGIBLE FIXED ASSETS

Intangible assets comprise software licenses and are amortised to service accounts on a straight-line basis from the year of acquisition over a three year period which represents their economic lives.

	2005/06	2006/07
	£000's	£000's
Original cost	62	357
Amortisations to 1 April	(21)	(140)
Balance as at 1 April	41	217
Expenditure in year	295	91
Written off to revenue in year	(119)	(149)
Balance as at 31 March	217	159

13. PURCHASE AND DISPOSAL OF FIXED ASSETS

Operational Assets

Total 2005/06		Intangible Assets	Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2006/07
£000s		£000s	£000s	£000s	£000s	£000s	£000s
13,741	Gross book value as at 31 March 2006	357	11,326	4,819	344	447	17,293
(1,854)	Cumulative Depreciation and impairment	(140)	(6)	(2,772)	(11)	0	(2,929)
11,887	Net book value as at 31 March 2006	217	11,320	2,047	333	447	14,364
2,177	Additions	91	155	586	(6)	0	826
0	Book Value of Assets Disposed of	0	0	(50)	0	0	(50)
0	Written out Depreciation on Disposals	0	0	50	0	0	50
1,908	Revaluations	0	1,821	0	5	0	1,826
(1,608)	Depreciation	(149)	(321)	(1,212)	(3)	0	(1,685)
0	Impairments	0	0	0	0	0	0
14,364	Net book value as at 31 March	159	12,975	1,421	329	447	15,331

Non-Operational Assets

Total 2005/06		Investment Properties	Assets Under Construction	Surplus Assets	Total 2006/07
£000s		£000s	£000s	£000s	£000s
4,360	Gross book value as at 1 April	2,583	260	1,606	4,449
(0)	Cumulative Depreciation and impairment	(0)	(0)	(0)	0
4,360	Net book value as at 1 April	2,583	260	1,606	4,449
59	Additions	0	251	0	251
(142)	Disposals	0	0	0	0
199	Revaluations	165	19	(48)	136
(28)	Depreciation	(28)	0	0	(28)
0	Impairments	0	0	0	0
4,448	Net book value as at 31 March	2,720	530	1,558	4,808

14. FINANCING OF CAPITAL EXPENDITURE

Capital Expenditure was financed as follows: -

	2005/06 £000s	2006/07 £000s
Capital Investment		
Intangible Assets	295	91
Operational Assets	1,882	736
Non-Operational Assets	59	251
Deferred Charges	1,432	918
Total Capital Investment	3,668	1,996
Sources of Finance		
Useable Capital Receipts	2,519	598
Capital Grants and Contributions	1,149	1398
Revenue Funds	0	0
Total Capital Financing	3,668	1,996

15. DEFERRED CHARGES

	Disabled Facilities Grants £000s	Other £000s	Total £000s
Balance as at 1 April 2006	0	0	0
Expenditure in Year	205	713	918
Amounts Written Off	(205)	(713)	(918)
Balance as at 31 March 2007	0	0	0

16. CAPITAL COMMITMENTS

As at 31 March 2007 there were no contractual capital commitments outstanding.

17. INFORMATION ON ASSETS HELD

All of the council's assets relate to the General Fund. Fixed assets owned by the Council as at 31 March 2007 include the following:

Land & Buildings

Off-Street Car Parks	18
Public Conveniences	10
Leisure/Recreation/Community Centres	8
Municipal Buildings	1
Industrial & Business sites	4
Depots	3
Other Miscellaneous Properties	46

Vehicles, Plant & Equipment

Included in this category of assets are vehicles, items of play equipment, recycling bins, computer equipment and printing equipment.

Infrastructure

The Council owns various access roads and bridges.

Community

These include the land at along side the River Stour and other open spaces and amenity areas.

Non-Operational

Non-operational assets are fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These include the industrial units at Stalbridge and the Wincombe Centre in Shaftesbury. Assets under construction are also included within this category.

18. LEASES

The Council uses a range of leased vehicles in carrying out the various services it undertakes that are financed under terms of operating leases: the amount charged to revenue in 2006/07 under these arrangements was £122,795 (£124,291 in 2005/06).

The Council does not hold any assets under finance leases.

