

Explanatory Foreword

Introduction

The Statement of Accounts, which has been prepared in accordance with The Code of Practice on Local Authority Accounting in Great Britain, shows the financial performance for the year of the activities undertaken by Swanage Town Council.

Summarised below are changes to the Statement of Accounts, introduced in the 2007 Statement of Recommended Practice (the SORP):-

Financial Instruments i.e. an item of finance contractual in nature

Financial instruments were not previously covered comprehensively by the UK Financial Reporting Standards (FRS). The Accounting Standards Board has recently addressed this by issuing FRS 25 – Presentation & Disclosures; and FRS 26 – Recognition and Measurement. A new FRS 29 – Disclosures has replaced the disclosure requirements of FRS 25 but not the presentation.

The new disclosure requirements have two objectives - firstly, to help users to evaluate the significance of financial instruments for the Authority's financial position and performance and secondly, to help users to evaluate the nature and extent of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks.

This is deemed to have no significant impact for Swanage Town Council, by virtue of its application of a Treasury Management Policy (as incorporated within the Council's Risk Management & Control of Resources Statement).

Accounting for Local Area Agreement Grant

This is not applicable to the Town Council as it relates to local strategic partnership funding.

Charitable Funds in Group Accounts

This is deemed as not being applicable to the Town Council, as it relates to the activities of a Trust when being treated or regarded as a subsidiary.

Pension Funds/Pension SORP 2007

These requirements relate to pension fund management and associated governance arrangements and do not apply to Swanage Town Council.

Capital Finance Regulations

These requirements relate to past errors in Minimum Revenue Provisions (MRP). MRP's are not applicable to the Town Council.

Revaluation Reserve and Capital Adjustment Account

For 2007/08 there is a requirement to establish a Revaluation Reserve and Capital Adjustment Account. These replace the Fixed Asset Restatement Account and Capital Financing Account.

Annual Governance Statement

This provides a framework for managing risk to a reasonable level to ensure that the Council's policies, aims and objectives are achieved. It provides an assessment of the Council's arrangements for governance and continuous improvement measures having regard to a combination of economy, efficiency and effectiveness.

Caravan Park Sales

Following the approval of the draft accounts by the Council in July 2005, it sought advice from the National Association of Local Councils in May 2006 regarding its legal power to operate some aspects of its operation of the Swanage Bay View Holiday Park. The accounts for 2007/08 contain £804,383 pounds income from the sale and provision of caravans, on which it generated a gross surplus of £259,691.

The Council decided to seek counsel's opinion in May 2007 to provide greater clarity over the legal status of these arrangements, including the sale and provision of caravans and other ancillary activities.

On the basis of this advice, the Council believes that it has the required powers to operate the caravan park. Agreement on this matter has however not been reached with the Council's external auditor. For this reason, until tested it is not currently possible to remove uncertainty about the legality of entries in the Council's accounts in relation to the sale or provision of caravans and other ancillary activities.

Statement of Accounting Policies

This explains the basis of preparation of the figures in the accounts and also explains the particular policy followed where there is more than one acceptable basis.

Statement of Responsibilities for the Statement of Accounts

This sets out the responsibilities of the Town Council and the Town Clerk.

Further Information

Further information is obtainable from the Town Clerk and Responsible Financial Officer at the Town Hall, Swanage or e-mail admin@swanage.gov.uk. This is part of the Council's policy of providing full information about its affairs. Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

Summary of Year End Position

The Council's accounts for the year 2007/08 are set out on the following pages. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position.

During 2007/08 the Council amended its policy in respect of accounting for accruals. At the Council operated Caravan Park, a sum equivalent to the income accrued in respect of site fees for March has been allocated as an earmarked contribution to the Repairs & Renewals Reserve. The Council has also permitted site fees to be paid in two instalments for the 2008/09 season, giving rise to a substantial increase in sundry debtors as at the 31st March 2008.

The Council's net overall financial position is that its cumulative Revenue Balance is in deficit by £50,355 (£105,205 surplus in 2006/07), an increase of £15,481 in respect of 2007/08. It has balances of £107,684 in its Usable Capital Receipts Reserve and £217,381 in Earmarked Reserves and Other Funds, of which £73,396 are usable.

The Council's net bank balance as at 31st March 2008 was £273,037.

