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1 INTRODUCTION

The following pages include the Borough Council's Statement of Accounts for the year ended 31 March 2009. The published accounts are an important element in demonstrating the Council's stewardship of public money, showing the resources available and how they are used to deliver everyday services to the community.

The purpose of this foreword is to provide an explanation in overall terms of the Council's financial position, including the major influences affecting the accounts, and to assist in the interpretation of the accounting statements. This foreword covers:

- a brief overview from the Responsible Finance Officer
- a summary of the various statements which make up the 2008/09 accounts
- a summary of revenue expenditure and funding with a comparison to budget
- an overview of the Council's reserves and balances
- a summary of capital expenditure and financing
- the impact the economic climate has on the statement of accounts and the services the Authority provides
- a summary of changes in accounting policy and presentation to the accounts
- and sustainability impact

2 OVERVIEW FROM THE RESPONSIBLE FINANCE OFFICER

As the Council's statutory officer responsible for Finance, I have pleasure in writing this explanatory overview to the Statement of Accounts for 2008/09.

My key priorities are:

- To maintain sound financial management practices across the Council,
- To ensure that financial resources are spent in line with the Council's priorities,
- Ensuring Value for Money, and
- To make financial reporting meaningful for everyone.

Each year the Audit Commission undertakes an inspection to assess how the Council manages its resources and its arrangements for financial management. During 2008/09 the Council received a "Good" score, demonstrating continued excellent progress and good governance arrangements for its resources.

During the year the Council has successfully addressed a number of financial issues whilst enhancing service quality in several areas. The Council has carefully controlled and monitored its spending throughout the year and has managed to keep its Revenue Budget spending to £355,000 under budget, a significant achievement given the high level of savings required in recent years and current economic climate. In addition to this, the levels of corporate reserves have been maintained within the optimum ranges set out in the Financial Strategy, and the overall Financial Standing of the Council remains healthy.

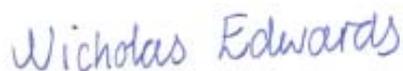
This year the Council, in partnership with Scarborough Renaissance Partnership, has achieved the accolade of being recognised as the 'most enterprising place in Britain' as

well as the 'most enterprising place in Europe'. These awards aim to reward areas of enterprise excellence that have helped transform the social and economic fortunes of their area and are the best at improving economic prospects and encouraging enterprise in their region. The awards are a significant achievement and reflect the Council's recent partnership working, investment, and success in securing external funding, to deliver the Renaissance capital schemes.

The Rotunda Museum, Creative Industries Centre, Green Lane Neighbourhood Centre and Scarborough Business Park infrastructure were completed and brought into operation during the year and the McCain Stadium was purchased as part of the leisure strategy for the Borough. Significant funding was also secured for investment in Pannett Park in Whitby and a start was made on this project as well as the Royal Albert Park Skate and Play area.

The Council is continuing to develop its Corporate Efficiency Programme, which will deliver corporate wide savings for the Council. The achievement of savings will allow the Council to direct resources to priority areas and will seek to ensure that the Council continues to provide customer-focused, efficient services.

I hope this Statement of Accounts help you to better understand the Council's financial position. Please let me know how you think we are progressing with our financial reporting, as we are aiming to continuously improve in this area.



Nick Edwards C.P.F.A.
Head of Finance and Asset Management

3 THE STATEMENTS

The Statement of Accounts has been prepared in accordance with the 2008 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (hereafter referred to as the SORP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim is to ensure consistent treatment and comparability with the accounts of other local authorities. The statements included in the accounts are as follows: -

The Statement of Responsibilities for the Statement of Accounts sets out the Authority's and Chief Finance Officer's legal and professional responsibilities for the accounts under Local Government Legislation.

The Annual Governance Statement identifies the systems that the Authority has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and provides a review of the effectiveness of internal control.

The Statement of Accounting Policies details the legislation and principles on which the Statement of Accounts has been prepared.

The Income and Expenditure Account brings together all of the functions of the Authority and summarises all of the income receivable and expenditure incurred in the year.

The Movement on General Fund Balance reconciles the surplus or deficit shown on the Income and Expenditure Account to the amount taken to/from the General Fund Balance in the year.

The Statement of Total Recognised Gains and Losses summarises all gains and losses experienced by the Authority to show the total movement in the net worth for the year.

The Balance Sheet sets out the financial position of the Authority as at 31 March 2009.

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

The Notes to the Core Financial Statements provide supplementary information to aid the understanding of the figures shown in the Statement of Accounts.

The Collection Fund shows the way in which the income collected in relation to Council Tax and National Non-Domestic Rates has been distributed.

4 REVENUE EXPENDITURE AND SERVICES PROVIDED

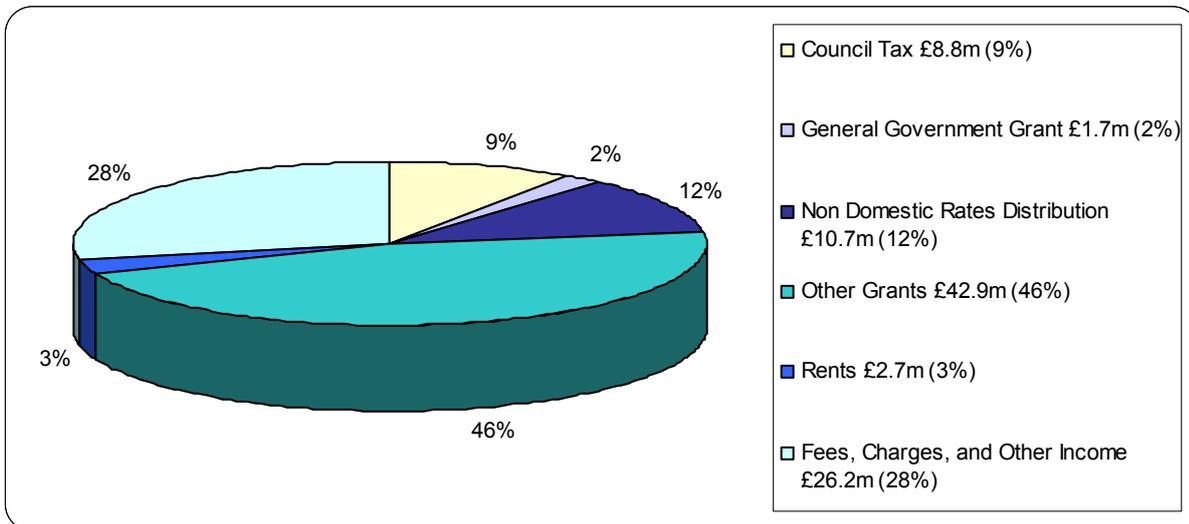
The revenue budget is used to record the day to day running expenses and income of the Council. It includes expenses such as employee costs, heating, lighting, rent, rates, and capital financing, plus income relating to those expenses.

The Council’s gross revenue expenditure for the year totalled £92.99 million and its gross income, excluding General Government Grants and Council Tax, was £65.75 million, resulting in net operating expenditure of £27.24 million

The following charts show the Council’s sources of revenue funding, the expenditure by service and the main categories of General Fund expenditure.

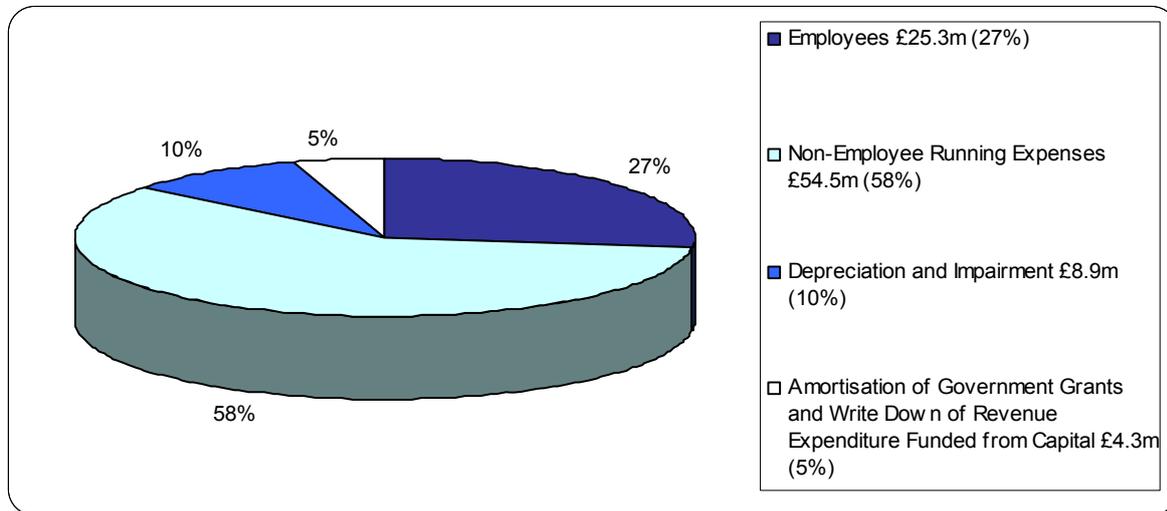
Revenue Funding

This chart shows the Council’s various sources of revenue funding



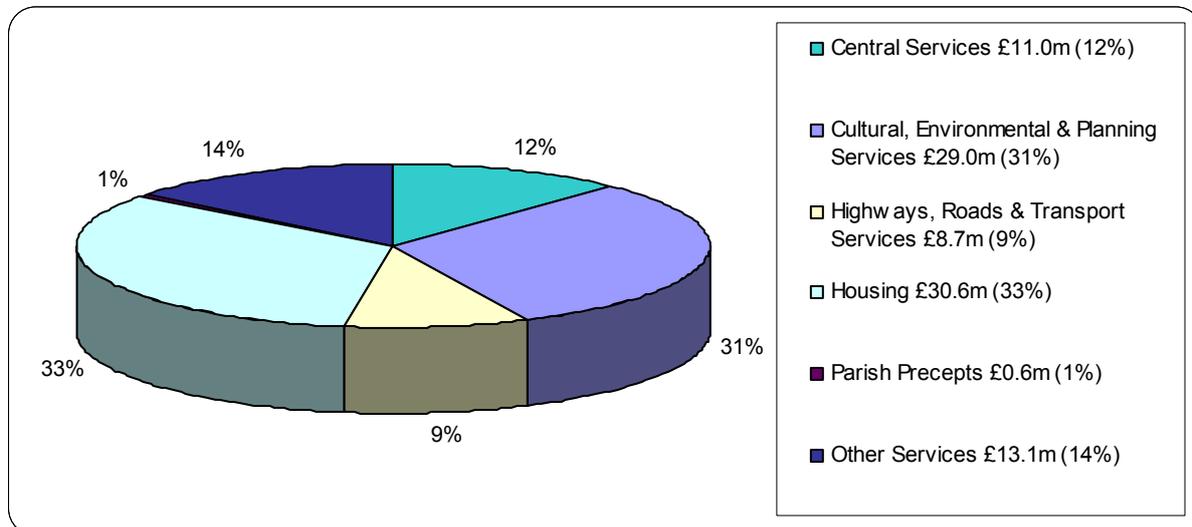
Revenue Expenditure

This chart shows the main categories of Council gross expenditure over all General Fund Services



Services Provided

This chart shows the Council's expenditure by Service



5 COMPARISON OF THE BUDGET TO ACTUAL INCOME AND EXPENDITURE

The Council approved a net budget of £20.47m. for 2008/09. This level of spending required a Council Tax increase of 4.4%.

The budget anticipated a draw on the General Fund Balance of £224,000 to fund the transitional cost associated with the loss of the Property Services repairs contract with Yorkshire Coast Homes. In total £1m was set aside to fund these costs and after deducting this years cost £31,000 of the balance remains.

The actual outturn position resulted in £131,000 being added to General Fund Balances, being £355,000 less than budget expectations. Areas where savings (or additional income) have been generated include concessionary fares, treasury management, staffing, and refuse collection. The main areas of concern that are being addressed are leisure sites, property trading, and business rates.

The following tables show the financial performance compared with budget and the resulting movement on the General Fund Balance. It should be noted that different accounting requirements apply, to expenditure to be taken into account for budgetary purposes, as below, and to expenditure on services identified in the Income and Expenditure Account, which is measured in terms of resources consumed.

Financial Performance on General Balance:

	Budget £000	Actual £000	Variance £000
Net Expenditure on Services	20,821	20,672	149
Interest on Balances Invested	(932)	(1,056)	124
Interest Payable	582	500	82
	20,471	20,116	355
Revenue Support Grant	(1,491)	(1,491)	-
Redistributed NNDR Pool Receipts	(10,712)	(10,712)	-
Council Tax	(8,268)	(8,268)	-
Budget under spend	-	(355)	355
Transitional costs associated with the loss of the Yorkshire Coast Homes contract		224	
Contribution (to)/from General Fund Balance		(131)	
General Fund Balance Brought Forward		(2,431)	
Contribution (to)/from General Fund Balance		(131)	
Approved transfer from the General Fund Reserve for Capital Schemes and Priority Spend Areas		345	
General Fund Balance Carried Forward		(2,217)	

6 RESERVES AND BALANCES

In the Financial Strategy the Council set its approved criteria for assessing the minimum prudent level for the General Fund Balance and the medium term expectation for specific reserve requirements as follows:

General Fund Balance - the balance be maintained within the range of £1.5m to £2.0m plus a provision for the costs of losing the Property Services contract

Capital Contingency Reserve - the balance to be maintained within the range of £0.5m to £1.5m over time.

Insurance Reserve - a minimum balance of £1.350m to be maintained in the medium term

Pension Reserve - the balance to be maintained within the range of £0.1m to £0.5m

The General Fund Balance at 31 March 2009 was £2.217m, of which £0.031m is specifically allocated, therefore is in excess of the range set by the Financial Strategy. Recommendations will be made to utilise the current years surplus to invest in a range of the Council's priority areas and if approved this will reduce the balance to within the range set out in the Financial Strategy.

The Capital Contingency Reserve balance at 31 March 2009 is £1.012m, though a significant amount of this balance is committed. The balance is considered to be adequate.

The Pensions Earmarked Reserve balance at 31 March 2009 was £0.276m therefore the balance is considered to be adequate.

The Insurance Reserve balance at 31 March was £1.679m. Although this is in excess of the minimum level set out in the Financial Strategy over £0.363m of the balance is committed to fund the costs associated with Filey floods and to undertake remedial landslip works at the rear of Scarborough Spa. The Council's insurance contract was re-tendered during the financial year and the resultant savings were transferred to the insurance reserve in order to build the balance back up to its required level.

The Financial Strategy also addresses the allocation of resources for capital investment over the next ten years (via the Capital Development Reserve and Usable Capital Receipts Reserve) so that the Council's borrowing requirement does not increase over the period.

The Service Investment Reserve has been increased in year to £5.002m. This reserve is for operational services use as well as being a prudent measure to counter significant fluctuations in seasonal income.

7 PENSION RESERVE

The Authority participates in the Local Government Pension Scheme, administered by North Yorkshire County Council. This is reflected in the Balance Sheet, which includes a pension liability and a pension reserve in respect of the scheme of £64.39m as at 31 March 2009. Although these pension liabilities decrease the overall level of reserves they do not represent a reduction in the Council's cash reserves or impact on Council Tax levels.

Whilst this pension liability suggests a significant shortfall between the forecast cost of future pensions and the current level of assets held in the fund, it should be noted that the fund assets are subject to fluctuations in value depending on the current state of the stock market. The North Yorkshire Pension Fund also has an investment strategy in place to address the funding deficit over a 30 year period, based on an appropriate level of employers' contributions, producing a positive cash flow into the fund.

8 CAPITAL EXPENDITURE AND FUNDING

The capital programme is run in tandem with the revenue budget. The following table shows the expenditure during the year and how it was financed.