The following commitments under operating leases remain outstanding for 2007/08:

Leases Expiring	Land & Buildings £000's	Other Assets £000's
During 2007/08	0	15
Between 1/4/08 & 31/3/12	0	92
After 1/4/12	0	0
Total	0	107

19. FIXED ASSET VALUATION

Freehold and leasehold properties, which comprise the Council's property portfolio, were valued initially as at 1 April 1994 by an external independent valuers from the Dorset County Council Valuations and Estates Section, on the bases as disclosed in Note 5 to the Accounting Policies, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Non-property assets where the cost of acquisition exceeds £5,000 are also included within the Council's Asset Register and are shown at cost less depreciation.

The value of the Council's assets is reviewed regularly by a third party, Dorset County Councils Valuation and Estates Department, as part of a rolling programme of revaluation over a five year period. The results of these valuations are applied to the remainder of the holding. The basis of valuation is set out in the statement of accounting policies.

	Land & Buildings	Vehicles Plant & Equipment	Investment Properties	Total
	£000s	£000s	£000s	£000s
Valued at historical cost	-	1,421	-	1,421
Valued at current value in:				
2002/03	-	-	-	0
2003/04	-	-	-	0
2004/05	-	-	-	0
2005/06	-	-	-	0
2006/07	12,975	-	2,720	15,695
Total	12,975	1,421	2,720	17,116

20. DEPRECIATION

For 2006/07, depreciation of £1,562,933 (£1,516,719 in 2005/06) was charged using the straight-line method, and based on the following assumed useful lives of assets: -

- *Buildings owned by the Council – between 20 and 40 years as advised by the valuer.*
- *Buildings leased by the Council – the term of the lease.*
- *Public Conveniences – between 10 and 50 years as advised by the valuer.*
- *Children’s Play Equipment – 8 years.*
- *Plant and Equipment – normally 3 to 5 years, or a more appropriate period dependent upon the type of asset acquired.*

21. INSURANCE RESERVES

The Council does not maintain an insurance reserve.

22. PROVISIONS

	Balance 1.4.06 £000’s	Provisions Made £000’s	Amounts Paid £000’s	Balance 31.3.07 £000’s
Remuneration Review	519	346	(435)	430
Vehicle excess mileage	5	0	(5)	0
Wincombe sinking fund	12	1	(12)	1
Anti-social behaviour contingency	19	3	(17)	5
Total	555	350	(469)	436

23. FIXED ASSET RESTATEMENT ACCOUNT

2005/06 £000s		2006/07 £000s
7,568	Balance as at 1 April	5,603
(2,107)	(Gains)/Losses on Revaluation of Fixed Assets	(1,961)
142	Amounts Written Off Fixed Asset Balances for Disposals	0
(1,965)	Total Movement on Reserve	(1,961)
5,603	Balance as at 31 March	3,642

This reserve is written down by the net book value of assets as they are disposed of, and debited or credited with the deficits or surpluses arising on revaluations.

24. CAPITAL FINANCING ACCOUNT

2005/06 £000s		2006/07 £000s
(29,940)	Balance as at 1 April	(28,247)
	Less:	
(1)	- Reserved Receipts	(157)
(372)	- Capital Grants Applied	(334)
(223)	- Transfer of deferred charges provision	(0)
	Add:	
1,636	- Reversal of depreciation	1,713
652	- Deferred charges written down (net of grants)	320
0	- Commutation adjustment	109
1	- Long Term Debtors written down	157
1,693	Total Movement on Reserve	1,808
(28,247)	Balance as at 31 March	(26,439)

The Capital Financing Account contains the amount of capital expenditure financed from revenue and capital receipts.

25. CAPITAL RESERVES

	Useable Capital Receipts £000s	Capital Grants & Contributions £000s
Balance as at 1 April 2006	(3,185)	(4,470)
Amounts Receivable in 2006/07	(442)	(593)
Amounts Applied to Finance New Capital Investment	157	681
Balance as at 31 March 2007	(3,470)	(4,382)

The useable capital receipts reserve represents the capital receipts generated from the sale of Council assets available to finance capital expenditure in future years.

The capital grants and contributions reserve contains sums received, mainly from developers, as contributions towards infrastructure improvements in the District.