Core Financial Statements

Income and Expenditure Account

This reports the income and expenditure for the year on Council services.

Statement of the Movement on the General Fund Balance

The Income and Expenditure Account represents the net deficit or surplus for the year. It does so using essentially the same accounting conventions (i.e. UK Generally Accepted Accounting Practice – GAAP) that a large (but unlisted) company would use in preparing its audited annual financial statements, there are other items of income and expenditure that they are required by statute and non-statutory practices to be charged or credited to the General Fund and these items are reflected in this Statement.

Examples would include adjustments for depreciation, government grants, deferred amortisation matching depreciation and the net transfer to and from general earmarked reserves.

Statement of Total Recognised Gains and Losses (STRGL)

Not all gains and losses experienced by the Council are reflected in the Income and Expenditure Account.

Financial Reporting Standard (FRS 3) requires all gains and losses to be reported in this Statement. This includes the surplus or deficit arising from the revaluation of fixed assets and other gains or losses required to be included.

Balance Sheet

This is fundamental to the understanding of the Council's year end financial position. It shows the Council's balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Financial Review

The following shows a comparison of the budget and out-turn figures in 2007/08 analysed by services provided by Swanage Town Council.

	Original Estimate	Revised Estimate	Actual
	£	£	£
Net Expenditure :-			
Car Parks (incl. Co-op Management A/c)	(394,230)	(358,105)	(372,456)
Boat Park	25,865	(11,455)	(9,848)
Public Conveniences	134,990	133,485	147,458
Cemeteries	21,385	22,165	26,785
Parks and Operations	346,035	319,430	331,765
Beach Gardens	27,330	35,925	34,456
Downs/Miscellaneous Grounds	18,795	12,945	10,374
Beaches & Foreshore	23,320	33,280	33,838
Beach Chalets/Bungalows	(30,835)	(37,870)	(29,781)
Beach Chalets, Burlington Chine	330	320	663
Caravan Park	(452,545)	(413,825)	(447,997)
Tourism/Publicity	124,255	112,705	113,781
Allotments	7,725	24,660	30,195
Twinning	0	150	200
Other Buildings	(19,530)	(27,500)	(45,926)
Democratic Representation & Management	145,260	124,870	125,678
Corporate Management	60,155	152,300	146,077
Non-Distributed Costs	4,035	2,935	3,897
Net Cost of Services	42,340	126,415	99,159

The Council's source of guaranteed income is the Precept (a local tax) amounting to £343,500 in 2007/08 (£324,500 in 2006/07). The Precept provides funds that enable the Council to meet the estimated budgeted costs of central administration and general expenditure.

The Council strives to improve efficiency or to reduce costs. With approximately 92% of its turnover being generated from income activities attributable to discretionary services, the Town Council's finances are unusual in nature.

Overall, the Council's net Cost of Services in 2007/08 was £125,957 (£44,732 in 2006/07). The increase in net costs is due to a range of factors and is not attributable to any one single or significant event.

The Caravan Park continues to provide the largest contribution in off-setting the overall Net Cost of Services. A gross surplus of £259,691 was generated from the Caravan Sales activities. An additional £65,000 surplus was gained in the final quarter, after the setting of a revised estimate. Further surpluses were generated from the income from Grounds, totalling £440,514 in 2007/08 (inclusive of income from site fees). An allocation of £84,500 comprising of £67,500 and a special levy of £17,000 respectively, has been made to an earmarked reserve to meet capital schemes specific to the Caravan Park. Following the failure of the Bars & Catering contract, the Council took this function back in-house, resulting in a part-year deficit of £15,118. The Council has been

required to meet the extraordinary costs of £52,000 (approx) in un-invoiced electricity costs back-dated over a period of 6 years. A further £18,000 (approx) has been charged to general operations.

Income from Car Parking makes a significant contribution towards maintaining services in areas such as public conveniences, parks, open spaces, cemeteries, allotments, beaches and foreshore and to general operations. During 2007/08 the continued use of King George's Field for temporary overflow car parking generated income of £33,073 (£31,613 in 2006/07). Income from off-street car parking generally has remained at a consistently high level of £357,424 in 2007/08 (£329,946 in 2006/07).