Type of expenditure	Total Spent & donated £000	Met By	
		Grants & Contributions £000	Council Resources £000
Fixed & Intangible Assets	5,732	1,597	4,135
Scarborough Business Park	2,186	1,954	232
Grants (e.g. Disabled Facilities)	1,102	649	453
Capital Resources Set Aside	9,020	4,200	4,820
Revenue Projects	2,875	1,560	1,315
Total Programme	11,895	5,760	6,135

Unlike the Revenue Budget, the budget for the Capital Programme is set over the medium term and so an annual budget to actual comparison is not as appropriate. Unforeseen costs are covered by the Capital Contingency Reserve. £0.591m was drawn from the Reserve to cover such costs in 2008/09. These primarily related to the Renaissance schemes, in particular the Creative Industry Centre and to funding the Sea Change Consultancy.

The capital grants and contributions by external bodies (£4.2m) can be seen at Note 38 to the financial statements. Council resources as above, includes £2.184m which has not been set aside at the balance sheet date, but for which provision will be made in future years. £1.222m of this credit is 'supported', i.e. future Revenue Support Grant allocations will allow for a notional cost of this credit, and £0.962m is unsupported. The unsupported borrowing relates to the purchase of the McCain Stadium and expenditure on the Sands Development.

The Council operates limits for external borrowing to ensure it is kept within a prudent and affordable limit. Borrowing of £10.003m at year end was well within the authorised limit of £18m.

Resources remaining in the Capital Development Reserve and Capital Receipts Reserve amount to £5.113m at 31 March 2009.

The table below shows the expenditure in the year on fixed and intangible assets.

	£ '000s
McCain Stadium	1,430
Creative Industries Centre	1,003
Green Lane	197
Whitby Upper Harbour	247
Vehicles, Plant & Equipment	861
Sands Development	461
Whitby Shellfish Holding Facility	102
Parks & Play Areas	610
Other	821
TOTAL	5,732

9 THE IMPACT OF THE CURRENT ECONOMIC CLIMATE ON THE AUTHORITY AND THE SERVICES IT PROVIDES

Economic Background

During 2008 the economy of the Borough and the nation gradually slipped into recession. Unemployment began to rise significantly from spring 2008 and by October the economy had contracted in 3 successive economic quarters and the "slowdown" had officially become a "recession".

The economic position of the major economies has continued to deteriorate during the first quarter of 2009, with the International Monetary Fund forecasting that Britain's economy will be the hardest hit in the developed world in what is expected to be the "deepest recession since the second world war".

The Council could be potentially exposed on a number of financial fronts as a result of the downturn in the global economy. These can be summarised into the following categories:

Security of Investments

One of the key components to the global downturn is related to the housing market, and the problems caused in the banking system from the issuing of sub prime loans. During the financial year a number of financial institutions on both sides of the Atlantic have failed. In the UK the Government and other financial institutions have rescued former

mutual's, such as Northern Rock, Bradford and Bingley, and Alliance and Leicester, and there has been a Government bailout of long established commercial banks such as RBS, HBOS and Lloyds TSB.

These changes indicate the fast moving position in relation to the financial security of institutions. This insecurity has resulted in continuous re-assessments of the institutions by credit agencies, with down grades and negative outlooks occurring. It appears that the banking crisis will continue in the short to medium term as the global recession continues to impact, increasing the possibility that some financial institutions that met the minimum criteria when the Council placed an investment may not meet that minimum level in the future.

Reduced Investment Returns

These are unprecedented times in respect of such low returns on fixed term investments. The forecast rate of return for the forthcoming financial year, 2009/2010, is 0.50%, compared to an average return achieved in 2008/09 of 5.25%. There are also concerns that deflation may become a greater risk as interest rates head towards zero, which could further impact on investment returns.

Asset Value reductions

The so-called 'credit crunch' has resulted in a reduction in the market value of certain categories of property, which impacts on the value of property assets held by the Authority.

The Council's capital programme is reliant on receipts from the sale of assets therefore the downturn in market values may impact on the levels of capital investment during the period of recession.

Possibility of increased Debtor Defaults.

If the economic downturn continues over an extended period one consequence will be an increase in default of repayments of debt. This may result in an increase in bad debts.

Reductions in income and additional cost pressures

The economic downturn is likely to cause a reduction in the level of income received by the Council. Likely areas to be affected include areas of discretionary spend such as leisure, car parking and catering income and income sources affected by the downturn in the housing market such as planning fees and local land charges. The anticipated impact of these budgetary pressures has been considered and taken into account as part of the budget setting exercise for 2009/10.

The Council's housing benefits service has already seen a significant increase in demand, and increases in the cost of homeless accommodation are also anticipated. During the year the Council received £171,000 in LABGI (Local Authority Business Growth Incentive) funding from central government. This balance has been set aside in reserves to fund any cost pressures which arise as a result of the economic downturn.

10 CHANGES IN ACCOUNTING POLICIES, ACCOUNTING TREATMENT AND PRESENTATION

The 2008 SoRP documented the following changes in accounting policies, accounting treatment and changes in presentation:

1) Amendments to FRS 17 (Retirement Benefits)

Under the 2008 SoRP the Council has adopted the amendment to FRS 17 Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market price. This is treated as a change in accounting policy therefore previous years comparatives have been amended accordingly. The changes have been incorporated in the accounts and associated notes (Note7). The effect of this change is that the value of the schemes assets at 31 March 2008 has been restated from £77.682m to £77.604m a decrease of £78,000, resulting in an increase of the pension deficit of £78,000.

The Balance Sheet figures as at 31 March 2008 have been adjusted as follows to accommodate these changes:

Balance Sheet

	Balance as at 31/03/08 £000s	Adjustments £000s	Restated Balance £000s
Liability Related to Defined Benefit Pension Scheme	(56,838)	(78)	(56,916)
Pension Reserve	(56,838)	(78)	(56,916)

2) Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital Under Statute represents expenditure that would otherwise be classified as revenue, but which is allowed by statute to be classified as capital so that it can be financed from capital resources. These items of expenditure (generally grants and advances to others) were previously referred to as deferred charges.

11 SUSTAINABILITY

The Councils Sustainability Policy was approved in April 2009. This policy document will provide the backbone of the Councils sustainability drivers and facilitate the development and implementation of a range of sustainability strategies. Sustainable accounting procedures and sustainable procurement will be at the core of the overarching financial strategy.

To promote this process the Council, as part of the Carbon Trusts Carbon Management Programme, have set reduction targets for both CO2 emissions and energy use. A Strategy and Implementation plan, including a complete list of identified

projects, has been agreed with the Carbon Trust. When the projects have been evaluated it will be presented to full council for approval and endorsement.

Council officers are also part of a multi discipline working group looking at ways to reduce CO2 emissions within the Borough.

12 FURTHER INFORMATION

Statement of Accounts 2008/09

Enquiries or comments about this publication should be directed to the below address:

Head of Finance & Asset Management
Scarborough Borough Council
Town Hall
St Nicholas Street
Scarborough
YO11 2HG

Telephone: (01723) 232323

Other sources of information about Scarborough Borough Council and its finances include:-

- Council Tax leaflet, issued each year with the Council Tax demand
- The Budget 2009/10
- Best Value Performance Plan
- Financial Strategy 2009 – 2019
- Annual Report
- The Councils website at www.scarborough.gov.uk

Copies of these accounts can be downloaded from the Scarborough Borough Council website. Further information about North Yorkshire County Council, North Yorkshire Police, and North Yorkshire Fire Authority finances can be obtained at the following addresses:

The Treasurer
North Yorkshire County Council
County Hall
Northallerton,
North Yorkshire
DL7 8AD

Telephone (01609) 780780
www.northyorks.gov.uk

The Treasurer
North Yorkshire Police Authority

Newby Wiske
Northallerton
North Yorkshire

Telephone (0845) 6060247
www.nypa.org.uk

The Treasurer
North Yorkshire Fire & Rescue Service Headquarters
Thurston Road
Northallerton
North Yorkshire
DL6 2ND

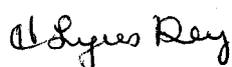
Telephone (01609) 780150
www.northyorksfire.gov.uk

More detailed statistical information about Scarborough and all other Local Authorities are contained in a wide range of publications produced by the Chartered Institute of Public Finance and Accountancy, 3 Robert Street, London, WC2N 6BH

The Authority's Responsibilities

The Authority is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Asset Management.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts (England and Wales only).



Councillor H Lynskey
Chairperson of the Audit Committee
30 June 2009

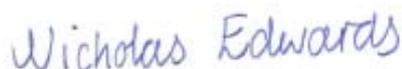
The Chief Finance Officer's Responsibilities

The Chief Finance Officer (Head of Finance and Asset Management) is responsible for the preparation of the Authority'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 Chief Finance Officer 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 Chief Finance Officer has also:

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



Nick Edwards C.P.F.A.
Head of Finance and Asset Management
30 June 2009

SCOPE OF RESPONSIBILITY

The 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 responsibility the Council is responsible for ensuring that there is an overall Governance Framework in operation, incorporating a sound system of internal control, including risk management, which facilitates the effective exercise of the Council's functions.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; because it is not possible to eliminate all risk the system of internal control can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks that threaten 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.

This governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of the approval of this document.

THE INTERNAL CONTROL ENVIRONMENT

The governance framework comprises the policies, procedures and operations taking place within the Council:

- a) for establishing and monitoring the achievement of the Council's objectives
- b) to identify, assess and manage the risks to achieving the Council's objectives
- c) to facilitate policy and decision making
- d) to ensure the economical, effective and efficient use of resources and assets
- e) to ensure compliance with law, regulation, and established policies
- f) for the financial management of the Council and its financial reporting
- g) for performance management and the reporting thereof

The main features of each of these key elements are as follows:

(a) Arrangements for establishing and monitoring the achievement of the Council's objectives

- The Council's Corporate Plan "Delivering Success" sets out the long-term objectives of the Council. It is the policy statement within which the Council will deliver its ambitions and improvements, and contains a number of targets for the Council to achieve. The Corporate Plan is regularly monitored, and is updated annually through an Annual Improvement Plan. The Medium Term Financial Strategy sets out how the Council will finance the achievements of its objectives, and identifies the significant financial issues facing the Council over the future, including the need to achieve significant efficiencies.
- There is an integrated Service Planning and Budget Process in operation. A member/officer Corporate Strategy working group operates throughout the year to consider corporate planning, financial strategy, and performance improvement. This ensures a completely integrated corporate planning cycle. Individual service business plans support this process, and are prepared with direct links to the corporate plan and the financial strategy. Each service business plan contains a number of critical success factors.
- The Performance Management framework has been reviewed, and now provides for comprehensive Quarterly reporting of financial/performance information. This information is provided to Cabinet, and to two of the Overview and Scrutiny Committees.
- The Code of Corporate Governance encompasses, defines and quality assures the various systems by which the Council directs and controls its functions and relates to the Borough community. The Council aims to ensure good governance runs throughout its work. In particular it aims to ensure that stakeholders can have confidence in the decision-making and management processes of the authority, and in the conduct and professionalism of its Elected Members, officers and agents in delivering services. Supporting the Code of Corporate Governance is an Assurance Statement, and Action Plan, which are reported to the Audit Committee, and which also support the preparation of the AGS. The Governance and Internal Control Officer Group continues to meet regularly.

(b) Arrangements to identify, assess and manage the risks to achieving the Council's objectives:

- The Council's comprehensive approach to risk management is detailed in the Corporate Risk Management Strategy. Application of the Strategy is by the Head of Finance & Asset Management, the Officer Risk Champion. Risk Registers are prepared and maintained at Corporate, and Head of Service levels.
- The Corporate Health and Safety Policy has been rewritten to reflect current requirements and operational arrangements. Corporate and Service Action Plans are being recast in line with the Corporate Health and Safety Policy.

- Internal Audit arrangements are provided through the partnership arrangements with other North Yorkshire Councils. The Partnership operates to professional standards, assessed and validated by the Audit Commission. The annual work programme is set out in an Audit Plan following the production of an audit risk assessment and in consultation with individual Heads of Service where practicable and with the Audit Commission. The Audit Committee endorses the Audit Plan and receives, thereafter, regular reports on its progress. The Chief Internal Auditor expresses an annual opinion on the internal control environment for the Council as a whole in the Annual Report to the Audit Committee in June.
- A risk-based Service Continuity Planning process has been agreed and resourced by the Management Team. To enable the Council to fully comply with the requirements of the Civil Contingencies Act 2004 this will be linked to specific work that is being done in generic risk areas. One generic area that will be targeted is that relating to information and data security. The Council is working towards the ISO 17799 standard with a view to achieving not only compliance but also certification for the ICT element of the standard.
- The Performance Management Framework has continued to be developed. Risks to the achievement of key objectives are highlighted through Finance and Performance quarterly reports to enable Management and the Cabinet to take action to manage risks.

(c) Arrangements to facilitate policy and decision making in the Council

- The Constitution sets out how the Council operates, how decisions are made and by whom, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution also embraces the detailed Financial, Contract and Property Procedure Rules, Scheme of Delegation, Codes of Conduct, etc.
- All Councillors meet together as the Council. Meetings are open to the general public. At its annual meeting in May each year the Council appoints a Mayor. The Leader and the Cabinet are appointed at the annual meeting in an election year. The Council is responsible for setting the budget and policy framework of the Council.
- Cabinet is responsible for making the decisions that implement the policies of the Council. If the Cabinet wishes to make a decision outside the policy framework (including the Budget) set by the Council, this must be referred to the Council as a whole to decide. The decision as to which items require referral to the Council rests with the S.151 officer and Monitoring Officer. Each Member of the Cabinet has a portfolio responsibility that relates to a specific area(s) of the Council's services and responsibilities.
- There are Overview and Scrutiny Committees that support the work of the Council and the Cabinet. Their roles and responsibilities are detailed in the Constitution. The Audit Committee is established to deal with a range of governance issues, financial statements, risk management, and internal control within the Council. The Audit Committee also has an independent member with financial expertise.

- Statutory Officers/Codes and Protocol – the Council employs Officers to give advice, implement decisions and manage the day-to-day delivery of its services. Certain officers have a specific duty to ensure that the Council acts within the law and uses its resources wisely (see (e) and (f) below). The Protocol on Member / Officer relations, is part of the Constitution and, amongst other documents, governs the relationships between Officers and Members of the Council.
- Pursuant to its powers under Section 101 of the Local Government Act 1999 the Council arranges for certain of its functions to be discharged by officers of the Council as set out in the Officers Delegation Scheme.

(d) Arrangements for ensuring the economical, effective and efficient use of resources and assets by the Council

(e) Arrangements to ensure compliance with law, regulation, and established policies, and procedures of the Council

- The Head of Legal & Support Services is currently the officer designated by the Council as the Monitoring Officer and is responsible for performing the duties imposed by Section 5 of the Local Government and Housing Act 1989.
- The Council has a complaints procedure that is advertised by leaflets and on its website. The procedure includes targets for acknowledging and responding to complaints in full.
- The Council has a Corporate Counter Fraud Policy & Strategy, including specific arrangements to respond to Housing Benefit Fraud and to ‘whistleblower’ allegations.
- Elected members have a significant role to play in ensuring compliance and propriety, either collectively (e.g. through the work of the Overview and Scrutiny Committees), or individually as local representatives, providing feedback from their constituents.
- Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties. The Council has established a Standards Committee, which trains and advises Councillors on the Code of Conduct. Members are also undergoing voluntary CRB checks. Finally, the Committee has in place procedures for the investigation and determination of complaints against Members and a procedure for granting dispensations.
- Officers from Democratic Services attend all formal meetings of elected members to advise on the constitutional aspects of processes proposed decisions and actions. Officers from the Legal Services attend, where appropriate.
- The Council has approved an updated Local Code of Corporate Governance, and associated Corporate Governance Policy this defines:
 - the fundamental values and principles of corporate governance
 - the corporate governance framework and arrangements to deliver it within the Council
 - arrangements for annual review and reporting of the framework

(f) Arrangements for the financial management of the Council and its financial reporting:

- As part of its Constitution, the Council has approved Budget and Policy Framework Procedure Rules, Financial Procedure Rules, Contract Procedure Rules and Property Procedure Rules.
- The purpose of these rules is to set out a framework within which the Council conducts its financial affairs, and are designed to ensure that proper financial arrangements are in place and operational at all times.
- The statutory duties of the Head of Finance & Asset Management in relation to financial management derive from five principal sources:
 - Section 151 of the Local Government Act 1972
 - Section 114 of the Local Government Financial Act 1988
 - Local Government Act 2000 (in particular decisions contrary to policy or budget)
 - Local Government Act 2003 (prudential limits for borrowing and investment)
 - Accounts and Audit Regulations 2003 (as amended by SI 564/2006)

The Head of Finance & Asset Management drafts a Medium Term Financial Strategy and presents it annually to Cabinet and the Council; linked to this Strategy are the detailed Revenue Budget, Capital Plan, Efficiency Plan, Treasury Management arrangements and Prudential Indicators.