Included within the Capital Grants and Contributions approximately £1.4 million is held on behalf of Dorset County Council and will be transferred to the County once certain work contained within the Local Plan commences.

26. EARMARKED RESERVES & GENERAL FUND

	Balance 1.4.06 £000s	Transfers/ Receipts in Year £000s	Payments in Year £000s	Balance 31.3.07 £000s
Amenity Areas	(5)	(0)	0	(5)
Gold Hill Fund	(13)	(0)	0	(13)
Revenue Reserves for Capital Use	(2,020)	(0)	180	(1,840)
Total Reserves	(2,038)	0	180	(1,858)
General Fund	(839)	136	0	(703)

- *Grants and Loans reserves are maintained to cover commitments of the Council to outside organisations, the timing of the expenditure being outside the control of the Council.*
- *Repairs and Renewals reserves are maintained for all buildings for which the Council is responsible, and for the replacement of equipment and plant of a revenue nature.*
- *Other Earmarked reserves are held for expenditure which occurs on a non-annual basis, such as Local Plan Inquiries and District Elections.*
- *The Capital reserve provides resources for future capital projects.*

27. RETIREMENT BENEFITS

Pension Reserve

2005/06 £000s		2006/07 £000s
(9,494)	Balance as at 1 April	(9,461)
	Movement in year:	
0	Change in Accounting Methodology	0
(869)	Current Service Cost	(1,061)
825	Contributions	859
49	Unfunded Pension Payments	51
(0)	Past Service Costs	(4)
(302)	Other Finance Income	(183)
365	Actuarial Gain/(Loss)	944
(35)	Settlements/Curtailments	(2)
33	Total Increase/(Decrease) in Pension Fund Assets	604
(9,461)	Balance as at 31 March	(8,857)

Pension Costs

Employees of North Dorset District Council are admitted to the Dorset County Council Pension Fund, which is administered by Dorset County Council under the Local Government Pension Scheme Regulations 1997, a defined benefit scheme. It is contracted out of the State Second Pension.

In 2006/07 the Council paid into the Pension Fund an employer's contribution of £859,000, based on 17.6% of employees' pensionable pay (£825,000 in 2005/06, 17.5%). However, the current service cost was £1,067,000 (£904,000 2005/06) but under the projected unit method of valuation this will increase as members of the pension scheme approach retirement.

The amount relating to pensions shown in the Net Cost of Services can be reconciled to the actual payments made as follows:-

	2005/06	2006/07
	£000s	£000s
Net Cost of Services		
Current Service Cost	869	1,061
Past Service Costs	0	4
Settlements/Curtailments	35	2
Net Operating Expenditure		
Interest Costs	1,462	1,554
Expected Return on Assets	(1,160)	(1,373)
Amount to be met from Government Grants & Local Taxation		
Movement on Pensions Reserves	(381)	(389)
Actual amount charged against Council Tax for Pensions in the year		
Employer's Contributions Payable	<u>825</u>	<u>859</u>

The latest actuarial valuation was completed as at 31 March 2004, by the actuary Watson Wyatt, and updated to 31 March 2007 by a qualified independent actuary, Barnett Waddingham. Liabilities have been valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted on their current value.

The major assumptions used by the actuary were (in nominal terms): -

- *rate of increase in inflation: 3.3% per annum (3.0% 2005/06)*
- *rate of increase in salaries: 5.1% per annum (4.8% 2005/06)*
- *rate of increase in pensions in payment and deferred pensions: 3.3% per annum (3.0% 2005/06)*
- *proportion of employees opting to take a commuted lump sum: 50%*
- *discount rate: 5.4% (4.9% 2005/06)*

Each main class of asset held by the Fund as at 31 March 2007, relating to North Dorset District Council, and the expected rates of return for the ensuing year are set out in the following table:

2005/06			2006/07	
Fair Value	Expected Return		Fair Value	Expected Return
£000s	%		£000s	%
13,946	7.0	Equities	14,493	7.2
3,291	4.2	Gilts	3,749	4.4
1,441	4.9	Bonds	1,529	5.4
2,276	6.5	Property	2,708	6.7
968	4.0	Cash	1,088	5.0
21,922	6.3	Total market value of assets	23,567	6.5
(31,383)		Present value of Scheme liabilities	(32,424)	
(9,461)		Net pension asset/(liability)	(8,857)	