The cost of Tourism & Publicity was £113,781 (£114,464 in 2006/07). These costs relate to the tourist information services as well as marketing and promotional activities conducted in partnership with Purbeck District Council. The variance in actual income from Other Buildings, compared to the revised and original estimates is explained by the settlement of a long standing rent review and the prompt settlement of a subsequent rent review.

Corporate Management costs have increased substantially, rising from £85,068 in 2006/07 to £146,077 in 2007/08. The increase is attributable to the allocation of Central Services costs recharged and increases in the direct costs of salaries and wages. Democratic Representation & Management costs have decreased from £146,789 in 2006/07 to £125,678 in 2007/08.

The Town Council was assessed as 'high risk' by the Audit Commission, in accordance with national guidelines introduced during 2006/07. This required additional resources and input for local authorities that are deemed to be higher in risk. This assessment reflects the unusually wide range of financial activities and follows experiences emanating from legal challenges, including the Audit Commission itself. The latter has resulted in increased Audit Fees in 2007/08 for which a £45,000 creditor provision has been made.

The costs relating to Central Services of £461,669 in 2007/08 (£451,189 in 2006/07) are monitored and controlled in order to minimise their impact on the cost of services. This includes legal and professional fees totalling £64,497 (£59,189 in 2006/07). The Council was classed as a statutory best value authority in 2007/08, receiving a government grant of £30,000 towards the additional administrative burden. The Council's is no longer a statutory best value authority but is now classified as 'relevant body' i.e. based on turnover of income or expenditure in excess of £1 million. As such, it is incumbent upon it to meet the full requirements of the Statement of Recommended Practice (SORP) and corporate governance in compliance with the Accounts and Audit (Amendment) (England) Regulations 2006.

Improved budget monitoring and control have continued throughout the year, with the introduction of new management accounts during 2007/08.

The Council is shown to have repaid a total of £129,389 in Loan Repayments during 2007/08. Of this total £29,389 is related to repayment of instalments of principal for long-term loans. The balance of £100,000 is in respect of unsanctioned temporary loans originally totalling £700,000, which the Council is committed to repay by March 2011 at a rate of £100,000 p.a.

Since 1st April 2005 the Prudential Code for Capital Finance has replaced the previous controls on borrowing requiring credit approvals. Councils are now obliged to demonstrate that they are acting prudently when developing their capital expenditure and financing plans. The Council in exercising its capital programme pays due regard to both the short term financial impact on cash flow and the long term ability to provide adequate revenue surpluses to meet operational requirements. Some smaller schemes, including the refurbishment of public conveniences in the

town centre, were completed in 2007/08. When funds are available and/or additional external contributions secured, work on the more major schemes will be commissioned. The Council will continue to meet the costs of unscheduled essential repairs and maintenance from its Earmarked Reserves.

There are significant issues outstanding at the year end. These may influence the Council's overall financial position but will not become known until after conclusion of legal proceedings. More specifically, these matters relate to a substantial VAT claim and an outstanding issue concerning Council related matters linked to the activities of the De Moulham Trust. Following receipt of legal advice during 2007/08, the Council has revised its accounting of income received in respect of off-street parking. Amounts, equivalent to the VAT element are allocated to a liability account whilst awaiting a resolution of the matter at a VAT tribunal hearing. The amount accumulated as at 31st March 2008 was £19,446.

Capital Programme and Planning

The Capital Programme actual expenditure for the 2007/08 financial year is as follows:-

	2007/08	
	£	£
Town Hall: - Electrical work		11,900
Depot – Electrical work		5,000
Beach Gardens – Electrical work		11,174
Public conveniences – refurbishment		14,644
Parks and Operations -		
Gilbert Road resurfacing	8,020	
New Vehicles (3)	<u>47,893</u>	55,913
Caravan Park: - Resurfacing	32,154	
- Electrical work	17,586	
- Security cage	<u>4,591</u>	54,331
King George's Field :		
Playground equipment	26,078	
Refurbishment	<u>3,277</u>	<u>29,355</u>
TOTAL		<u>182,317</u>

The Council faces particular challenges in respect of maintaining its substantial open space areas and ageing buildings. Outstanding schemes are regularly re-assessed and consideration given to any essential repairs or health and safety obligation or emergency work which arises.