The Head of Finance & Asset Management is responsible for determining the accounting procedures, the form of financial records and statements and for maintaining the financial accounts of the Council. The Head of Finance & Asset Management ensures that proper accounting arrangements are established in all service areas.

It is the duty of all Heads of Service to plan and manage their budgets to meet the agreed bottom line budget figure for their Business Unit. This includes ensuring that adequate arrangements exist for monitoring budgets throughout the year, and taking action to adjust the budget to ensure that overall control of expenditure is maintained. The Head of Finance & Asset Management is responsible for submitting a quarterly report Cabinet on the overall revenue budget position; this report is part of the Quarterly Performance and Improvement reporting arrangements referred to under (d) above.

The Head of Finance & Asset Management prepares and publishes an annual Statement of Final Accounts that conforms to all statutory and professional requirements, codes of practice and timetables.

- The independent auditor is the Audit Commission: they publish an Annual Audit and Inspection Letter following the end of each financial year.
- Under the Accounts and Audit Regulations 2003, the Council has a legal responsibility to provide an adequate and effective internal audit. The Council has delegated this responsibility to the Head of Finance & Asset Management (S151 Officer) who provides the service through the North Yorkshire Audit Partnership.

(g) Performance management of the Council and the reporting of performance

- The Council has identified its corporate priorities for improvement in its Corporate Plan and these are linked to the Community Strategy themes and the Medium Term Financial Strategy.

The improvement actions are set out in the Corporate Plan, which is updated at the beginning of each financial year, through an Annual Improvement Plan, which sets revised targets for the forthcoming 12 months, which relate to the overall aims and objectives set out in the Corporate Plan. The Annual Improvement Plan is complemented by the Corporate Financial Strategy and Business Plan, which identifies resource allocation for the year.

REVIEW OF EFFECTIVENESS

Under the Accounts and Audit Regulations 2003, the Council has responsibility for formally conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.

On behalf of the Audit Committee, and in conjunction with Strategic Directors and senior officers, the Governance and Internal Control Officer Group, (which includes the Monitoring Officer, Section 151 Officer and the Chief Internal Auditor) reviews matters relating to the internal control environment of the organisation on a regular basis by referring, amongst others, to the work of:

- Cabinet
- Corporate Management Team
- Strategic Directors, Heads of Service and their Business Unit Heads
- Internal Audit
- Asset, Insurance & Risk Management section
- Standards Committee
- Audit Committee
- Audit Commission and other external inspectorates

This annual review of the effectiveness of internal control systems also includes the work of Internal Audit who have responsibility for the review of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

SIGNIFICANT GOVERNANCE ISSUES

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the Council's objectives have been mitigated.

On the basis of the review work carried out it was considered that, overall, the Governance Framework has been effective. The majority of the internal control arrangements were operating adequately in the financial year 2008/09, and that improvements have been made over the year. The issues of concern for the year are

mainly around the new and developing events, and whilst some detail remains to be identified, these concerns centre around the loss of the Highways Agency, and the major partnerships (joint working) that the Council is entering into.

Having regard to the published guidance on internal control matters, the following are disclosed in the table below; for the sake of completeness the latest position on issues identified in the 2006/07 Statement of Internal Control is also provided in the table below:

Issue identified in 2006/07 SIC (June 2007)	Action taken & current position
As De-Criminalised parking has not yet been implemented a full review of car parking income systems has not been completed, so there is further actions relating to the issues raised in the previous years SIC to still be progressed.	<i>This has now taken place and the overall systems continue to be subject to review.</i> <i>June 2008 ~ Now Completed, system in place and working.</i>

Issue identified in 2007/08 AGS (June 2008)	Action taken & current position
Concerns around the loss of the Highways Agency to the County Council, and the ramifications of this change.	Management group set up including finance, legal, personnel, technical, and audit to manage the change in order to minimise service disruption, and to control the impact upon the remaining SBC infrastructure. <i>June 2009 ~ Good progress being made with the group, regular meetings should lead to an orderly withdrawal.</i>
Need to manage the Governance arrangements with the major Partnerships (joint working) that the Council is entering into.	Reports have been taken to Audit Committee, and the Projects & Partnerships scrutiny committee. Significant partnerships have been identified, and proper governance arrangements have been, or are being created for each. <i>June 2009 ~ Virtually completed, work continues to establish strong governance links into all the significant partnerships.</i>
Impact of the management re-structure on operating systems, the control environment and the morale of staff.	The structure has been established, the Heads of Service posts filled, and the consequential layered changes being implemented, with staff appointed into the revised posts. There has been a planned 'info-day' when the overall changes and wider impact is to be presented to all staff.

Issue identified in 2007/08 AGS (June 2008)	Action taken & current position
	<i>June 2009 ~ Completed</i>

Issue identified in 2008/09 AGS (June 2009)	Action taken & current position
<p>Strong management skills to ensure careful and controlled implementation of the Technology 1 system (Finance and Asset management) leading to transformational change.</p> <p>The Council is the UK pioneer site for implementing this Australian software.</p>	<p>Project team exists, and needs universal support from DMT to give it the necessary prioritisation of resources to ensure successful implementation to a very ambitious and tight timescale. There is a significant amount of work to be done.</p>
<p>The Council has a strong ambition, recognised by UK and European awards. The number and range of concurrent major projects is stretching resources and putting strain on a small number of senior managers.</p>	<p>The Council has set up a project management methodology, and created its own 'Centre of Excellence' to ensure dissemination of skills and compliance with best practice.</p>
<p>The challenging economic climate, coupled with the need to deliver significant efficiency savings may lead to budgetary cuts that could weaken the Council's governance and control framework.</p>	<p>Regular meetings of the Governance & Internal Control Group; comprising the S151 Officer; Monitoring Officer; Head of Internal Audit. It liaises with the Audit Committee.</p> <p>Counter fraud & Corruption Strategy to be reviewed and revised in 2009/10.</p> <p>Internal Audit are participating fully in the current programme of "health checks" that are designed to deliver service improvements.</p>
<p>Impact of the current economic situation on Council activities. There is likely to be a greater demand for social support services.</p>	<p>Identifying areas where additional resources may be needed, and sources of funding for them.</p>
<p>Issues surrounding the project management of the Middle Deepdale Development could lead to the integrity of the Council being doubted</p>	<p>A stronger project team with clear separation of 'developer' role and 'Consultee', or 'local Council' role is being formed. The Project Board to set a clear separation between the "Developer" and "Consultee" roles.</p>

SUMMARY

The governance framework operating during 2008/09 is considered to have provided reasonable and objective assurance that significant risks impacting on the achievement of the Council's principal objectives would be identified and actions taken to avoid or mitigate their impact.

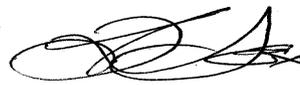
There is always a need to continually review and improve control systems, and further improvements have been identified for the coming year.

SIGNATURES

We, the undersigned, are satisfied that to the best of our knowledge and competence, the results of the review of the effectiveness of the governance framework, and its system of internal control by the relevant officers and the plans to address weaknesses and provide improvements to the control systems are in place.



J.Dillon
Chief Executive



Cllr T.Fox
Leader of the Council

1. INTRODUCTION

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position as at the year-end of 31 March 2009. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

Accounting policies are the processes for recognising, selecting measurement bases for and presenting transactions and other events in the financial statements. A summary of the policies adopted in the production of these accounts is provided below.

2. ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3 CONSISTENCY

The Principle that the same accounting treatments are used from year to year, this enables useful comparisons to be made. Any significant change in accounting policy must be declared in the accounting statements.

4 PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely that a transfer of economic benefit is no longer required, the provision is reversed and credited back to the relevant service revenue account.

5 RESERVES

The Council sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure is to be financed from a reserve it is charged to the appropriate service revenue account in that year so that it is included as a cost within the Net Cost of Services. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the Council. These reserves are explained in the relevant policies below.

6 REVENUE GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date the authority satisfies the conditions of entitlement to the grant contribution, there is a reasonable assurance that the monies will be received, and the expenditure for which the grant is given has been incurred.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited at the foot of the Income and Expenditure Account after Net Operating Expenditure.

7 RETIREMENT BENEFITS

Employees of the Council are members of The Local Government Pension Scheme administered by North Yorkshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 7.1%

The assets of the scheme attributable to the Council are include in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pension's liability in the year is analysed into seven components:

- Current Service Cost – the increase in liabilities resulting in the years of service earned this year. This is 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. This is 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. This is debited to Net Operating Expenditure in the Income and Expenditure Account
- Expected Return on Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return. This is credited to Net Operating Expenditure in the Income and Expenditure Account.
- Gains/Losses on Settlement 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. These are debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited/credited to the Statement of Total Recognised Gains and Losses.
- Contributions paid to the pension fund – cash paid as employers contributions to the pension fund.

Statutory provisions require that the General Fund balance be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the cash amounts paid/payable to the pension fund for the year.

8 VAT

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by a debtor or creditor on the Balance Sheet.

9 OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable to non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

10 INTANGIBLE FIXED ASSETS

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

A de-minimis level of £10,000 has been adopted for determination of expenditure on both tangible and intangible fixed assets

11 TANGIBLE FIXED ASSETS

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

Recognition

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

Measurement

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

- **Non specialised operational property and land** – the lower of net current replacement cost or net realisable value in existing use
- **Specialised operational properties** – depreciated replacement cost
- **Investment properties and surplus assets** – market value
- **Vehicles, plant and equipment** – historic cost as a proxy for current value (as these are short-life assets)
- **Infrastructure and Community Assets** - historic cost where known, otherwise nil value

Tangible assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every 5 years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income & Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The revaluation reserve contains revaluations recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account that has made use of the asset.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an

amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

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

The written off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation

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

Depreciation charges for operational assets are made to service accounts. Depreciation charges for surplus assets awaiting disposal are charged as non-distributed costs.

All fixed assets, except land and non-operational investment properties, are depreciated on a straight-line basis over the following periods:

Infrastructure	40 years
Operational Buildings	40 years
Mobile Plant	5-10 years
Motor Vehicles	3-10 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Capital 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 and Capital Contributions Deferred Account. The balance is then written down to revenue to

balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

12 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

13 CHARGES TO REVENUE FOR FIXED ASSETS

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations, however, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

14 LEASES

The Council accounts for leases in line with SSAP21 requirements, that is:

- A lease that transfers substantially all the risks and rewards of ownership of the asset to the lessee is a finance lease. If the Council was the lessee, the asset would be recognised on the Balance Sheet, a liability would be recognised for the future rentals, and expenditure on settling the liability would be capital expenditure.

- A lease where the risks and rewards of ownership are not substantially transferred is an operating lease. The asset remains on the Balance Sheet of the lessor.

All leases currently entered into by the Council as lessor and as lessee are considered to be operating leases. All rentals paid and received are therefore charged to the relevant service

15 FINANCIAL ASSETS

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are quoted in an active market. Loans and receivables applicable to the council include investments, bank deposits and debtors.
- Available for Sale Assets – assets that have quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the Income and Expenditure Account.

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

Available for Sale Assets

Available for Sale Assets are initially measured and carried at fair value. Income in relation to the Council's available for sale assets are credited to the Income and Expenditure Account when it becomes receivable.

Assets are maintained in the Balance sheet at fair value based upon the following principles.

- Where instruments with quoted market price – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity share with no quoted market Price – independent appraisal of company valuations

Instruments entered into before 1 April 2006

Where the Council entered into financial guarantees prior to 1 April 2006 the transactions are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions may be required or a contingent liability note is required.

16 FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the income and expenditure account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing (premiums and discounts) are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase / settlement.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The regulations allow that for premiums, the loss can be charged immediately to the General Fund if the authority so determines and the Council has applied this option. For discounts, the Council has applied the option to write the amounts off to the General Fund over the minimum ten year period, set out in the regulations.

The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account via the Statement of Movement on the General Fund Balance.

17 PROVISION IN RESPECT OF CAPITAL EXPENDITURE FINANCED BY BORROWING

There is a statutory duty (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008) to make a prudent revenue provision for capital expenditure financed by borrowing (whether external or internal). The Regulations explain that the aim of prudent provision is to ensure that resources are set aside for debt repayment either over a period commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, with the period implicit in the determination of grant i.e. 25 years. All borrowing prior to 2008/09 was supported. The Council approved for 2008/09, the continued use of the regulatory method to calculate the provision, this method being allowed specifically for supported borrowing (Financial Strategy – Annual Statement on Minimum Revenue Provision, approved by Council 23 February 2009).

18 STOCKS AND WORK IN PROGRES

Stocks included in the Balance Sheet are valued using the following methods:

Light Plant and Tools	- Current Value
Stores	- Lower of Most Recent Purchase Price and Net Realisable Value
Catering	- Lower of Cost and Net Realisable Value
Other	- Lower of Cost and Net Realisable Value

The valuation method used on stores stocks is divergent from the SORP.

2007/08 Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
1,287	Central Services to the Public		11,064	(9,475)	1,589
23,840	Cultural, Environmental and Planning Services		29,036	(12,829)	16,207
(441)	Highways, Roads and Transport Services		8,734	(8,295)	439
1,479	Housing Services		30,576	(29,917)	659
3,345	Corporate and Democratic Core		3,272	(111)	3,161
355	Costs of Senior Management Restructure		-	-	-
995	Non Distributed Costs		751		751
30,860	Net Cost of Services		83,433	(60,627)	22,806
(27)	(Gains)/Losses on the Disposal of Fixed Assets	Note 2	968		968
541	Parish Council Precepts		579	-	579
(304)	(Surplus)/Deficit on Trading Undertakings	Note 3	4,715	(4,067)	648
703	Interest Payable and Similar Charges	Note 4	319	-	319
12	Contribution of Housing Capital Receipts to Government Pool	Note 5	4	-	4
(1,345)	Interest and Investment Income	Note 6	-	(1,056)	(1,056)
1,170	Pension Interest Cost and Expected Return on Pension Assets	Note 7	2,971	-	2,971
31,610	Net Operating Expenditure		92,989	(65,750)	27,239
(29)	Transfer to/(from) the Collection Fund in respect of previous years deficits/(surpluses)				(17)
(2,235)	General Government Grants	Note 8			(1,712)
(10,238)	Non Domestic Rates Distribution	Note 8			(10,712)
(8,410)	Demand on the Collection Fund				(8,830)
10,698	(Surplus) /Deficit for the Year				5,968

The Income and Expenditure Account shows the Council's actual performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise Council Tax on a different basis, the main differences being:

- Capital Investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income & Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax.
- Retirement Benefits are charged as amounts become payable to pension funds and pensioners, rather than as they are earned.

The General Fund Balance compares the Council's spending against the Council Tax that is 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.