The assets of the pension fund, relating to the Council, currently represent 72.7% of liabilities (69.9% 2005/06). The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The deficit on the pension fund is disclosed on the balance sheet under long term liabilities; the total of £8.857 million 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 Council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The actuarial gains and losses as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March:

2002/03		2003/04		2004/05		2005/06		2006/07	
£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
(3,620)	30.0	1,873	12.6	1,145	6.0	3,238	14.8	(16)	(0.1)
110	0.6	0	0.0	(759)	(2.8)	0	0.0	(232)	(1.0)
0	0.0	(53)	(0.3)	(283)	1.0	(2,873)	(9.2)	1,192	3.7
(3,510)		1,820		103		365		944	

The Annual Report of the Dorset County Council Pension Fund is available from Dorset County Council, County Hall, Dorchester.

28. DEBTORS

	2005/06	2006/07
	£000s	£000s
Amounts falling due in one year: -		
Government Departments	930	340
Sundry Debtors	1,022	814
Car Leasing	56	63
Payments in Advance	47	32
Collection Fund	1,468	1,343
Less Provision for Doubtful Debts: -		
Council Tax	(456)	(526)
Non-Domestic Rates	(204)	(147)
Sundry Debtors	(159)	(172)
	<u>2,704</u>	<u>1,747</u>

29. CREDITORS

	2005/06	2006/07
	£000s	£000s
Government Departments	36	131
Sundry Creditors	1,152	1,350
Amounts received in advance	2,373	2,231
Collection Fund	645	1,889
Other Local Authorities	513	485
	<u>4,719</u>	<u>6,086</u>

30. RECONCILIATION OF REVENUE CASH FLOW

2005/06		2006/07
£000s		£000s
173	General Fund Surplus/(Deficit) for year	136
(1,088)	Net Contribution to/(from) Reserves/Provisions	407
(442)	Decrease/(increase) in debtors	(1,040)
(217)	Increase/(decrease) in creditors	(1,759)
(15)	Decrease/(increase) in stocks	1
(1,184)	Less Net Investment income	1,065
0	Add Capital Expenditure met from Revenue	0
<u>(2,773)</u>	Net Cash (Inflow)/Outflow from Revenue Activities	<u>(1,190)</u>

31. MOVEMENT IN LIQUID RESOURCES

2005/06		31.3.06	31.3.07	Movement
Movement		£000s	£000s	£000s
£000s				
<u>(1,210)</u>	Short Term Investments	<u>17,970</u>	<u>18,520</u>	<u>550</u>
<u>(1,210)</u>	Increase/(Decrease) in Liquid Resources	<u>17,970</u>	<u>18,520</u>	<u>550</u>

32. MOVEMENT IN CASH

2005/06 Movement £000s		31.3.06 £000s	31.3.07 £000s	Movement £000s
(364)	Cash In Hand/(Overdrawn)	(560)	(227)	333
<u>(364)</u>	Increase/(Decrease) in Cash	<u>(560)</u>	<u>(227)</u>	<u>333</u>

33. MOVEMENT IN NET FUNDS

2005/06 Movement £000s		2006/07 Movement £000s
(364)	Increase/(Decrease) in Cash	550
(1,210)	Increase/(Decrease) in Net Liquid Resources	333
<u>(1,574)</u>	Movement in Net Funds	<u>883</u>
18,984	Net Funds at beginning of period	17,410
<u>17,410</u>	Net Funds at end of period	<u>18,293</u>

34. ANALYSIS OF GOVERNMENT GRANTS

2005/06 £000s		2006/07 £000s
	Revenue	
12,243	Housing Benefits	12,837
1,867	Revenue Support Grant	681
341	Other Revenue Grants	307
<u>14,451</u>		<u>13,825</u>
	Capital	
116	Disabled Facilities Grants	130
2,048	Other	219
<u>2,164</u>		<u>349</u>

35. ISSUE OF STATEMENT OF ACCOUNTS AND POST BALANCE SHEET EVENTS

The Statement of Accounts was issued by the Financial Services Manager, Mr V Smith CPFA, on 27 June 2007, following approval by the Accounts and Audit Committee on 27 June 2007. There have been no post balance sheet events up to this date not disclosed in the financial statements.