During 2007/08 the Council allocated £134,500 to the Repairs & Renewals Reserve. The current balance is £67,253 of which £44,914 is specifically allocated for capital expenditure at the Caravan Park.

Essential electrical works were carried out at the Caravan Park, Town Hall, Depot, and Beach Gardens sports pavilion. In addition resurfacing works were carried out at a number of locations, including the Caravan Park.

Borrowing and Treasury Management

In March 2005, the Council adopted a new treasury management strategy as part of a Risk Management Policy.

In meeting its financial commitments during 2007/08, the Council has regard to its future repairs and renewals obligations. The Council has used its bank overdraft facilities for short-term borrowing in preference to taking out temporary loans. As a consequence, revised terms were agreed with the Council's bankers to increase the overdraft limits. The overall net bank balance as at 31st March 2008 was £273,037 in surplus (£259,811 at 31st March 2007).

Long term loans outstanding reduced by £29,389 to £121,450 as at 31st March 2008 (£150,839 as at 31st March 2007),

The Council reached agreement with the District Auditor in 2001 to use revenue balances to repay unsanctioned temporary loans, originally totalling £700,000. By this arrangement repayment of £100,000 was to be charged to the Revenue Account balance by March 2005, and then £100,000 per annum until 2011. At the behest of the District Auditor, £200,000 was charged in 2002/03. No charge was made in 2005/06 due to the net deficit position. £100,000 has been off-set in 2006/07 and in 2007/08 leaving an outstanding balance of £300,000.

The Council has substantial financial obligations. These will continue to be monitored in the medium and long-term by its appointed Finance & Performance Management Committee. This policy forms an essential element of the Council's approach to corporate governance.

The Council acts as the accountable body in respect of the Swanage Town & Community Partnership.

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – 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.

Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- 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 have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Exceptions to this are regular quarterly payments (e.g. telephone, electricity). This policy has been reviewed during 2007/08 and is to be applied consistently in future years. It has a material effect on the year's accounts in respect of income due in March for site fees at the Caravan Park. The Council decided to allocate an equivalent sum of £67,000 as a contribution to earmarked reserves in 2007/08. This was not a permanent policy decision and will be reviewed in respect of the 2009/10 budget.

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that an 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 than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Statement of Accounting Policies (continued)

Earmarked Reserves & Other Funds

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets, and do not represent usable resources for the Council. Otherwise, specific reserves included in the Balance Sheet include:-

- ❖ the Repairs & Renewals Reserve which is used to accumulate funds and even out expenditure for capital purposes over a number of years
- ❖ the King George's Field, Pavilion fund is used to accumulate funds reserved for this specific building project
- ❖ the Festive Lights fund is used to meet the future cost of repairs and replacement.

Retirement Benefits

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

However, the arrangements for the scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the service revenue accounts are charged with the employer's contributions payable in the year. It is not possible to identify separately on a consistent basis for the purposes of FRS 17 the assets and liabilities relating to those bodies participating in a large group for the purposes of setting a common contribution rate. This is because the common contribution rate necessarily gives rise to cross-subsidy within the bodies concerned.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to H.M. Revenue & Customs (HMRC) and all VAT paid is recoverable from it on the cash flow statement.

Overheads and Support Services

The costs of overheads and support service 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 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

Statement of Accounting Policies (continued)

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

Tangible Fixed Assets

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

Recognition: 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:

- Operational assets are valued on the basis of existing use value, or where this could not be assessed on depreciated replacement cost.
- Non-operational assets are valued at open market value.
- Community assets are valued on historic cost.

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

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, i.e. 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 and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Statement of Accounting Policies (continued)

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance, and can then only be used for new capital investment.

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

Depreciation: depreciation is provided for on all assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the life of the property as estimated by the Valuer
- Vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer

Depreciation is calculated using the straight line method. No depreciation is charged in the year of acquisition, and a full year is charged in the year of disposal.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

Valuation: tangible fixed assets are valued on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors (RICS).

The Council's assets were re-valued as at 1st April, 2006. The Authority's appointed Valuer is Graham Thorne (MRICS), of Thornes Chartered Surveyors in Poole.

The Council has set a £5,000 de-minimis asset value level, for the recording of assets in the asset register and the calculation of depreciation.

Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise precept to cover depreciation, impairment losses or amortisations.