2007/08 £000's		2008/09 £000's
10,698	(Surplus)/Deficit for the Year on the Income and Expenditure Account	5,968
(10,577)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the Year Note 9	(5,754)
121	Reduction / (Increase) in General Fund Balance for the Year	214
(2,552)	General Fund Balance Brought Forward	(2,431)
(2,431)	General Fund Balance Carried Forward	(2,217)

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2007/08 £000		2008/09 £000
10,698	(Surplus)/Deficit for the year on the Income and Expenditure Account	5,968
(8,568)	(Surplus) Arising on the Revaluation of Fixed Assets	(6,605)
15,500	Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	Note 7 4,849
(23)	(Surplus)/Deficit for the Year on the Collection Fund Balance	(53)
(14)	Other Recognised Gains & Losses	-
17,593	Total Gains and Losses Recognised per Published Statement of Accounts	4,159
78	Prior Period Adjustment	-
17,671	Total Gains and Losses Recognised	4,159

Prior Period Adjustments and Amendments

The following prior period adjustment has resulted in changes to the opening balances in the Balance Sheet:

Total Net Worth reported as at 31 March 2008	61,473
Prior Period Adjustments	(78)
Total Net Worth following Prior Period Adjustments	61,395

Further details of this adjustment is provided in Note 10 of the Explanatory Foreword

31 March 2008 (restated) £000			31 March 2009 £000
174	Intangible Assets	Note 21	238
	Tangible Fixed Assets	Note 21-25	
	Operational Assets		
54,497	Land and Buildings		70,999
8,025	Vehicles, Plant and Equipment		7,327
72,991	Infrastructure Assets		71,520
135,513			149,846
	Non-Operational Assets:		
22,080	Investment Properties		26,338
11,637	Surplus Assets held for Disposal		2,303
8,268	Assets under Construction		887
41,985			29,528
177,672	Total Fixed Assets		179,612
59	Long Term Investments	Note 30	67
31,545	Long Term Debtors	Note 31	20,364
209,276	Total Long Term Assets		200,043
	Current Assets		
609	Stocks and Work in Progress	Note 32	637
16,639	Debtors	Note 31	12,409
737	Payments in Advance		735
10,000	Investments	Note 33	8,800
949	Cash in Hand		1,003
28,934			23,584
238,210	Total Assets		223,627
	Current Liabilities		
-	Borrowing repayable on demand or within 12 months notice	Note 34	(1,918)
(6,782)	Creditors	Note 35	(6,550)
(4,178)	Receipts in Advance	Note 36	(3,641)
(10,960)			(12,109)
227,250	Total Assets Less Current Liabilities		211,518
	Long Term Liabilities		
(12,225)	Borrowing repayable within a period in excess of 12 months	Note 34	(8,085)
(403)	Provisions	Note 37	(235)
(64,262)	Government Grants and Capital Contributions Deferred	Note 38	(60,825)
(595)	Deferred Liabilities	Note 39	(446)
(56,916)	Liability Related to Defined Benefit Pension Scheme	Note 7	(64,394)
(31,454)	Other Liabilities	Note 40	(20,297)
61,395	Total Assets Less Liabilities		57,236

Financed By:			
8,424	Revaluation Reserve	Note 41	14,672
92,813	Capital Adjustment Account	Note 41	90,147
95	Financial Instruments Adjustment Account	Note 41	260
(56,916)	Pensions Reserve	Note 7 & 41	(64,394)
1,634	Capital Receipts Reserve	Note 41	199
18	Deferred Credits	Note 41	17
2,431	General Fund Balance	Note 41	2,217
12,797	Earmarked Reserves	Note 41	13,967
99	Collection Fund	Note 41	151
61,395	Total Net Worth		57,236

We certify that the Balance Sheet and related accounts represent the true financial position of Scarborough Borough Council as at 31 March 2009 and its income and expenditure for the year ending 31 March 2009.

Nicholas Edwards

H Lynskey

C.P.F.A
Head of Finance and Asset Management
13 October 2009

Councillor H Lynskey
Chairperson of the Audit Committee
13 October 2009

2007/08 £000		2008/09 £000
	Revenue Activities	
	Cash Outflows	
(25,221)	Cash paid to and on behalf of Employees	(25,107)
(20,371)	Other Operating Cash Payments	(16,942)
(26,797)	Housing Benefits Paid Out	(29,426)
(23,879)	National Non-Domestic Rate Payments to National Pool	(26,798)
(48,580)	Precepts Paid	(50,987)
(144,848)		(149,260)
	Cash Inflows	
48,051	Council Tax Receipts	50,740
10,238	National Non-Domestic Rate Receipts from National Pool	10,712
25,415	Non-Domestic Rate Receipts	26,663
2,235	General Government Grants	1,712
25,252	DWP Grants for Housing Benefits	31,064
11,286	Other Government Grants	13,920
12,918	Cash Received for Goods and Services	13,156
9,246	Other Cash Received	1,332
144,641		149,299
(207)	Net cash flow from revenue activities	39
	Returns on Investments and Servicing of Finance	
	Cash Outflows	
(504)	Interest Paid	(365)
	Cash Inflows	
1,424	Interest Received	1,174
920		809
	Capital Activities	
	Cash Outflows	
(13,553)	Purchase of Fixed Assets	(6,356)
	Cash Inflows	
433	Sale of Fixed Assets	1,044
146	Capital Grants Received	3,381
8,246	Other Capital Cash Receipts	2,158
(4,728)		227
(4,015)	Net Cash Inflow/(Outflow) Before Financing	1,075
	Management of Liquid Resources	
5,300	Net (Increase)/Decrease in Short Term Deposits	1,200
	Financing	
	Cash Outflows	
(300)	Repayments of Amounts Borrowed	(5,721)
	Cash Inflows	
	New Loans Raised	3,500
985	Net Increase/(Decrease) in Cash	54

1 PRIOR PERIOD ADJUSTMENTS AND AMENDMENTS

The Balance Sheet figures for 31 March 2008 have been adjusted from those included in the Statement of Accounts for 2007/08 to reflect a prior year adjustment arising from a change in accounting policy in relation to amendments to FRS17 Retirement Benefits.

Under the 2008 SoRP quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid- market value. The effect of this change is that the value of the scheme assets at 31 March 2008 has been restated from £77.682m to £77.604m a decrease of £78,000, resulting in an increase of the pension deficit of the same amount (31 March 2008: decrease of £81,000). The current and prior year surplus has been unaffected by this change.

2 GAINS OR LOSSES ON DISPOSAL OF FIXED ASSETS

A gain/loss is recognised in the Income and Expenditure Account by comparison of the net proceeds from disposal with the value of the disposed fixed asset being carried in the Balance Sheet. The value is more significant than in previous years because assets are no longer revalued at the point of disposal.

The net loss recognised in the Income and Expenditure Account of £968,270 is principally due to recognition of a lease of land in connection with the Sands development as a disposal, with the proceeds being less than the value at which the land was held on the Balance Sheet. Disposal of other land, buildings and vehicles resulted in a gain of £211,189.

3 TRADING UNDERTAKINGS

The Council has established 5 trading units where service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the Authority or other organisations.

The Property Services and Rentals and Catering Units generate income from external sources and therefore the results for the year are disclosed under Trading Operations. The remaining 2 units are Internal Trading Organisations (ITO's), generating the majority of their income from internal recharges; therefore any net surplus or loss is reallocated to services in accordance with the Best Value Code of Accounting Practice. The following tables show the results for all Trading Organisations and the reallocation of the ITO surplus.

	Income	Expenditure	Trading Total
	£000	£000	£000
Property Rentals	(1,021)	1,457	436
Property Services	(1,257)	1,464	207
Catering	(1,789)	1,801	12
	(4,067)	4,722	655
Reserve Movements		(26)	(26)
Internal Trading Organisation Deficit			

reallocated to Trading Operations (see table below):		19	19
Total	(4,067)	4,715	648

The following table summarises the ITO's net expenditure:

	Income £000	Expenditure £000	Trading Total £000
Highways	(3,371)	3,174	(197)
Transport	(3,063)	3,118	55
Total for Internal Trading Organisations	(6,434)	6,292	(142)
Reallocated to:			
Property Trading Account		19	19
Net Cost of Services			(161)

4 INTEREST PAYABLE AND SIMILAR CHARGES

This charge reflects the interest charge on long and short term borrowing required for capital investment and cash flow management (£0.474m), the interest due (£0.026m) on monies held on behalf of contractors, and credits relating to discounts released in year on premature loan repayments (£0.181m). The interest paid on monies held on behalf of contractors is in relation to the Scarborough Business Park Development. This interest is calculated monthly and is based on average monthly interest rates.

5 CONTRIBUTION OF HOUSING CAPITAL RECEIPTS TO GOVERNMENT POOL

The Government has introduced legislation that may require a proportion of mortgage repayments relating to previous housing disposals to be paid into a Government Housing Pot. While this requirement is clarified, the Council has made a provision for a sum calculated in accordance with Government guidance. The amount is reversed out in the Statement of Movement on the General Fund Balance to reflect that the amount would be met from capital receipts rather than revenue reserves.

6 INTEREST AND INVESTMENT INCOME

The interest receivable recognised in the Income & Expenditure Account is in relation to financial assets classified as loans and receivables. The balance relates to interest on investments, which the Council generated by investing its funds on a day to day basis for periods of up to one year, dependent on cash flows and the interest rates available.

7 DISCLOSURE OF INFORMATION RELATING TO RETIREMENT BENEFITS

PARTICIPATION IN PENSION SCHEMES

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be

payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS), administered by North Yorkshire County Council. This is a funded scheme, where both the Authority and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with its assets.

TRANSACTIONS RELATING TO RETIREMENT BENEFITS

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

Income & Expenditure Account

2007/08		2008/09 £000	
	Net Cost of Services		
2,776	Current Service Cost	2,801	
827	Past Service Cost	-	
-	Curtailment	213	
3,603		3,014	
	Net Operating Expenditure:		
6,535	Interest Cost	8,163	
(5,365)	Expected Return on Scheme Assets	(5,192)	
1,170		2,971	
4,773	Net Charge to the Income and Expenditure Account	5,985	

Statement of Movement in the General Fund Balance

2007/08 £000		2008/09 £000
(4,773)	Reversal of Net Charges made for Retirement Benefits in Accordance with FRS17 Actual amounts charged against the General Fund Balance for pensions in the Year:	(5,985)
3,428	- Employers Contributions Payable to the Scheme	3,356

In addition to the recognised gains and losses included in the Income and Expenditure account, actuarial losses of £4.849m (£15.500m 2007/08) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial

losses recognised in the Statement of Total Recognised Gains and losses is £38.711m.

RECONCILIATION OF PRESENT VALUE OF THE SCHEME LIABILITIES

	2007/08 £000s	2008/09 £000s
Balance as at 1 of April	(121,430)	(134,520)
Current Service Cost	(2,776)	(2,801)
Interest Cost	(6,535)	(8,163)
Contributions by Scheme Participants	(941)	(971)
Past Service Costs	(827)	-
Actuarial Gain / (Losses) on Liabilities	(6,548)	27,733
Curtailments	-	(213)
Benefits / Transfers paid	4,537	5,179
Balance as at 31 March	(134,520)	(113,756)

RECONCILIATION OF FAIR VALUE OF THE SCHEME ASSETS

	2007/08 £000s	2008/09 £000s
Balance as at 1 April	81,356	77,604
Expected Rate of Return	5,360	5,192
Actuarial Gain / (Losses)	(8,944)	(32,582)
Employer Contributions	3,428	3,356
Contributions by scheme Participants	941	971
Benefits / transfers paid	(4,537)	(5,179)
Balance as at 31 March	77,604	49,362

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

The actual loss on scheme assets in the year was £27.390m (2007/08: £4.901m)

SCHEME HISTORY

	2004/05* £000	2005/06* £000	2006/07 £000 as restated	2007/08 £000 as restated	2008/09 £000
Present Value of Liabilities	(105,638)	(121,720)	(121,430)	(134,520)	(113,756)
Fair Value of Assets	59,954	76,645	81,356	77,604	49,362
Surplus / (Deficit) in the Scheme	(45,684)	(45,075)	(40,074)	(56,916)	(64,394)

* The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17 (revised).

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £64.394 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, reducing reserves from £121.630 million to £57.236 million (53%). Statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2010 is £3.093m.

BASIS FOR ESTIMATING ASSETS AND LIABILITIES

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations have been:

2007/08		2008/09
3.6%	Rate of Inflation	3.3%
5.35%	Rate of Increase in Salaries	5.05%
3.6%	Rate of Increase in Pensions	3.3%
6.1%	Rate for Discounting Scheme Liabilities	7.1%
50%	Take-up of option to convert annual pension into retirement lump sum	50%
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity Investments	7.5%
4.6%	Government Bonds	4.0%
6.1%	Other Bonds	6.0%
5.25%	Cash/Liquidity	0.5%
7.5%	Other	7.5%
	Mortality Assumptions:	
	Longevity Assumptions at 65 for current pensioners	
21.1	Men	21.2
24.0	Women	24.0
	Longevity Assumptions at 65 for future pensioners	
22.2	Men	22.2
25.0	Women	25.0

The Fund's assets consist of the following categories, by proportion of the total assets held by the fund:

31 March 2008 %		31 March 2009 %
72.9	Equity Investments	74.8
4.4	Government Bonds	8.50
17.4	Other Bonds	11.20
1.4	Cash/Liquidity	4.40
3.9	Other	1.10
100.0		100.0

HISTORY OF EXPERIENCE GAINS AND LOSSES

The actuarial gains identified as movements on the Pension Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009.

	2004/05*	2005/06*	2006/07	2007/08 as restated	2008/09
	%	%	%	%	%
Difference between the expected and actual return on assets	3.40	15.20	0.50	(11.5)	(66.00)
Experience gains and losses on Liabilities	(1.00)	(1.70)	-	0.40	(0.24)

8 GENERAL GOVERNMENT GRANTS AND DISTRIBUTION FROM THE NON-DO MESTIC RATE POOL

The Council received three grants from the Government in 2008/09 which were not related to a particular service; Revenue Support Grant; Area Based Grant and Local Authority Business Growth Incentives Grant (LABGI).

The following table summaries the amount of Grant Income received from Central Government.

	31 March 2008 £000	31 March 2009 £000
General Government Grants		
Revenue Support Grant	1,718	1,491
LABGI Grant	517	172
Area Based Grant	-	49
Total	2,235	1,712
Non-Domestic Rates Redistribution		
Formula Grant	10,238	10,712
TOTAL GRANTS	12,473	12,424

The total of business rates paid into the National Non-Domestic Rating Pool by all authorities is redistributed on the basis of a standard amount per head of population. In 2008/09 the sum was £98.82 per head.

9 RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2007/08 £000s		2008/09 £000s	
	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		
(69)	Amortisation of Intangible Fixed Assets	(51)	
(11,813)	Depreciation and Impairment of Fixed Assets	(8,813)	
8,971	Amortised Capital Grants and Contributions	7,637	
(8,116)	Revenue Expenditure Funded from Capital under Statute	(3,288)	
-	Net Gains/(Losses) on Sale of Fixed Assets	(961)	
(40)	Disposal Income not treated as Capital Receipts	(30)	
30	Gain on Release of Covenant	-	
95	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	165	
(4,773)	Net Charges made for Retirement Benefits in accordance with FRS17	(5,985)	
(15,715)			(11,326)
	Amounts not Included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
353	Minimum Revenue Provision for Capital Financing	389	
-	Capital Expenditure charged in year to the General Fund Balance	661	
3,428	Employers Contributions to the North Yorkshire Pension Fund	3,356	
(12)	Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool	(4)	
3,769	Transfers to/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		4,402
30	Transfers to/(from) Insurance Reserve	173	
1,339	Transfers to/(from) Other Earmarked Reserves	997	

1,369		1,170
(10,577)	Net additional amount required by Statute and Non-Statutory proper practices to be Credited/(Debited) to the General Fund Balance	(5,754)

Explanation of Adjustments

Amortisation, Depreciation and Impairment of Fixed Assets – charges for fixed assets are made to the Income and Expenditure Account in accordance with proper accounting practice, but the Council does not base council tax on these charges, but rather the revenue provision made each year to finance capital expenditure. An appropriation is therefore made from the Capital Adjustment Account to the Statement of Movement on the General Fund, to neutralise these charges.