Collection Fund

2005/06		2006/07	Notes
£000s	EXPENDITURE	£000s	
24,477	Dorset County Council Precept	26,112	
318	Previous Year's Surplus to Dorset County Council	108	
3,650	Dorset Police Authority Precept	3,894	
47	Previous Year's Surplus to Dorset Police Authority	16	
1,242	Dorset Fire Authority Precept	1,323	
16	Previous Year's Surplus to Dorset Fire Authority	5	
3,378	North Dorset District Council Precept	3,627	
43	Previous Year's Surplus to North Dorset District Council	17	
100	Write-Offs	48	
142	Provision for Uncollectable Amounts	116	1
9,546	Payment to National Non-Domestic Rates Pool	11,222	2
88	Cost of Collection of Business Rates	88	
43,047		46,576	
INCOME			
30,420	Council Tax Income	32,186	3
2,832	Council Tax Benefits	3,036	
9,634	Income Collectable from Business Ratepayers	11,310	2
0	Reduced Provision for Uncollectable Amounts	16	1
42,886		46,548	
161	(Surplus)/Deficit for the year	28	
(733)	Balance on Fund brought forward	(572)	
161	(Surplus)/Deficit for the year	28	
(572)	Balance on Fund carried forward	(544)	4

Notes to the Collection Fund

1. PROVISION FOR UNCOLLECTABLE AMOUNTS

The provision for uncollectable amounts is based on a realistic assessment of likely non-collection using the guidelines issued by the Audit Commission. An assessment is necessary in order to provide a basis for budgeting for losses when setting the council tax.

2. COLLECTION OF NON-DOMESTIC RATES

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area that are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and an allowance for collection, is paid into the central Non-Domestic Rates Pool managed by central government. Under these arrangements, the amounts included in these accounts can be analysed as follows:

	2006/07
	£000s
Non-domestic rateable value as at 31 March 2007 (£31,546,855)	
multiplied by the uniform business rate (43.3p)	13,660
Less: allowances and other adjustments	(2,438)
Net contribution to National Non-Domestic Rates Pool	<u>11,222</u>

3. CALCULATION OF TAX BASE

The Council estimated the Tax Base for 2006/07 to be 26,127, which is used subsequently in calculating the levels of council tax. This figure is derived from the total number of chargeable dwellings in the District, adjusted for dwellings where discounts apply, converted to an equivalent number of band D dwellings. The table below shows this calculation for each valuation band:

Band	Chargeable Dwellings	Discounts		Proportion to Band D		Relevant Amount
AA	5.00	- 1.04	x	5/9	=	2.20
A	2,389.00	- 480.36	x	6/9	=	1,272.43
B	5,543.00	- 892.40	x	7/9	=	3,617.13
C	7,443.00	- 888.79	x	8/9	=	5,825.96
D	5,428.00	- 577.30	x	9/9	=	4,850.70
E	4,060.00	- 300.39	x	11/9	=	4,595.08
F	2,381.00	- 153.97	x	13/9	=	3,216.82
G	1,355.00	- 76.84	x	15/9	=	2,130.27
H	118.00	- 19.10	x	18/9	=	197.81
Total Relevant Amount						<u>25,708.4</u>

To this is added the 418.2 Ministry of Defence properties in the District (which are accounted for at 100%) to arrive at a Tax Base of 26,126.6 (2005/06 – 25,700.2).

4. DISTRIBUTION OF COUNCIL TAX SURPLUS

The surplus on the collection fund is to be distributed back to Dorset County Council, Dorset Police Authority, Dorset Fire Authority and North Dorset District Council as follows:

2005/06		2006/07	
Distribution		Distribution	
£000s		£000s	
428	Dorset County Council	404	
64	Dorset Police Authority	61	
21	Dorset Fire Authority	21	
59	North Dorset District Council	58	
<u>572</u>	Total Collection Fund Surplus	<u>544</u>	

North Dorset District Council's element of the collection fund surplus is shown at the foot of the Balance Sheet as part of the reserves. The surplus for the other bodies is included within the creditor's amount on the Balance Sheet.