Statement of Accounting Policies (continued)

Leases

Operating Leases- Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Stocks

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

Materiality

Materiality is a quality threshold test applied to determine the usefulness of the financial information contained in the Statement of Accounts. It is used to ensure that all information of such significance is presented.

Service Contracts

The Council has wide ranging responsibilities in the delivery of its direct service. Since 2005/06 it has commenced a review of services entering into service contracts where deemed appropriate, in order to secure efficiency improvements. Examples are:- public convenience cleaning, bars and catering at Swanage Bay View Holiday Park (subsequently taken back in-house in 2007), website maintenance and IT Services.

Any financial impact will be highlighted where such changes are deemed to have a material effect.

Group Accounts

Each local authority is required to show within its own accounts the accounts of any other organisations over which it has a significant level of control, influence or interest. An exercise has been undertaken analysing the relationship this authority has with its various partnering/co-working entities and no significant control, influence or interest was deemed present.

Trusts

The Council acts in the capacity of Corporate Trustee of three registered charitable trusts.

The Council has, as appropriate, acquired the freehold interest of the related operational asset. In compliance with each of the Charity's objectives, the Council has regarded income and expenditure as being an operational financial activity. Any surplus derived from normal trust activities has been allocated to an earmarked reserve.

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:-

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Town Clerk;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Town Clerk's Responsibilities

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

In preparing this statement of account, the Town Clerk 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 Town Clerk has also:-

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

Town Clerk's Certificate

I hereby certify that the statements of account for the year ended 31st March 2008 required by the Accounts and Audit Regulations 2003 are set out on the following pages.

I further certify that the statement of accounts presents fairly the financial position of Swanage Town Council at 31st March 2008, and its income and expenditure for the year ended 31st March 2008.

Signed

Town Clerk & Responsible Finance Officer

Date

Town Mayor's Certificate

I confirm that these accounts were approved by the Council as Minute Ref. 2 dated 27th June 2008.

Signed

Town Mayor

Date

Income and Expenditure Account

Explanation

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed.

Income and Expenditure Account for year ended 31st March 2008

2006/07		2007/08		
Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£	Service	£	£	£
155,104	Cultural, environmental and planning services	2,622,061	(2,389,452)	232,609
(344,911)	Highways, roads and transport services	358,819	(741,123)	(382,304)
231,946	Corporate and democratic core	301,755	(30,000)	271,755
2,593	Non distributed costs	3,897	0	3,897
44,732	Net Cost of Services	3,286,532	(3,160,575)	125,957
28,493	Interest payable and similar charges	30,230	0	30,230
(3,308)	Interest and investment income (Note 3)	0	(11,559)	(11,559)
69,917	Net Operating Expenditure	3,316,762	(3,172,134)	144,628
(324,500)	Precept on Purbeck District Council	0	(343,500)	(343,500)
(254,583)	(Surplus)Deficit for the Year	3,316,762	(3,515,634)	(198,872)

Statement of Movement on the General Fund Balance

Explanation

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

2006/07		Note	2007/08
£			£
(254,583)	(Surplus)/Deficit for the year on the Income and Expenditure Account		(198,872)
149,378	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year:	1	214,353
(105,205)	(Increase)/Decrease in General Fund Balance for the Year		15,481
140,079	General Fund Balance brought forward		34,874
34,874	General Fund Balance carried forward		50,355

Statement of Total Recognised Gains and Losses (STRGL)

FRS 3 Reporting Financial Performance requires all gains and losses to be included in a Statement of Total Recognised Gains and Losses (STRGL) to be shown with the same prominence as the other primary statements.

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

In addition to the surplus or deficit generated on the Income and Expenditure Account, this statement should include gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits. However, in respect of this Council, the figures for the latter are not available (see Retirement Benefits page 9).

For this Authority the other gains and losses shown relate predominantly to £100,000 received in respect of the De Moulham Trust, which is not reflected in the Income and Expenditure Account (see Trusts note 25).