Amortised Capital Grants and Contributions - an appropriation is made to the Capital Adjustment Account to neutralise these credits, as the grants have been taken into account in capital financing decisions. The credits made to the Income and Expenditure Account does not therefore represent available revenue resources.

Revenue Expenditure Funded from Capital Resources – Statute specifically provides for this expenditure to be financed from capital resources. An appropriation is therefore made from the Capital Adjustment Account to the Statement of Movement on the General Fund to neutralise the effect on the General Fund.

Net Gains / Losses on Sale of Fixed Assets – the loss recognised in the Income and Expenditure Account is not a realised loss (except for disposal costs) and the capital receipts resulting from the disposal are not available to support revenue expenditure. Consequently, appropriations are required to/from the Capital Adjustment Account and Capital Receipts Reserve to neutralise the effect on the General Fund.

Disposals not treated as Capital Receipts – Receipts of over £10,000 can only be used to support capital expenditure. The adjustment ensures that these receipts are set aside in the Capital Receipts Reserve rather than the General Fund Balance. Receipts of under £10,000 may be applied to the General Fund Balance.

Retirement Benefits – are charged as they become payable rather than as they are earned, therefore net charges made in the Income Expenditure Account are reversed and are replaced with contributions payable to the pension fund.

Minimum Revenue Provision – the Council is required to make a prudent provision each year for repayment of borrowing. It is calculated by reference to the Capital Financing Requirement at the start of the year.

The Payment of a Share of Housing Capital Receipts – is included as a charge in the Income and Expenditure Account but is reversed out as it is met from Capital Receipts rather than revenue reserves.

Financial Instruments - Generally the General Fund Balance will reflect the interest expenses and income and gains/losses arising on de-recognition of financial

instruments in accordance with the debits and credits made to the Income and Expenditure Account. However, specific statutory provisions apply that allow the effects of soft loans to be adjusted to reflect contractual amounts payable and for premiums and discounts arising on the early repayment of debt to be spread over a number of financial years.

10 GRANTS TO CHARITABLE FUNDS AND NOT FOR PROFIT ORGANISATIONS

Section 137 of the Local Government Act 1972, as amended, empowers Local Authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure under this power is summarised in the Table below:

2007/08 £000		2008/09 £000
56	Grants to Voluntary Organisations	58
10	Mayoral Hospitality	10
85	Grants to Area Committees	86
151	Total	154

11 PUBLICITY ACCOUNT EXPENDITURE

Per the requirements of Section 5(1) of the Local Government Act 1986, the Council's spending on publicity was:

2007/08 Restated £000		2008/09 £000
36	Civic Newspaper	25
85	Recruitment Advertising	67
286	Other Advertising	234
102	Public Relations and Other Publicity	113
509	Total	439

The 2007 08 expenditure has been restated to take into account changes to the amounts included within publicity information.

12 LEASES

Operating Leases

Equipment – The Council no longer holds operating leases for photocopying and printing equipment.

Land and Buildings – the Council leases several plots of land and a small number of buildings, for which the leases have been accounted for as operating leases. Land notably includes the Foreshore, Staithes to Whitby and Westwood Car Park, Scarborough. The most significant leased building, with lease cost of £38,880 p.a., is Industrial Units 1-10, Wareham Road, Scarborough. Rentals payable on all land and building operating leases in 2008/09 were £126,190.

Authority as Lessor – the Council holds land and buildings for which it has granted leases for use. The arrangements are accounted for as operating leases and rentals credited to the income and expenditure account in 2008/09 amount to £2.3m. Land and buildings that are leased are primarily classified and valued as Investment Property. An exception is business and industrial units that meet the economic development objective of the Council. These are classified as Operational Buildings.

Commitments under Operating Leases – the Council was committed at 31 March 2009 to making the following payments on leases:

	Land and Buildings (£000's)
Leases expiring in 2009/10	12
Leases expiring between 2010/11 and 2014/15	53
Leases expiring after 2014/15	61
Total	126

13 BUILDING CONTROL

The Building Control Service, which was previously provided in house by Scarborough Borough Council, was transferred to the North Yorkshire Building Control Partnership on 1 April 2008.

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. Charges for the work carried out are set with the aim of covering all costs incurred. However, certain activities performed by the Building Control Partnership cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows Scarborough Council proportion of the chargeable cost of operating the building control unit

	Chargeable £000	Non Chargeable £000	Total £000
Expenditure			
Employee Expenses	254	48	302
Premises	11	1	12
Supplies & Services	21	2	23
Transport	-	-	-
Central Support Services	15	3	18
Total Expenditure	301	54	355
Income			
Building Regulation Charges	(282)	(62)	(344)
Miscellaneous Income	(6)	(6)	(12)
Total Income	(288)	(68)	(356)
(Surplus)/Deficit for the Year	13	(14)	(1)

Comparatives for 2007/08	Chargeable £000	Non Chargeable £000	Total £000
Expenditure	405	177	582
Income	(419)	(2)	421
(Surplus)/Deficit for the Year	(14)	175	161

14 AGENCY SERVICES

The Borough Council has an agency agreement with North Yorkshire County Council (NYCC) for the maintenance and improvement of highways within a defined area, which covers Scarborough Town, Scalby, Newby, Osgodby, Eastfield and Crossgates. The County Council reimburses the Borough Council for this work, including a contribution towards administration costs.

A following table summarises the expenditure incurred:

	2007/08 £000	2008/09 £000
Routine Maintenance	1,631	1,819
Street Lighting	369	423
Other	893	1,469
Administration Fee	206	229
Total Amount Reimbursable	3,099	3,940

The County Council executive met in January 2008 and approved the termination of this Agency Agreement. The agreement includes a 3 year termination period, which started on 1 April 2008 therefore the agreement will cease with effect from 31 March 2011.

15 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970

The Local Authorities (Goods and Services) Act 1970 empowers Local Authorities to provide Goods and Services to other public bodies. During the year the Council administered the On Street Parking Scheme in agreement with North Yorkshire County Council. The following table summarises the transactions during the year.

2007/08 £000		2008/09 £000
(1,129)	Income	(1,734)
981	Expenditure	1,244
(148)	Net (Income) / Expenditure	(490)
81	Administration Fee	90
(67)	Net Operating (Surplus) / Deficit	(400)
(373)	Balance brought forward	(440)
	Less: payment to NYCC	440
(440)	Balance Outstanding to be Carried Forward	(400)

Income has increased due to a combination of factors, namely introduction of decriminalisation penalty charges and increased income from permits / scratch cards and on street parking. The administration fee is income receivable to the Borough Council for operating On Street Car Parking. The balance carried forward is available for carrying out transport related schemes as approved by the County Council.

16 MEMBERS ALLOWANCES

The total payment made to Members during 2008/09 was £268,019 including £8,306 for internet allowances.

17 EMPLOYEE EMOLUMENTS

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £10,000 were:-

2007/08	Salary band	2008/09
1	£50,000 to £59,999	7
12	£60,000 to £69,999	5
-	£70,000 to £79,999	0
1	£80,000 to £89,999	0
1	£90,000 to £99,999	1
1	£100,000 to £109,999	1

18 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 may have been constrained in its ability to operate independently or may have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence 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 revenue 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). Block funding (Revenue Support Grant and Non-Domestic Rates Redistribution), Local Authority Business Growth Incentive Scheme (LABGI), and Area Based Grants are shown on the face of the Income and Expenditure Account. Grants specific to services, £42.86 million in total, are included in service income.

Central Government also provides direct grant support for capital expenditure. In 2008/09 £0.649m was provided in grants from Government Departments with a further £1.313m of European Structural Funds channelled through the Government Office for Yorkshire and the Humber.

Companies and Joint Ventures:**Scarborough Museums Trust**

The Scarborough Museums Trust, a charitable Company Limited by Guarantee, was established as a regulatory company of the Borough Council in April 2004. The Trust has been classified as an associate for Group Account purposes.

Details of transactions between the Trust and the Borough Council are provided in Note 42 to the accounts.

Moors & Coast Tourism Partnership

The Borough Council is one of 10 board members of the Moors & Coast Tourism Partnership. This Partnership was set up to encourage, support, advise and manage the sustainable development of the tourism industry within the areas of Hambleton, Ryedale, Scarborough and the North Yorkshire Moors National Park.

The partnership has been classified as a Joint Venture for Group Account purposes.

Details of transactions between the partnership and the Borough Council are provided in Note 42 to the accounts.

Other Bodies

The Council collects Council Tax to fund its own revenue requirements and to distribute to other precepting authorities, these being North Yorkshire County Council, North Yorkshire Police Authority, North Yorkshire Fire Authority, and the Parish Councils. Details of these amounts are shown in the Collection Fund Accounts.

Significant funding provided to the Council by other bodies was:

Capital funding of £2.238m in total, the main providers being the Scarborough Business Park funders (0.999m), Yorkshire Forward (£0.326m), Lottery Fund (£0.291m) and other local authorities (£0.199m).

North Yorkshire County Council – estimated funding of £0.818m in respect of specific services. It also has an agency agreement for highways (note 14) and administers the Local Government Pension Scheme (note 7). The Borough Council is also the accountable body for distributing the County Council Community Fund.

The following Councillors were also Councillors of North Yorkshire County Council during the financial year:

Cllr Backhouse, Cllr Billing, Cllr Blackburn, Cllr Broadbent, Cllr Broadley, Cllr Simpson, Cllr Jeffels, Cllr Kenyon, Cllr Tindall.

Cllr Kenyon is also the chairperson for the North Yorkshire Police Authority

Cllr Jeffels is a trustee of the Scarborough Theatre Trust, a body that the Borough Council paid a grant to of £211,650 during the financial year.

Cllr Haycock is a representative on the Creative Industries Centre Trust, a body that the Borough Council paid a grant to of £79,891 during the financial year. The Borough Council also leases the Creative Industry Centre building to the trust at a peppercorn rent

19 TRUST FUNDS

The Borough Council was the Trustee for the Scalby Parish Hall Charity Trust (Registered Charity No. 523406) in 2008/09. During the year the Borough Council received £18,620 income and incurred expenditure of £26,180 in relation to the Trust.

With effect from 1st April 2009 SBC ceased to act as a Trustee of the charity. Under a Charity Commission Scheme the name of the charity was changed to Newby and Scalby Community Hall (same company registration number), and the Newby and Scalby Parish Council was appointed as sole Trustee.

The legal title to the land and buildings known as Scalby Parish Hall and The Caretaker's Cottage, Scalby Road, Scalby, North Yorkshire was transferred to the Official Custodian for Charities in trust for the Charity.

20 AUDIT COSTS

In 2008/09 Scarborough Borough Council incurred the following fees relating to external audit and inspections:

2007/08 £000		2008/09 £000
120	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	110
6	Fees payable to the Audit Commission in respect of statutory inspection	13
62	Fees payable to the Audit Commission for the certification of grant claims and returns	61

21 FIXED ASSETS

The Balance Sheet records the value of fixed assets, i.e. assets giving benefit to the Council or the services it provides for a period of more than one year. Tangible fixed assets, that is, assets with physical substance, are sub-divided between operational and non-operational assets. Intangible assets relate solely to software licenses. The change in value of fixed assets on the Balance Sheet results from:

- capital investment each year on the acquisition, creation or enhancement of fixed assets. Enhancement refers either to the value of an asset or the use to which it can be put. This distinguishes capital investment from expenditure on routine repairs and maintenance, which is charged direct to service revenue accounts.
- the value of assets disposed of during the year
- revaluation or impairment of assets required to be carried at current value, and depreciation of assets (see note 22)

MOVEMENT ON FIXED ASSETS

The following tables set out the change in value of each category of fixed asset shown in the Balance Sheet.

TANGIBLE FIXED ASSETS – OPERATIONAL

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Total £000
Certified Value at 1 April 2008	55,680	13,622	84,142	153,444
Accumulated Depreciation	(1,183)	(5,597)	(11,151)	(17,931)
Net book value of Assets at 1 April 2008	54,497	8,025	72,991	135,513
Movement in 2008/09				
Additions	2,068	861	571	3,500
Disposals	-	(38)	-	(38)
Revaluation	10,878	-	-	10,878
Category Transfers	11,549	-	104	11,653
Depreciation	(1,170)	(1,521)	(2,146)	(4,837)
Impairments	(6,823)	-	-	(6,823)
Net Book Value at 31 March 2009	70,999	7,327	71,520	149,846
Certified Valuation at 31 March 2009	71,788	13,638	84,817	170,243
Accumulated Depreciation and Impairment	(789)	(6,311)	(13,297)	(20,397)
Net Book Value at 31 March 2009	70,999	7,327	71,520	149,846

TANGIBLE FIXED ASSETS – NON-OPERATIONAL

	Investment Properties	Surplus Assets held for Disposal	Assets under Construction	Total
	£000	£000	£000	£000
Certified Value at 1 April 2008	22,080	11,649	8,268	41,997
Accumulated Depreciation	-	(12)	-	(12)
Net Book Value of Assets at 1 April 2008	22,080	11,637	8,268	41,985
Movement in 2008/09				
Additions	11	-	2,107	2,118
Disposals	-	(1,496)	-	(1,496)
Revaluation	4,403	546	-	4,949
Category transfers	5,703	(7,868)	(9,488)	(11,653)
Depreciation	-	(6)	-	(6)
Impairments	(5,859)	(510)	-	(6,369)
Net Book Value at 31 March 2009	26,338	2,303	887	29,528
Certified Valuation at 31 March 2009	26,338	2,303	887	29,528
Accumulated Depreciation	-	-	-	-
Net Book Value at 31 March 2009	26,338	2,303	887	29,528

INTANGIBLE FIXED ASSETS

	Total £000
Gross value at 1 April 2008	736
Additions	114
Gross value at 31 March 2009	850
Amortisation to 1 April 2008	(561)
Amortisation Charge in the Year	(51)
Accumulated Amortisation to 31 March 2009	(612)
Net Book Value at 31 March 2009	238

22 FIXED ASSETS – VALUATION, DEPRECIATION AND IMPAIRMENT

Infrastructure and community assets are held at historic cost (for community assets held for many years where a historic cost is unknown, this is a nominal value), with infrastructure assets being subject to depreciation.

Other fixed assets are included on the Balance Sheet at current value. The bases used for measuring current value are:

- non-specialised operational buildings and land - net realisable value in existing use
- specialised operational buildings - depreciated replacement cost
- investment properties and surplus assets - market value
- vehicles, plant and equipment - historic cost as a proxy for current value as these are limited value, short life assets.

Valuations are carried out by the Council's Principal Valuer who is a qualified member of the Royal Institute of Chartered Surveyors. A full valuation is performed on a rolling basis to cover all assets over a five year cycle. In addition, consideration is given annually to whether asset values need to be further revised to account for material changes in value over a shorter period.

During 2008/09, the Valuer has considered both the upward revaluation of assets where values were considered to be understated as a result of elapsed time since a previous revaluation, and the reduction in value of assets during the year as a result of impairment. The primary reason for impairment in 2008/09 was a general fall in asset values rather than a reduction of the economic benefit from use of assets (as would be the case with physical damage).

The table below shows the progress of the Council's rolling programme for revaluations, and this year reflects the additional valuation and impairment of assets undertaken in 2008/09.