Statement on Internal Control

Scope of Responsibility

This Statement constitutes compliance with the Statement of Recommended Practice for 2006. North Dorset District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring 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 Purpose of the System of Internal Control

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

The system of internal control has been in place at North Dorset District Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

The Internal Control Environment

The Council's Constitution sets out the rules for the conduct of the Council's business, how and by whom decisions are made and the procedures to be followed to ensure that these are efficient, transparent and accountable to local people. Full Council sets the overall budget and policy framework of the Council, the Cabinet makes decisions within this framework and is held to account by the Overview and Scrutiny Committee.

New activities are considered on a variety of levels to identify the risks attached to their implementation. All new activities are the subject of comprehensive reporting by service managers, which sets out the proposed action, the anticipated benefits and any elements of risk pertinent to the decision being considered.

The reporting system ensures that all reports are examined by the Monitoring Officer, to assess the legality of the action being proposed, and the Financial Services Manager, to ensure that the financial implications of the proposed action have been assessed and that sufficient financial resources are available for implementation. The reports are also considered by the relevant Portfolio Holder before they are considered by the Cabinet or Council.

The Council's Standards Committee has been established to promote and ensure that high standards of behaviour apply in all areas of Council activity and to investigate allegations of malpractice made against Members and employees. The Standards Committee can determine that a Member can be censured, suspended or partially suspended for a limited period.

The Council organises itself and its operations in such a way as to minimise the risk of losses arising through fraud, error, malpractice, waste or other cause. This is achieved through having appropriate arrangements in place to manage its activities. These arrangements are set out in detail in the Financial Regulations.

It is the responsibility of each General Manager to :

- *manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks;*
- *review existing controls in the light of changes affecting the Authority and to establish and implement new ones in line with guidance from the Financial Services Manager. General Managers should also be responsible for removing controls that are unnecessary or not cost or risk effective, for example, because of duplication;*
- *ensure that staff have a clear understanding of the consequences of a lack of control.*

The Council has an anti-fraud and corruption policy which sets out in detail its general approach to reducing the risk of fraud and corruption, liaison arrangements with external bodies, reporting arrangements and its policy on the recovery of losses.

Risks are reviewed through the Council's Risk Management Group, a working group consisting of senior managers and Portfolio Holders.

The Group's terms of reference are to:

- *identify and develop a register of strategic risks to the authority;*
- *monitor the operation of risk management within the Council;*
- *identify best practice in asset protection and safety awareness training;*
- *influence the cultural attitude of management towards stewardship of resources and assets owned by North Dorset District Council;*
- *ensure that service continuity plans for the organisation's own suppliers are in place and subject to regular review;*
- *ensure that procedures are in place for the operation of risk management processes;*
- *develop a risk management training plan.*

The Council reports publicly on performance through the Best Value Performance Plan and the Statement of Accounts. Areas where performance indicators are declining is examined in detail as well as the reasons for slippage in council initiatives and projects.

The Council has detailed written arrangements regarding the management and control of all material resources, which are set out in its Financial Regulations and with which all employees are required to comply. Rules governing the procurement of goods and services are set out in the Contract Management Regulations in the Council's Constitution.

All borrowing and investment is covered by CIPFA's *Code of Treasury Management in the Public Services*. The Council approves the Treasury Management Policy Statement on an annual basis. The Council's treasury management operations are undertaken in accordance with an approved set of Treasury Management Practices as required by the *CIPFA Code of Treasury Management in the Public Services*.

Through its business planning, financial planning and performance management processes the Council ensures that resources are used economically, efficiently and effectively. Annual budgets are set following consultation with stakeholders and an assessment of the risks of particular decisions. Budgets are managed by delegated budget holders in accordance with the Financial Regulations.

Regular budget monitoring throughout the financial year is undertaken to examine the financial performance of each service area and any expected variations are reported to the Senior Management Team and Cabinet, together with any corrective action which needs to be taken.

The risks to the longer term stability of the Council's financial performance are evaluated in the Council's Medium Term Financial Plan and measures to minimise the impact of these risks are identified for consideration by the Council.

The performance of individual service areas is monitored by the relevant Portfolio Holder. Each service area produces a range of performance indicators, which are set out in the Best Value Performance Plan and monitored by the Service Review Committee.