2006/07		2007/08
£		£
(254,583)	(Surplus)/deficit for the year on the Income and Expenditure Account	(198,872)
(1,032,307)	(Surplus)/deficit arising on revaluation of fixed assets	14,335
(4,253)	Any other (gains)/losses required to be included in the STRGL	(82,866)
<u>(1,291,143)</u>	Total recognised (gains)/losses for the year	<u>(267,403)</u>

Balance Sheet

As at 31st March 2008

31st March 2007	Note		31st March 2008
£			£
		TANGIBLE FIXED ASSETS	
	10 to		
6,923,590	13	Operational Assets - Land & Buildings	6,929,380
115,527		Vehicles, Plant, Furniture & Equipment	171,700
28,000		Community Assets	38,000
7,067,117		TOTAL LONG-TERM ASSETS	7,139,080
		CURRENT ASSETS	
70,716	16	Stocks	43,771
235,624	14	Debtors	593,085
1,529		Investments	1,528
855		Petty Cash Imprests	1,740
301,579		Bank Deposit	273,037
			913,161
7,677,420		TOTAL ASSETS	8,052,241
		CURRENT LIABILITIES	
29,389	15	Short-term Borrowing	29,390
354,204	17	Creditors	442,479
792,811	18	Receipts in Advance	863,264
41,768		Bank Overdraft	0
			1,335,133
1,218,172		TOTAL ASSETS LESS CURRENT LIABILITIES	6,717,108
6,459,248			
121,450	15	Long-term Borrowing	92,060
36,374	26	Capital Grants Deferred Account	56,221
			148,281
6,301,424		TOTAL ASSETS LESS LIABILITIES	6,568,827
		FINANCED BY :	
0	21	Revaluation Reserve	14,497
6,112,612	22	Capital Adjustment Account	6,279,620
141,529	23	Usable Capital Receipts Reserve	107,684
(34,874)		General Fund Balance	(50,355)
82,157	24	Earmarked Reserves & Other Funds	217,381
6,301,424		TOTAL NET WORTH	6,568,827

Cash Flow Statement for the year ended 31st March, 2008

	Note	2007/08 £	2006/07 £
REVENUE ACTIVITIES			
<i>Cash Outflows</i>			
Cash paid to and on behalf of employees		(1,108,758)	(1,074,306)
Other operating costs		(3,140,984)	(2,753,312)
		<u>(4,249,742)</u>	<u>(3,827,618)</u>
<i>Cash Inflows</i>			
Precept on Billing Authority		343,500	324,500
Cash Received for Services		4,049,287	4,066,982
		4,392,787	4,391,482
Net Cash Inflow from Revenue Activities	28	143,045	563,864
SERVICING OF FINANCE			
<i>Cash Outflows</i>			
Interest paid		(21,915)	(16,648)
<i>Cash Inflows</i>			
Interest received		11,026	3,308
Net cash Inflow from Servicing of Finance		<u>(10,889)</u>	<u>(13,340)</u>
CAPITAL ACTIVITIES			
<i>Cash Outflows</i>			
Purchase of Fixed Assets		(127,114)	(112,627)
<i>Cash Inflows</i>			
Sale of fixed assets		14,055	190,695
Other Capital Cash Receipts		24,403	0
Net Cash Inflow(Outflow) from Capital Activities		<u>(88,656)</u>	<u>78,068</u>
Net Cash (Outflow)/ Inflow before Financing		<u>43,500</u>	<u>628,592</u>
FINANCING AND LIQUID RESOURCES			
<i>Cash Outflows</i>			
Loan repayments made		(29,389)	(129,388)
<i>Cash Inflows</i>			
New Loans raised		0	0
Net cash inflow from financing and liquid resources	29	<u>(29,389)</u>	<u>(129,388)</u>
Increase /(decrease) in cash		<u>14,111</u>	<u>499,204</u>
Movement in cash			
Cash and bank balance 1st April 2007		260,666	(238,538)
Cash and bank balance 31st March, 2008		274,777	260,666
		<u>14,111</u>	<u>499,204</u>

Notes to the Core Financial Statements

1. Reconciling items for the Statement of Movement on the General Fund Balance

	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	2007/08
£		£
(33,947)	Depreciation and impairment of fixed assets	(55,431)
4,556	Capital Grants Deferred Amortisation	4,556
	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	
129,388	Loans repaid	129,389
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
49,381	Net transfer to or from earmarked reserves	135,839
<u>149,378</u>	Net additional amount required to be debited to the General Fund balance for the year	<u>214,353</u>