Valued at Current Value in:	Land & Buildings (£000)	Non Operational Investment Properties (£000)	Non Operational Surplus Assets (£000)	Total (£000)
2008/2009	71,788	26,338	2,303	100,429

Depreciation is applied to all operational and surplus buildings, infrastructure, vehicles, plant and equipment (on a straight-line basis), in accordance with CIPFA recommended practice. Buildings and infrastructure are depreciated over 40 years, mobile plant over 5-10 years and vehicles over 3-10 years. Non-Operational Investment Properties are not subject to depreciation.

When the Valuer revalues an asset either upwards or downwards in value, the remaining useful life of the asset is also reconsidered. Where a building has been maintained such that its useful economic life is still considered to be 40 years, depreciation recommences on the basis of this revised asset life. Accumulated depreciation is adjusted for within the revaluation or impairment movement.

23 CAPITAL EXPENDITURE AND FINANCING

This statement shows capital expenditure in the year including 'Revenue Expenditure Funded from Capital Under Statute' and the sources of financing.

	£000	£000
Capital Expenditure:		
Intangible Assets	114	
Operational Assets	3,500	
Assets under Construction	2,107	
Investment Properties	11	5,732
	<hr/>	
Revenue Expenditure Funded from Capital under Statute:		
Grants	1,102	
Scarborough Business Park	2,186	3,288
		<hr/>
		9,020
Capital Resources Set Aside at the Time of Expenditure:		
Government Grants and Other Contributions		(4,200)
Capital Receipts		(1,975)
Sums Set Aside from Reserves		(661)
		<hr/>
		(6,836)
Capital Financing Requirement at 1 April 08		12,086
Capital expenditure not Resourced Immediately		2,184
Minimum Revenue Provision		(389)
		<hr/>
Capital Financing Requirement at 31 March 09		13,881

The Capital Financing Requirement (CFR) represents the Council's past capital expenditure which has not been or will not be financed directly from external income, capital receipts or by revenue contribution and which therefore needs to be charged to the General Fund in future years.

Capital investment, financing and borrowing decisions are made with reference to the prudential framework set by the CIPFA Prudential Code for Capital Finance in Local Authorities.

24 CAPITAL COMMITMENTS

Several contracts for capital works, which were entered into before 31 March 2009, remained ongoing at the year-end. It is anticipated that all contracts will be completed during 2009/10. The value of work to be completed under the most significant of these contracts is as follows:

	£000
Whitby Pavilion & Scarborough Market Roof & Stone Restoration	347
Supply and Installation of Play Equipment	88
New Skate Park at Royal Albert Park	54
	<hr/>
	489

25 INFORMATION ON ASSETS HELD

Assets under Construction – the most significant projects currently underway but not yet complete are the Whitby Harbour Marina Facility and the Royal Albert Park Skate Park and Play Area. The values for the Rotunda Museum, Creative Industries Centre and Green Lane Community Centre have been transferred to Operational Land and Buildings as these assets became operational during the year.

Community Assets – a significant number of playing fields and open spaces, as well as Art Gallery and Museum collections and civic regalia are held in perpetuity.

Infrastructure Assets – the most significant category of infrastructure assets is coast protection and cliff stabilisation works.

Surplus Assets – assets held under this category have been assessed during the year, with the balance at year end reflecting assets for which there is a likelihood of disposal within the following 12 months.

Operational and Investment Land and Properties - the following table provides information on the types assets held for which a value is given in the Balance Sheet.

Asset types	Operational Land & Properties	Non-Operational Investment Properties
Swimming Pools	2	
Sports Centres	2	
Leisure Amenities	8	12
Theatres	2	2
Museums & Art Galleries	2	1
Play Centres	3	1
Caravan Sites	1	1
Shops & Cafes	3	50
Kiosk & Stalls	6	46
Car Parks	59	4
Public Conveniences	42	2
Tourist Information Centres	4	
Crematorium	1	
Horticultural Nurseries	1	
Cliff Lifts	1	0
Industrial Units	23	
Parks Huts	7	
Trading Depots	2	
Resource Centres	1	
Office, Admin. & Leasehold Buildings	14	
Doctors Surgeries		1
Bowling Centre/Bowling Greens		7
Farms		9
Hostels	1	
Golf Courses		3
Playing Fields		3
Tennis Courts		2
Outdoor Market		1
Boat yard		1
Racing Circuits		3
Beach Management Centres	2	
Mobility Centre		1
Shellfish Holding Facility		1
Community Centres		2
Rifle Club		1

26 FINANCIAL INSTRUMENT BALANCES

The Borrowings and Investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2008	31 March 2009	31 March 2008	31 March 2009
Borrowings				
Financial Liabilities at Amortised Cost	(12,225)	(8,085)	(6,782)	(8,468)
Total Borrowings	(12,225)	(8,085)	(6,782)	(8,468)
Investments				
Loans & Receivables Available for Sale	-	30	27,588	22,212
Total Investments	59	67	27,588	22,212

27 FAIR VALUE OF ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

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

- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- The fair value of PWLB loans is calculated by reference to the 'premature repayment' set of rates in force on 31 March each year.

	31 March 2009		31 March 2008	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loan Board	(5,060)	(5,016)	(8,132)	(7,998)
Barclays LOBO	(4,093)	(4,227)	(4,093)	(4,200)
Other Short Term Borrowing	(850)	(850)	-	-
Total Financial Liabilities	(10,003)	(10,093)	(12,225)	(12,198)

The fair value of the LOBO is more than the carrying amount because the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

28 FINANCIAL INSTRUMENT GAINS AND LOSSES

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities at Amortised Cost £000	Financial Assets Loans & Receivables £000	Total 2008/09
Interest Expense	474		474
Interest Payable and Similar Charges	474		474
Interest & Investment Income		(1,056)	(1,056)
Net (Gain) / Loss for the Year	474	(1,056)	582

	Financial Liabilities at Amortised Cost £000	Financial Assets Loans & Receivables £000	Total 2007/08
Interest Expense	654	-	654
Interest Payable and Similar Charges	654	-	654
Interest & Investment Income		(1,345)	(1,345)
Net (Gain) / Loss for the Year	654	(1,345)	(691)

29 THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit Risk – the possibility that other parties might fail to pay amounts due to the authority;

Liquidity risk – Is the risk that the Council will not have sufficient cash resources to meet its obligation to its creditors and employees' as they fall due for payment.

Market Risk – Is the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Policy Statement.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are only made with banks and financial institutions that meet the established criteria approved by the Council. The Council's Treasury Management Policy Statement, contained within the Financial Strategy, details the criteria applied, as well as the maximum investment limit at any one time, to any institution.

In light of the economic climate, the Authority has been actively monitoring the treasury investment criteria and where necessary has, together with the Authority's treasury management independent financial advisors, reviewed the treasury policy and where applicable has presented to Council an amended investment criteria agreement. The Treasury Policy Statement now places stringent boundaries on the investment of surplus funds.

The main changes are:

- Counterparty listings
- Reduced period for Investment
- Maximum Financial limit per financial year
- Geographical restrictions / subject to sovereign 'AAA' rating indicating the highest credit rating quality and denoting the lowest expectation of risk.

Going forward strict time limits will be placed on the length of time the Council invests its surplus funds, which will further reduce the risk of possible default.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability in previous financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2009	Historical Experience of Default	Historical Experience adjusted for market conditions at 31 March 2009	Estimated maximum exposure to default and uncollectability
	£000's	%	%	£000's
Deposits with Banks and Financial Institutions	9,803	0	0	0
Customers	5,228	6.3%	8.3%	434

The Authority does not formally allow credit for customers, £0.964 million is past its due date for payment. The past due amount can be analysed as follows:

	£000
Less than 3 months	415
Between 3 to 6 months	134
Between 6 months and one year	148
More then one year	267

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council applies upper limits to its maturity structure for new loans, to allow for some flexibility in refinancing should this be a favourable option, while limiting maturity

structure risk. New loans and, where economically viable, early loan redemption are carefully planned to ensure such exposure is minimised.

2008 £000	Analysis of Maturity	2009 £000
	Less than one year	(1,918)
	Between 1 and 2 years	(2,500)
	Between 2 and 5 years	
(12,225)	Maturing in more than 5 Years	(5,585)
(12,225)		(10,003)

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

Market Risk

Interest Rate Risk

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movement in interest rates can have a complex impact on the authorities. For instance, a rise in interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise

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

The Council's Financial Strategy, in particular the Capital and Treasury Management Prudential Indicators, detail the policy for managing interest rate exposure. The Council's long term borrowing is all at fixed rates. The risk from exposure to variable interest rates is therefore limited to investments and any short term cash flow borrowing that may be necessary. Fixed rate investments reduce uncertainty but the flexibility arising from variable rate investments is advantageous and necessary for at least part of the investment portfolio. An upper limit of 30% variable rate exposure has therefore been applied to investments.

If interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowing	-
Increase in interest receivable on variable rate investments	(201)
Increase in government grant receivable for financing costs	-
Impact on Income and Expenditure Account	(201)
Decrease in fair value of fixed rate borrowings liabilities (no impact on I&E Account or Statement of Total Recognised Gains and Losses)	(959)

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

Market Price Risk

The Council does not generally invest in equity shares and is therefore not subject to any price risk, that is, the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currency, therefore it has no exposure to loss arising as a result of adverse movements in exchange rates.

Refinancing Risk

The Council has 1 Lender Option Borrowing Option (LOBO loans) with a nominal value of £4m. The nature of this loan is that on a specified agreed date the lender has the option to change the rate of interest charged on the loan, providing that 2 working days notice is given to the borrower. Where the option is exercised the borrower has the option of repaying the loan in full and without penalty at the end of the notice period, or agreeing to pay the new amended rate of interest.

The Council keeps a record of all the dates in which the lender has the option to change the rate of interest payable on the LOBO loan. The potential repayment of the LOBO Loan in these dates is taken into account in deciding on the level of available cash balances that the Council needs to hold at various times throughout the year.

During the financial year 2009 -10 there are 2 potential occasions on which the lender has an option to change the rate of interest payable on the Council LOBO Loan.

30 LONG TERM INVESTMENTS

The long term investments are carried at Fair Value in the Balance Sheet, a breakdown by category is shown in the table below:

	Fair Value £000
Conversion Stock	24
Other Miscellaneous	13
North Yorkshire Building Control Partnership	30
Total	67

31 DEBTORS

2007/08 £000		2008/09 £000
	Amounts falling due within one year	
4,738	Government Departments	2,366
3,035	Other Public Bodies (includes Local Authorities)	2,901
2,064	European Structural Funds	-
4,577	Local Tax Payers	5,221
4,867	Sundry Debtors	5,228
19,281	Total	15,716
(2,642)	Bad Debt Provision	(3,307)
16,639		12,409
	Long Term Debtors	
91	Mortgages	17
-	Other Long Term Debtors	50
31,454	Development Agreement (see note 40)	20,297
31,545		20,364

32 STOCKS AND WORK IN PROGRESS

2007/08 £000		2008/09 £000
65	Work in Progress	83
	Stocks and Stores	
384	-Trading Units	399
41	- Catering	45
119	- Other	110
609	Total	637

33 CURRENT INVESTMENTS

The following table shows the breakdown of current investments held as at 31 March 2009 by type, counterparty name and maturity date:

Counterparty Type	Counterparty Name	Country of Domicile	Maturity Date	Amount £'000
Building Society	Nottingham	UK	April 2009	1,000
	Leeds	UK	May 2009	1,000
	Leeds	UK	June 2009	1,000
	Skipton	UK	May 2009	1,000
	Coventry	UK	May 2009	1,000
	Yorkshire	UK	May 2009	1,000
	Dunfermline	UK	June 2009	1,000
Banks	Abbey National	UK	Call account	800
	Nat West	UK	Nov 2009	1,000
Total				8,800

34 BORROWING

2007/08		SOURCE OF LOAN	2008/09	
LONG TERM £000	CURRENT £000		LONG TERM £000	CURRENT £000
(8,132)	-	Public Works Loan Board	(4,000)	(1,060)
(4,093)	-	Barclays LOBO	(4,085)	(8)
	-	Other Short Term Borrowing	-	(850)
(12,225)	-		(8,085)	(1,918)

35 CREDITORS

2007/08 £000		2008/09 £000
	Creditors:	
(472)	HM Revenue & Customs	(441)
(175)	Government Departments	(782)
-	Local Tax Payers	(5)
(4,476)	Sundry Creditors	(3,921)
(1,659)	Other Local Authorities	(1,401)
(6,782)	Total	(6,550)

36 RECEIPTS IN ADVANCE

2007/08 £000		2008/09 £000
(2,305)	General Receipts in Advance	(3,086)
(1,873)	Grant Contributions Unapplied	(555)
(4,178)		(3,641)

37 PROVISIONS**Contributions of Housing Capital Receipts to Government Pool**

The Government requires councils to pay a proportion of housing related capital receipts into a Government pool for re-distribution. The Council has submitted advice to the Government that no receipts received since April 2004 need be categorised as of this type. It has nevertheless made provision for the liability that may arise in the event that the matter is clarified, with payment to the Pool required. During the year the Council increased its provision in respect of this by £3,675 and the total provision as at 31 March 2009 stands at £70,536.

Senior Management Restructure

As part of its Corporate Efficiency Programme the Council undertook a review of its Senior Management Structure and as a result included £336,380 as a provision in the accounts for the year ended 31 March 2008.

This amount represented the full cost of redundancies and term pension payments that will become due as a result of the decision to restructure. £171,510 of this provision was released in 2008/09. The remaining £164,870 is payable in instalments over the following 5 financial years. It should be noted that reductions in staffing costs arising from the restructure will cover these costs in full and also contribute significant annual savings for the Council.

38 GOVERNMENT GRANTS AND CAPITAL CONTRIBUTIONS DEFERRED ACCOUNT

The Account is credited with government grants and other contributions used to finance capital expenditure. Grant/contributions used to finance revenue expenditure funded from capital under statute are written off to revenue in year as with the expenditure. The remaining balance, that is grant/contributions that have been used to finance expenditure on fixed assets, is awaiting amortisation to the Income and Expenditure Account over the same period as depreciation on those assets that have been financed.

	£000
Balance at 1 April 2008	64,262
Grants and Contributions in year	
Government Departments	649
European Union Structural Funds	1,313
Private sector contributions	1,241
Yorkshire Forward	326
Lottery Funds	291
English Heritage	79
Other Local Authorities	199
Voluntary/Community Organisations	102
	4,200
Grants Amortised to Match Asset Depreciation	(5,127)
Grants relating to Revenue Expenditure Funded from Capital Resources under Statute	(2,510)
Balance as at 31 March 2009	60,825

39 DEFERRED LIABILITIES

These are liabilities which by arrangement are payable beyond the next year or are payable by an annual sum over a period of time.

The most significant liability relates to money held under Section 106 agreements. Section 106 receipts are monies that the Borough Council has received from developers as a result of the granting of planning permission. These monies relate to maintenance costs, or new facilities that need to be provided, as a result of the granting of that planning permission (e.g. requiring the developer to provide funding to create a play area or open space). The agreements specify that funds are to be used within a specific period or else will be returned.