Audit

The Council maintains a continuous internal audit under the direction and management of the Financial Services Manager to appraise and review:

- (a) the completeness, reliability and integrity of information, both financial and operational;
- (b) the systems established to ensure compliance with policies, plans, procedures, laws and regulations;
- (c) the means of safeguarding assets;
- (d) the economy, efficiency and effectiveness with which resources are employed; and
- (e) whether operations are being carried out as planned and objectives and goals are being met.

The internal auditors review, appraise and report to management:

- (a) the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - (i) fraud and other offences; and
 - (ii) waste, extravagance and inefficient administration, poor value for money or other cause.
- (b) the suitability and reliability of financial and other management data developed within the Council.

An analysis of risk is carried out by internal audit to inform the strategic and operational audit plans, which are formally approved annually by the Council's Accounts and Audit Committee.

Internal audit reports are submitted to the Accounts and Audit Committee and service managers may be required to attend the meetings to explain the measures they are taking to address the issues raised in the internal audit reports.

The Council takes seriously reports made by its external auditors and other inspectorates and implements agreed actions in response to recommendations made.

Review of Effectiveness

North Dorset District Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control; this is undertaken by the Financial Services Manager and the Accounts and Audit Committee. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council's Chief Financial Officer and Monitoring Officer confirm that there were no significant internal control issues that have required formal action in their respective roles, significant additional funding, had a material impact on the accounts or resulted in significant public interest damaging the reputation of the Council.

During the year the risk register was reviewed and updated with the major business risks facing the organisation. Eight of the risks judged to be above the Council's risk tolerance limit were identified and progress on mitigating these risks is being monitored by the Accounts and Audit Committee.

No formal complaints against the Council's Members in respect of conduct as district councillors were investigated by the Standards Board for England during 2006/07. No other issues relating to Members actions were reported to the Standards Committee.

During the course of the year internal audit completed 14 of the 20 originally planned audits for 2006/07, including all of the fundamental systems with the exception of ICT. Two audits held over from 2005/06 were also completed; effective coverage was therefore maintained for the year. The audit of ICT was scheduled to be included within the audits sub-contracted to the Dorset Audit Partnership but this could not be included within their schedule for completion in 2006/07 and will be undertaken in 2007/08. The Accounts and Audit Committee considered the findings from seven fundamental system audits during the year.

Of the audits undertaken during the year all of the systems showed that a satisfactory control environment was in place, although a number of recommendations were made for improvement.

The Council's external auditor assessed the Council's financial and corporate governance arrangements as part of the Use of Resources assessment in 2006/07. The Council scored 12 out of a possible 20 points and achieved an overall score of 2, equivalent to satisfactory.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by:

- *the work of managers within the Council;*
- *the work of internal auditors as described above;*
- *a review of risk management arrangements; and*
- *the Direction of Travel Assessment undertaken by the Audit Commission.*

A plan to address weaknesses and ensure continuous improvement of the system is in place.

Issues Arising from the 2005/06 Statement

The Statement of Internal Control for 2005/06 identified 13 weaknesses in the control environment:

- (a) embedding risk management: additional reviews have been carried out during 2006/07 and an action plan is being developed. Monitoring arrangements still need to be formalised and embedded and the risk assessments contained within business plans need to be reviewed.
- (b) review of the control environment: the main weaknesses centred around the scheme of delegation and completing personnel policies and procedures. This work has been largely completed.
- (c) procurement resources: a procurement review is currently being undertaken using resources from internal audit.