40 DEVELOPMENT AGREEMENT WITH YORKSHIRE COAST HOMES

On transfer of its housing stock in December 2003, the Borough Council entered into a development agreement with Yorkshire Coast Homes (YCH). This allowed for an advance payment of £57 million plus vat to be paid to them, in exchange for them upgrading the standard of all Council houses. The Balance Sheet shows the advance payment of this development agreement as a Long Term Debtor and its obligation to ensure that the works are carried out as a Long Term Liability. The movement on the Long Term Debtor and Liability are summarised below:

	£000
Balance Brought Forward as at 1 April 2008	31,454
Upgrades undertaken during the year	(11,157)
Long Term Debtor and Long Term Liability as at 31 March 2009	20,297

41 MOVEMENTS ON RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2008 £000s	Net Movement in Year £000s	Balance 31 March 2009 £000s	Purpose of Reserve	Further detail of movements
Revaluation Reserve	8,424	6,248	14,672	Store of gains on revaluation of fixed assets	(a) below
Capital Adjustment Account	92,813	(2,666)	90,147	Store of gains on revaluation up to 31 March 2007, and balance between cost of use of assets (depreciation/impairment) and capital resources set aside to finance assets.	(b) below
Financial Instruments Adjustment Account	95	165	260		(c) below
Usable Capital Receipts	1,634	(1,435)	199	Proceeds of fixed asset sales available to meet future capital investment	(d) below
Deferred Credits	18	(1)	17	Proceeds to be received from sale of council houses	(e) below
Pensions Reserve	(56,916)	(7,478)	(64,394)	Balancing account to allow inclusion of pensions Liability in Balance Sheet	Note 8
Earmarked Reserves	12,797	1,170	13,967	Resources set aside to meet specific future costs	(f) below
General Fund	2,431	(214)	2,217	Resources available to meet future running costs	Movement on General Fund Balance
Collection Fund	99	52	151	Balance on statutory fund	(g) below
Total	61,395	(4,159)	57,236		

(a) REVALUATION RESERVE

The Revaluation Reserve is credited with unrealised revaluation gains arising from holding fixed assets (Gains arising before its establishment on 1 April 2007 were

consolidated into the Capital Adjustment Account). It is debited with impairment losses where the impairment is caused through a general fall in prices or the cause is unclear, to the extent that there are accumulated revaluation gains on an individual asset basis. Thereafter any impairment is charged to the Income and Expenditure Account. The Reserve is also debited with amounts equal to the part of depreciation charges incurred only because assets have been revalued. On disposal, the Revaluation Reserve balance for the disposed asset is written out to the Capital Adjustment Account. While a gain arising from revaluation of an asset increases the net worth of the Council, it would only result in an increase in spending power if the relevant asset was sold.

	£000
Balance as at 1 April 2008	8,424
Revaluation	15,827
Impairment	(9,222)
Revaluation adjustment – depreciation	(202)
Revaluation adjustment - disposal	(155)
Balance as at 31 March 2009	14,672

(b) CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account has been created upon the implementation of the Revaluation Reserve. The account is debited with the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets, and with the cost of revenue expenditure funded from capital resources under statute when any future economic benefit is not controlled by the authority. It is credited with resources set aside to finance capital expenditure.

	£000
Balance at 1 April 2008	92,813
Historic Cost of Expenditure over Expended Life of Fixed Assets:	
Depreciation and Impairment	(8,864)
Revaluation Adjustment - Depreciation	203
Book Value of Assets on Disposal	(1,534)
Revaluation Adjustment on Disposal	155
	(10,040)
Historic Cost of Revenue Expenditure Funded from Capital Resources Under Statute	(3,288)
Resources Set Aside to Finance Fixed Assets and Revenue Expenditure Funded from Capital Resources under Statute:	
Capital Receipts	1,975
Reserves and Revenue Provision	1,050
Amortised Capital Grants and Contributions	7,637
	10,662
Balance Carried Forward	90,147

(c) FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account provides a balancing mechanism between the different rates at which gains and losses (such as premiums and discounts) are recognised under the SORP and are required by statute to be met from the General Fund.

(d) USABLE CAPITAL RECEIPTS RESERVE

The table below shows the movement on this Reserve

	£000
Balance as at 1 April 2008	1,634
Capital Receipts in Year	544
Provision made for pooled housing capital receipts	(4)
Capital Financing by Capital Receipts	(1,975)
Balance as at 31 March 2009	199

(e) DEFERRED CREDITS

Deferred credits represent the capital income still to be received from the principal outstanding from sales of council houses prior to the housing stock transfer. Principal realised during the year was £1,503 leaving a balance outstanding at 31 March 2009 as £16,846.

(f) EARMARKED RESERVES

Earmarked Reserves	Balance at 1 April 2008 £000	Transfers (to)/from General Fund £000	Balance at 31 March 2009 £000
Insurance Reserve	1,506	173	1,679
Capital Contingency Reserve	1,435	(423)	1,012
Pension Reserve	100	176	276
Repairs & Renewals Reserve	313	(14)	299
Capital Development Reserve	4,101	813	4,914
Value for Money Reserve	340	(78)	262
Match Fund Reserve	50	(50)	-
Service Investment Reserve	4,495	507	5,002
Revenue Development Reserve	58	(30)	28
Other	399	96	495
Total Earmarked Reserves	12,797	1,170	13,967

The purposes of the main reserves are:

- **The Insurance Reserve** covers risks which are by their nature difficult to insure such as cliff slippage and certain storm damage, and risks which are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses.
- **The Capital Contingency Reserve** provides funding support to mitigate the potential risks in relation to unforeseen costs that the Council may incur during the implementation of projects and also provides funds for small-scale projects and feasibility studies.
- **The Pensions Reserve** is used to meet the costs associated with the added year's element of employees' pensions.
- **The Repairs and Renewals Reserve** represents earmarked amounts for the repair and renewal of specific items of equipment in future years.
- **The Capital Development Reserve** consolidates capital resources with the intention of investing monies into priority areas in a planned and phased approach. In addition to this Reserve, Usable Capital Receipts, which are required to be brought to account as a separate item, are also available for capital investment.
- **The Value for Money Reserve** provides a resource to support the efficiency agenda, improve performance and creates opportunities to lever in external funding.
- **The Match Funding Reserve** was established to provide contributions towards capital and revenue schemes for which partial funding are available from external bodies such as the European Community, the Lottery and Government Agencies.
- **The Service Investment Reserve** provides incentives to allow Service Managers to set aside any savings in their budget, to be used in later years and to equalise fluctuations in seasonal income receipts.
- **The Revenue Development Reserve** was established to provide a flexible resource to fund new, small, one off items. This allows the Council to adopt a proactive approach to areas requiring immediate action, without the need to find compensating revenue savings.

(g) COLLECTION FUND

The Collection Fund is a statutory fund in which the Council records transactions relating to Council Tax, Business Rates and Residual Community Charges. The balance on the fund as at 31 March 2009 was £150,712.

42 GROUP ACCOUNTS

The Statement of Recommended Practice (SORP) requires Authorities to prepare Group Financial Statements where they have material interests in Subsidiaries, Associated Companies, and Joint Ventures, which will provide a complete picture of the Authority's control over those entities.

The Council has undertaken significant research to identify and document its relationships with all partnerships, companies, joint ventures and voluntary organisations. It has followed CIPFA's guidance for evaluating these relationships, determining whether their financial activities need consolidating into a set of Borough Council Group Accounts. Issues such as the type of interest, ownership of share capital, membership of appropriate committees, the degree of operational and financial control and access to benefits and exposure to risks have been key elements in this analysis.

After consideration of the relevant criteria, the Borough Council has determined that it has a group relationship with the Moors & Coast Area Tourism Partnership, which has been classified as a joint venture and the Scarborough Museums Trust, which has been classified as an associate.

Scarborough Museums Trust

The Scarborough Museums Trust is a charitable company limited by Guarantee. The company was regulated by the Borough Council during the financial year however de-regulation occurred on 1 April 2009.

The Council's museum service transferred to the Trust on 1 January 2008 and the Trust is now primarily responsible for running the Art Gallery and Rotunda Museum under a Service Level Agreement. In return for this the Council paid a grant of £477,932 for the year ending 31 March 2009 (this amount will be increased annually in accordance with the Gross Domestic Product Deflator applicable on 31 December each year). The Council also offers the use of the Rotunda and Art Gallery at a peppercorn rent and will pay amounts equal to the rents and service charge for space that is occupied at the Creative Industries Centre (£25,395 in 2008/09).

The Borough Council has acted as the Trusts banker since it started trading on 1 January 2008. Amounts held on behalf of the Trust have been excluded from the Borough Council's assets in the Balance Sheet.

The Leader of the Council (Cllr Fox) and Cllr Jeffels were trustees appointed to represent the Borough Council on the Museums Board of Trustees during the financial year. This equates to a 20% proportion of voting rights on the Board.

Due to the significance of the annual grant in relation to the Trusts total projected income levels, along with the use of Council buildings at a peppercorn rent, the Council is deemed to have a significant influence over the Trust, although in practice this has not been exercised. The Trust has therefore been classified as an associate for Group Account purposes.

The unaudited Trust accounts show a deficit of £62,400 for the period 31 March 2009 and net assets as at 31 March of £0.209 million.

The reserves held by the Trust are restricted to ensure that they are used to meet its charitable objects and cannot be distributed to Members. If the Trust were to be wound up the Councils exposure to risk is limited to a maximum of £1 and any property remaining after debts and liabilities have been satisfied would be transferred to a charity with objects similar to the Trust rather than being distributed to Members.

The Moors & Coast Area Tourism Partnership

The Moors & Coast Tourism Partnership was established in 2006 as a partnership between the local authorities of Scarborough, Ryedale and Hambleton, the North York Moors National Park Authority, North Yorkshire County Council and the private sector. The partnership has a board comprising 5 public and 5 private sector Members. Cllr Jeffels has been appointed to represent the Borough Council on the Board.

The creation of tourism partnerships in the region followed a review of tourism structures by Yorkshire Forward and since the Moors & Coast Tourism Partnership's inception Yorkshire Forward has provided annual funding of £166,000. In addition to Yorkshire Forward funding and private sector income Scarborough, Ryedale, Hambleton and the North York Moors National Park make annual contributions into the partnership reflecting the tourism and marketing activities that have been transferred. If the partnership were wound up any assets remaining after debts and liabilities have been satisfied would be shared equally between these 4 partners.

A partnership agreement between SBC and the 5 public body partners shares any partnership liabilities equally between them.

During the financial year Scarborough Borough Council made cash contributions of £36,000 to the partnership. The Borough Council is the lead partner responsible for the financial management of the Partnership and as at 31 March held £0.214m of their funds. This amount is reflected as a creditor under current liabilities on the Borough Council's Balance Sheet.

The accounts for the year ended 31 March 2009 showed a surplus generated in the year of £0.075m and net assets as at the 31 March of £0.215 m.

The Borough Council's deemed share of net assets and transactions with these two entities are not considered to be material therefore a full set of Group Accounts has not been produced.

43 NORTH YORKSHIRE AUDIT PARTNERSHIP

The North Yorkshire Audit Partnership was set up to provide a shared internal audit provision for the constituent partners. The Lead Authority responsible for the administration of the partnership, including the provision of accountancy services, is Ryedale District Council. The partnership consists of Scarborough Borough Council

and District Councils of Ryedale, Selby, Hambleton and Richmond. The partnership also undertakes the internal audit function for the North Yorkshire Building Control Partnership. A 5 year agreement to operate the partnership was entered into on 1 January 2008.

During the year the Partnership made a surplus of £437

The Borough Council's proportion of the cumulative net surplus made by the Partnership at the 31 March 2009 is £3,183

The Partnership is deemed to be a Joint Committee for Group Account purposes.

44 NORTH YORKSHIRE BUILDING CONTROL PARTNERSHIP

The Borough Council's Building Control Service was transferred to the North Yorkshire Building Control Partnership on 1 April 2008. This partnership was set up to provide a more cost effective method of delivering building control services for the geographical area and Councils of Scarborough Borough Council and the District Councils of Ryedale, Selby and Hambleton.

The Lead Authority responsible for the administration of the partnership, including the provision of accountancy services, is Ryedale District Council.

During the year the partnership made a trading deficit of £55,860. Partners made additional contributions to cover this deficit of £60,860 therefore a net sum of £5,000 was taken to reserves.

The Borough Council's proportion of the cumulative net surplus made by the Partnership at the 31 March 2009 is £1,250. The Borough Council also holds an investment of £30,000 in the Partnership.

The Partnership is deemed to be a Joint Committee for Group Account purposes.

45 THE SANDS DEVELOPMENT AGREEMENT

This Development Agreement relates to the development of The Sands site, which is an area of land in excess of 50 acres in Scarborough's North Bay. As at 31 March 2008, all of the land in this site was in the ownership of the Council and was included as such in the fixed assets section of the Balance Sheet.

Under the Agreement, Benchmark Leisure Limited (BLL – the developer) is entitled to develop the areas of land within the site, on a phased basis. On completion of each phase BLL "draw down" the relevant land by entering into a 150-year lease with the Council. The lease premium for each phase comprises an initial payment at amounts specified in the Development Agreement, together with a deferred premium calculated in accordance with the provisions of the Development Agreement.

All development costs are incurred at the developer's risk and therefore the Council has no contractual financial commitments with respect to any development activity.

Under the Development Agreement, any surplus made by the developer on each completed phase of the development is required to be transferred to the Council and held in a separate account, known as the "Balance Sum Account". In addition, certain net rentals earned by the developer on sites under development are also required to be transferred directly to the Balance Sum Account. The permissible uses of the Balance Sum Account are defined in the Development Agreement and relate to the financing of future development of the site; the potential payment to the developer of a developer's profit, subject to it meeting certain criteria; and the potential for the Council to earn deferred lease premiums. The Development Agreement has a long-stop date of 8 June 2011, and it will not be possible to accurately confirm the disposition of the amounts in the Balance Sum Account until after that date.

With respect to the net rentals to be transferred directly to the Balance Sum Account, the total amount received and receivable in the year ended 31 March 2009 was £91,425. This amount is included within sundry creditors to reflect that the monies are part of the development agreement and do not belong to the Council.

On 31 October 2008 a 150-year lease was granted to the developer on the first completed phase of the Sands Development, Phase 1, which comprises seafront apartments and the beachfront. The initial lease premium relating to the Phase 1 site, net of associated costs, has been accounted for within fixed asset disposals and the lease premium is included in capital receipts.

Under the terms of the Development Agreement, an advance payment of lease premium on land yet to be drawn down has also been received and this has been treated as a receipt in advance pending the future drawdown of eligible land.

Costs associated with the granting of the Phase 1 lease include payments made to a former tenant of part of the Sands Development site, in accordance with a Deed of Surrender. Additional sums will be payable to this tenant if and when further lease premiums are received. Under the principle of matching, any such costs will therefore be accounted for as each lease is granted and as amounts become payable.

Whilst it is anticipated that the developer will make a surplus on the Phase 1 development, this depends very much on the future sale of developed properties. In the current property market, it is not possible to quantify with any certainty the amount of any such surplus. Similarly, there is no certainty as to whether any deferred lease premiums will be earned by the Council. On the grounds of prudence, therefore, no accrual has been made for any amounts of Balance Sum potentially receivable by the Council in relation to the Phase 1 development; developer's profit potentially payable out of that Balance Sum; nor deferred lease premiums due to the Council.

46 POST BALANCE SHEET EVENTS

There are no post balance sheet events to report, at the date that these audited accounts were authorised for issue, on 13 October 2009.

47 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of Net Surplus / (Deficit) on income and Expenditure Account to Net Revenue Activities on Cash Flow Statement

	£000
Net Cash In Flow from Revenue Activities	39
Items in another classification in the cash flow statement	
Investment Income	1,174
Interest Paid	(365)
Collection Fund Cash Adjustments	
Collection Fund Income	(77,402)
Collection Fund Disbursements	77,785
Balance Sheet Cash Adjustments	
Local Strategic Partnership, Moors and Coast Area Tourism Partnership, and Mortgage redemption	152
Non Cash Transactions	
Contribution from Deferred liabilities i.e. S106 agreements	91
Increase in housing pool provision	(4)
Contribution to Moors and Coast Area Tourism Partnership	(36)
Pensions Adjustment	(2,629)
Disposal income adjustment	(992)
Depreciation net of amortised grants	(3,737)
Borough Council demand on Collection Fund	8,847
Provisions adjustment	171
Council Tax Benefit	(9,117)
Borrowing Amortised Cost Adjustment	1
Long term investment revaluation	1
Non Domestic Rates Collection Allowance	231
Items on an Accruals Basis	
Movement in Stock and Work in Progress	29
Movement in Revenue Debtors and Payments in Advance	(1,573)
Movement in Revenue Creditors and Receipts in Advance	1,366
(Deficit) for the year on Income & Expenditure Account	(5,968)

Reconciliation of Financing Items

	£000	£000
Cash Flow New Loans Raised		3,500
Accrued Financing Cost		(1)
Cash Flow Repayments of Amounts Borrowed		(5,721)
Balance Sheet Long & Short Term Borrowing 31 March 2009	10,003	
Balance Sheet Long & Short Term Borrowing 31 March 2008	12,225	(2,222)
Increase/(Decrease) in Short Term Deposits		(1,200)
Balance Sheet Temporary Investments 31 March 2009	8,800	
Balance Sheet Temporary Investments 31 March 2008	10,000	(1,200)

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

	£000	£000
Cash Flow Increase in Cash and Cash Equivalents		54
Balance Sheet Cash in Hand 31 March 2009	1,003	
Balance Sheet Cash in Hand 31 March 2008	949	54

Movement in Net Debt Balances

	1 April 2008 £000	Cash flow £000	Other Movement £000	31 March 2009 £000
<u>Cash balances</u>				
Overdraft				
Cash in hand	949	54		1,003
	949	54		1,003
<u>Management of liquid resources</u>				
Short term investments	10,000	(1,200)		8,800
<u>Financing activities</u>				
Borrowing	(12,225)	2,221	1	(10,003)
Net debt	(1,276)	1,075	1	(200)

Analysis of Other Government Grants	£000
Council Tax Benefit Subsidy	9,083
Housing and Council Tax Benefit Administration	1,142
Employment and Support Allowance	87
Non Domestic Rates Collection	237
Scarborough Business Park	1,068
Planning Grant	110
Homelessness	143
Disabled Facilities Grant	323
Regional Housing Pot	326
Concessionary Fares	839
Access to Services	100
Flood Restoration Grant	198
Community Support	175
Various other	89
Total	13,920

This account shows the income received from Council Tax payers and Business Rate payers. It also shows how the income is distributed between the Borough Council, the North Yorkshire Police Authority, the North Yorkshire Fire Authority and the North Yorkshire County Council.

31 March 2008 £000		31 March 2009 £000
	Income	
(48,381)	Income from Council Tax Payers	(50,993)
	Transfers to/from General Fund	
(8,568)	Council Tax Benefits	(9,119)
2	Transitional Relief	2
(25,410)	Income from Business Rate Payers	(26,677)
(82,357)	Total Income	(86,787)
	Less: Expenditure	
56,811	Precepts and Demands	59,712
25,181	Payment to Business rate Pool	26,446
229	Allowance for Cost of Business Rate Collection	231
208	Distribution of Collection Fund Surplus	123
(95)	Provision for Appeals and Non-Collection	222
82,334	Total Expenditure	86,734
(23)	(Surplus)/Deficit for the Year	(53)
(75)	Fund Balance Brought Forward	(98)
(98)	Balance on Collection Fund Carried Forward	(151)

1 THE COUNCIL TAX SYSTEM

The Council Tax is the means of raising income from local residents to help pay for Council services. It is levied on domestic properties and the charge is based on a valuation band assessed for each dwelling by HM Revenue & Customs.

2 ACCOUNTING POLICIES

The Collection Fund Income and Expenditure Account are prepared on an accruals basis and complies with appropriate regulations and the Code of Accounting Practice.

The transactions of the Collection Fund are wholly prescribed by legislation. The Collection Fund balances are consolidated into the Council's Balance Sheet rather than being disclosed separately.

3 INCOME FROM COUNCIL TAX

In 2008/09 the Council set a Band D tax of £1,441.42. The charge for each band can be expressed as a ratio of the Band D charge. The 2008/09 charges, before any appropriate discounts and benefits, were:

Band	Ratio to Band D	Council Tax £
A	6/9	960.95
B	7/9	1,121.10
C	8/9	1,281.25
D	9/9	1,441.42
E	11/9	1,761.74
F	13/9	2,082.05
G	15/9	2,402.37
H	18/9	2,882.84

The Council Tax Base, which is used in the Council tax calculation, is based on the number of dwellings in each band expressed as Band D equivalents. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The tax base estimate for 2008/09 was:-

Council Tax Valuation Band	Chargeable Dwellings	Band 'D' Equivalent Numbers
A* (up to £40,000 with disabled relief)	0	9
A (up to £40,000)	14,261	7,980
B (£40,001 to £52,000)	13,720	9,233
C (£52,001 to £68,000)	11,849	9,345
D (£68,001 to £88,000)	6,758	6,098
E (£88,001 to £120,000)	3,791	4,249
F (£120,001 to £160,000)	1,632	2,172
G (£160,001 to £320,000)	678	1,015
H (over £320,000)	42	55
		40,156
Plus: Contributions in Lieu Second Homes		25 1,257
Provision for Non Collection		(414)
Council Tax Base		41,024

4 BUSINESS RATE INCOME

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a standard rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to Authorities a share of the pool based on an amount per head of local adult population. The total non-domestic rateable value at 31 March 2009 was £67,878,220. The national non-domestic and the small business non-domestic rating multiplier for 2008/09 were 46.2p and 45.8p respectively.

5 PRECEPTS

The major precepting authorities in 2008/09 were as follows:

North Yorkshire County Council	£40,546,579
North Yorkshire Police Authority	£7,932,830
North Yorkshire Fire Authority	£2,402,371
Scarborough Borough Council	£8,251,176.

In addition Parish Council Precepts totalled £579,073.

6 DISTRIBUTION OF COLLECTION FUND SURPLUS

The precepting authorities received the following amounts in relation to the distribution of collection fund surpluses:

North Yorkshire County Council	£84,013
North Yorkshire Police Authority	£16,508
North Yorkshire Fire & Rescue	£4,990
Scarborough Borough Council	£17,154

Accruals

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

Actuary

An actuary is an expert on pension scheme assets and liabilities.

Amortisation

The process of charging capital expenditure, usually on intangible fixed assets, to the accounts over a suitable period of time.

Appropriations

Amounts transferred between the revenue account and revenue or capital reserves.

Available for Sale Assets

All financial assets that are not required by the SORP to be classified in another category should be classified as available for sale. This category includes: equity investments other than those for which a reliable fair value cannot be determined and other investments traded in an active market.

Balance Sheet

The Balance Sheet is a summary of an authority's financial position at the year end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on fixed assets held.

Budget

A statement of the Council's expected level of service and spending over a set period, usually one year.

Capital Expenditure

The Statement of Recommended Practice (SORP) defines capital expenditure as:

- a) The acquisition, reclamation and laying out of land;
- b) The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- c) The acquisition, installation or replacement of movable or immovable plant, machinery, apparatus and vehicles.

In this context, enhancement means the carrying out of works which are intended to lengthen the useful life of the asset, increase substantially the open market value of the asset or increase substantially the extent to which the asset can or will be used for the purposes of the activities of the Council.

Capital Financing

This is the means by which capital expenditure incurred by the Council is funded. Usually such funding comprises grants, contributions from third parties, receipts from the sale of assets, contributions from Council reserves, revenue and borrowing.

Capitalisation

The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the Authority for a period of more than one year.

Capital Receipts

Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital Receipts Reserve in order to repay the Council's borrowings or to finance new capital expenditure.

Capital Receipts Reserve

A reserve held to provide a source of financing for future capital expenditure or to repay the Council's borrowings.

Cash Flow Statement

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes. It provides a link between the Balance Sheet at the beginning of the year, the Income and Expenditure Account for the year and the Balance Sheet at the end of the year.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Consistency

The principle that the same accounting treatments are used from year to year so that useful comparisons can be made. Any significant change in policies must be declared in the accounting statements.

Contingencies

Sums set aside to meet either the potential costs of activities expected to occur during the year, over and above those costs included in the services budgets (pay and price), or items which are difficult to predict in terms of financial impact or timing (uncertain items).

Corporate and Democratic Core

Corporate and Democratic Core represents costs associated with democratic representation and management and corporate management. Democratic representation and management includes all aspects of Members' activities. Corporate management concerns the cost of the infrastructure that allows services to be provided and the cost of providing information that is required for public accountability. Such costs form part of total service expenditure, but are excluded from the costs of any particular service.

Council Tax

The means of raising money locally to pay for local authority services. This is a property based tax where the amount levied depends on the valuation of each dwelling.

Creditors

Amounts owed by the Council for goods or services that it has received but for which payment had not been made at the year end.

Current Assets and Liabilities

Current assets are cash and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term. By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current Service Cost (FRS 17 term)

Employer pension contributions charged during the year have been removed from the Income and Expenditure account and replaced with an amount (i.e. current service cost) which reflects the estimated benefits that employees have accrued in the year of account.

Debtors

Amounts owed to the Council at the year end, where services have been delivered but payment has not been received.

Deferred Benefits

A future benefit which is being paid for in the current accounting period.

Deferred Liabilities

An amount already received by the Council that is being credited to the Income and Expenditure Account over a number of years.

Defined Benefits Pension Scheme

A pension scheme which is constructed to provide pre-determined pension benefits for retired members, with employers' and employees' contribution rates being calculated based on actuarial assumptions.

Depreciation

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

Depreciated Historic Cost

The value of an asset shown in the Balance Sheet calculated from the original cost less depreciation to date.

Earmarked Reserves

These reserves represent monies set aside to be used for a specific usage or purpose.

Emoluments

All sums paid to or received by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to United Kingdom income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Expected Return on Assets (FRS 17 term)

The average rate of return expected on the actual assets held by the scheme.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

Financial Guarantee Contracts

A contract that requires the guarantor to reimburse the holder of a debt instrument should they fail to make payment when due and in accordance with the terms of the loan. Commercial organisations may charge a fee for accepting the risk involved in giving such financial guarantees but local authorities enter into such arrangements for policy rather than commercial reasons and do not usually receive a fee.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments include: trade and other payables; borrowings; financial guarantees; bank deposits; trade receivables; loans receivable; other receivables and advances and investments.

Finance Lease

An arrangement whereby the owner of an asset (the lessor) accepts a rental in return for allowing another party (the lessee) use of an asset for a specified period, such that the substantially all of the risks and rewards associated with ownership are transferred to the lessee.

Fixed Asset

An asset which is intended to be in use for several years such as a building or a vehicle. These may be Tangible or Intangible.

Financial Reporting Standards (FRS)

These are statements prepared by the Accounting Standards Committee (established by the major accounting bodies) to ensure consistency in accountancy matters. Many of these standards now apply to local authorities and any departure from these must be disclosed in the published accounts.

General Fund

The Council's main revenue fund to which all revenue receipts are credited, and from which revenue liabilities are discharged. The movement in the fund year represents the excess of income over expenditure once notional charges and credits have been replaced by the amounts required to be funded from Council Tax.

Government Grants

Amounts received from central Government towards funding the Council's activities. Revenue grants and contributions are credited to the appropriate service revenue account. Capital grants and contributions are credited to the Capital Grants and Contributions Deferred Account.

Impairment

A reduction in the value of a fixed asset arising from reductions in market values, physical damage, dilapidation or obsolescence.

Income and Expenditure Account

This Account sets out the income and expenditure for the all the Council's functions for the financial year, according to the Best Value Accounting service expenditure analysis.

Infrastructure Assets

This relates to Coastal Protection, footpaths and railings.

Income

Amounts which the Council receives, or expects to receive, from any source. Income includes fees, charges, sales, capital receipts, government grants, the precept on Council Tax collection funds, Revenue Support Grant and National Non-Domestic Rate.

Intangible Fixed Assets

Expenditure incurred on those fixed assets that do not have physical substance but which are separately identifiable and provide the Council with a right of use for a period in excess of one year.

Interest Cost (FRS 17 term)

A financing charge reflecting the increases in the present value of scheme liabilities.

Investments

Short term investments comprise deposits of temporary surplus funds with banks or similar institutions. Long term investments comprise similar funds held for a period of more than one year.

Liquid Resources

Current asset Investments that are readily disposable by the authority without disrupting its business and are readily convertible to known amounts of cash.

Loan and Receivables - assets

A financial Instrument which represents an asset to the authority and includes loans and investments made by the council to third parties. They are characterised by fixed or determinable payments and are not quoted in an active market. They do not include investments by way of shares and equity.

Local Authority Business Growth Incentive Scheme (LABGI)

The Local Authority Business Growth Incentives scheme ('LABGI') provides an incentive for local authorities to promote economic growth in the area by allowing them to retain a proportion of any increase in business rates revenues.

Long Term Borrowing

The main element of long term borrowing is comprised of loans that have been raised to finance capital expenditure projects.

Market Value

The monetary value of an asset as determined by current market conditions at the Balance Sheet date.

Materiality

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum Revenue Provision

The minimum amount (as laid down in statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National Non-Domestic Rate

The replacement for non-domestic rates, which were previously set by individual local authorities. The government now levies a standard rate on all properties used for commercial purposes and cannot increase it by any more than the Retail Price Index. The rates are collected on behalf of the government by District Councils, and are then redistributed nationally on the basis of resident population.

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 and impairment.

Net Current Replacement Cost

The estimated 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 expected proceeds from the sale of an asset when sold on the open market between a willing buyer and a willing seller less all the expenses incurred in selling the asset.

Non Distributed Costs

Costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non Operational Assets

Fixed assets held by the Council that are not currently used in the provision of Council services.

Operational Assets

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

Operating Lease

An arrangement similar to a finance lease but where the risks and rewards associated with ownership remain with the lessor.

Past Service Cost (FRS 17 term)

The increase in the scheme liabilities arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept

The amount of money the Council collects from Council Tax payers.

Prepayments

Amounts paid by the Council at the year end that related to goods and services not received until later years.

Prior Year Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Provisions

Amounts set aside to meet costs that are likely or certain to be incurred but where the amount of cost or timing of payment is uncertain.

Public Works Loan Board (PWLB)

A Government agency that lends money to local authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source.

Receipts in Advance

Amounts received by the Council during the year which relate to goods or services delivered in future years.

Related Party

A person or organisation which has influence over another person or organisation.

Reserves

Specific amounts set aside for future policy purposes or to cover contingencies. There are two types of reserve, those available to meet current expenditure, and those that are not. Most revenue reserves are capable of being used, but the Revaluation Reserve and Capital Adjustment Account cannot be used to meet current expenditure.

Revenue Expenditure

Revenue expenditure is spending on the day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

Revenue Support Grant

Central Government grant support towards local government expenditure.

Statement of Standard Accounting Practice (SSAP)

These are statements prepared by the Accounting Standards Committee (established by the major accounting bodies) to ensure consistency in accountancy matters. A number of the SSAPs have been superseded by FRSs but some remain in force that applies to local authorities, and any departure from these must be disclosed in the published accounts.

Section 151 Officer

The Officer designated to assume overall responsibility for the administration of the financial affairs of the Council and for the preparation of the Council's Statement of Accounts.

Settlements and Curtailments (FRS 17 term)

Settlements are liabilities settled at a cost materially different to the FRS 17 reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

Slippage

This is when delays occur in capital works and therefore payments are not made in the financial year originally anticipated.

Soft Loans

A loan made to a third party or received from a third party where the interest rate is less than the prevailing market interest rate. Local authorities sometimes make such loans for policy reasons, i.e. to assist local charities or voluntary organisations that undertake activities that the authority considers benefits the local population.

Statement of Movement on the General Fund Balance

This statement reconciles the outturn on the Income and Expenditure Account to the General Fund balance.

Statement of Total Recognised Gains and Losses

This statement summarises all the gains and losses incurred in the financial year and measures the movement in the Balance Sheet's net worth.

Stock

Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Surplus

The remainder after taking away all expenditure from income.

Tangible Fixed Assets

Fixed assets that have physical substance and which yield benefits to the Council for a period of more than one year.

Useful Life

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

Work in Progress

The value of rechargeable work which has not been recharged at the end of the financial year.