- (d) partnership agreements: a template for partnership agreements still needs to be developed and the financial regulations relating to partnerships will be reviewed during 2007/08.
- (e) embedding the performance management framework: the Council has improved its proactive management of poorly performing services and close monitoring is now in place.
- (f) collection of sundry debts: whilst some weaknesses still remain, the collection process has been reviewed and improvements to collection introduced by using expertise from East Dorset District Council.
- (g) cash reconciliations: full reconciliations are now carried out on a monthly basis.
- (h) management of assets: debt recovery issues have been addressed through the Council's partner organisation and resources for addressing the backlog of maintenance have been provided in the capital programme.
- (i) development of value for money challenges: benchmarking of services where costs appear unusually high is now being addressed.
- (j) business continuity planning: a business continuity plan is being developed and work is continuing on this in 2007/08.
- (k) responding to employment changes in the area: employment issues in the area remain significant with changes proposed for the occupation of Blandford Camp. However, this risk does not directly affect the Council's own internal control environment but could have an indirect effect as a number of employees will have a close association with it. Any proposal to move the current complement of the Camp to another base could cause a consequent loss of the Council's employees and their skills.
- (l) use of resources: the links between corporate planning, business planning and financial planning have been drawn together through the Medium Term Financial Plan.
- (m) business transformation programme: a risk that the introduction of new ICT systems would weaken internal financial control was previously identified. Whilst this risk has not materially affected internal control other risks remain around the programme as detailed in the issues arising in 2006/07.

Significant Internal Control Issues

A corporate review of risk was undertaken during 2006/07 and identified that the highest business risks related to :

- (a) business transformation programme: as new systems are introduced new control mechanisms will need to be developed. The programme is also key to achieving some of the savings required by the Medium Term Financial Plan and if these are not realised then other economies will need to be found.
- (b) local delivery programme: a key element of the Medium Term Financial Plan relates to the transfer of discretionary services to other bodies. If the programme is not achieved then these services will cease to be provided.
- (c) contract management: as the Council relies more heavily on ICT to support its core services increasing reliance will be placed on the contracts which safeguard the Council's interests, risking an increase in costs and a weakening of internal control. Increasing reliance will also be placed in partnership arrangements to deliver services more efficiently and economically and these will need to be properly managed through suitable partnership agreements to minimise the risk of impaired service delivery.

- (d) recruitment and retention: the Council experiences difficulties in recruiting and retaining some skill sets and the recent job evaluation exercise has exacerbated this problem in some areas. The potential for the current complement of employees to be moved from Blandford Camp could have knock on effects for the Council as described in section (k) of the issues from 2005/06. The loss of experienced staff risks damaging the internal control environment.

The Medium Term Financial Plan shows that significant savings which have yet to be identified will be required if the Council is to meet its longer term objectives. The Plan is being reviewed during 2007/08 to improve the robustness of planned savings.

There will also be a switch of resources which are currently provided directly to the Council from central government to Local Area Agreements. These agreements will be administered by the County Council and funding may be based on a county-wide analysis of need. There is therefore a risk that some funding streams could reduce through this approach.

Whilst still considered fit for purpose the Council's Financial Regulations will be reviewed in 2007/08 to further strengthen the internal control environment.

L. GOODALL
CHIEF EXECUTIVE

P. WEBB
LEADER OF THE COUNCIL

9 June 2007

Glossary of Terms

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains & Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b) the actuarial assumptions have changed.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

Community Assets

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

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailement

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a) termination of employees' services earlier than expected and
- b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Defined Benefit Scheme

A pension or other retirement benefit scheme where the rules define the benefit independently of the contributions payable and the benefits are not directly related to the investments of the scheme.

Depreciation

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

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers as set out in the Local Government (Discretionary Payments) Regulations 1996.

Expected Rate of Return on Pensions Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

Fixed Assets

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

Impairment of Assets

Where there is reason to believe that the value of a fixed asset has decreased materially in the period, the valuation is adjusted accordingly; this adjustment is known as impairment.

Infrastructure Assets

Fixed assets that are inalienable, expenditure that is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Net Book Value

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

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

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

Non-Operational Assets

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

Operational Assets

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

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The scheme liabilities at the valuation date relate to:

- a) the benefits for pensioners and deferred pensioners (individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing, where appropriate, for future increases; and
- b) the accrued benefits for members in service on the valuation date.

Related Parties

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- a) an employer's decision to terminate an employee's employment before the normal retirement date or
- b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement

An irrevocable action that relieves the employer or the defined benefit scheme of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits
- c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Unapportionable Central Overheads

Unapportionable Central Overheads, as shown in the Income and Expenditure Account, represent pension costs for added years and early retirements.

Vested Rights

For active members of a defined benefit scheme, benefits to which they would unconditionally be entitled on leaving the scheme, for deferred pensioners their preserved benefits and for pensioners, pensions to which they are entitled. Vested rights include related benefits to spouses and other dependents.