2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989, empowers town and parish councils, subject to various conditions and limits, to incur expenditure which in their opinions is in the interest of their area or any part of it, or all or some of its inhabitants but for which no specific statutory power exists. The expenditure is limited to £5.64 per head of elector. Under Section 137, town and parish councils are required to account separately for any such expenditure. The Council was permitted to spend £46,598 under this power in 2007/08 and its actual expenditure was £3,488, as detailed below:-

	2007/08	2006/07
	£	£
Sports & Recreation	0	2,042
Project Trust	0	50
Dorset County Council – Crossing Patrol	3,488	4,135
	<u>3,488</u>	<u>6,227</u>

3. Interest and Other Single One-Off Payments Receivable

The interest figure arises principally from investment of capital receipts and revenue balances. Interest on capital receipts is transferred to the revenue account and is used to finance operational and administrative costs.

	2007/08	2006/07
	£	£
Bank Interest	11,533	3,282
3.5% War Loan	<u>26</u>	<u>26</u>
Net Interest and Investment income	<u><u>11,559</u></u>	<u><u>3,308</u></u>

4. Publicity Expenditure

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

	2007/08	2006/07
	£	£
Recruitment Advertising	815	433
General Advertising	7,382	16,360
Other Publicity	<u>4,459</u>	<u>6,816</u>
	<u><u>12,656</u></u>	<u><u>23,609</u></u>

5. Pension Costs

In 2007/08 the Council paid an employer's contribution of £125,767 (£118,442 in 2006/07) representing 19.6% (19.3% in 2006/07) of employees' pensionable pay into the Dorset County Council superannuation fund. This fund provides members with defined benefits based on pay and service. The contribution rate is determined by the fund's actuary, Barnett Waddingham, and is based on triennial actuarial valuations, the last such review being 31st March 2007. This review showed that the contribution rates set met 93% of the overall liabilities of the fund.

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded to former employees who have retired early, together with the related increases. In 2007/08 these amounted to £3,897 (£2,593 in 2006/07), representing 0.6 % of pensionable pay.

6. Members' Allowances

	2007/08	2006/07
	£	£
Members' Allowance paid in year	3,566	1,512

7. Fees Payable to the Audit Commission

In 2007/08 Swanage Town Council incurred the following fees relating to external audit and inspection:

	2007/08	2006/07
	£	£
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	0	0
Fees payable to the Audit Commission in respect of statutory inspection	36,762	5,269

8. Related Party Transactions

During the year transactions with related parties arose as follows:

- Dorset County Council Pension Scheme – payments of employer’s contributions in respect of employees are shown in Note 5 above.
- Cllr S Poultney is the proprietor of Avenue Garage with whom the Council contracts the servicing and maintenance of its vehicles.
- Cllr B Audley is the proprietor of Kingston Kontractors who provide grounds maintenance contractual services.
- Mr D A Taylor, General Manager of the Council’s Caravan Park and proprietor of DAT Trading Ltd, the past contractor providing Bars & Catering Services (until 30th September 2007).

9. Leases

The Council paid the following operating lease rentals:-

	2007/08	2006/07
	£	£
IT Equipment & Photocopiers	26,787	13,568
Vending Machines	2,499	6,757
The future cash payments (2-5 yrs) required under these leases are :-		
IT Equipment & Photocopiers	37,128	5,674
Vending Machine	3,332	9,996

10. Movement of Fixed Assets 2007/ 08

	Operational Land & Buildings £	Vehicles, Plant & Equipment £	Community Assets £	Total £	Total 2006/07 £
Certified valuation at 31st March 2007	6,950,374	240,461	28,000	7,218,835	6,324,712
Accumulated depreciation & impairment	(26,784)	(124,934)	0	(151,718)	(177,896)
Net book value of assets at 31 st March 2007	6,923,590	115,527	28,000	7,067,117	6,146,816
Movement in 2007/08					
Additions	46,798	72,296	8,020	127,114	112,627
Disposals	(14,055)	0	0	(14,055)	(190,686)
Revaluation	12,355	0	1,980	14,335	1,032,307
Impairment	(26,798)	0	0	(26,798)	0
Depreciation	(12,510)	(16,123)	0	(28,633)	(33,947)
Net Book Value of assets at 31st March 2008	<u>6,929,380</u>	<u>171,700</u>	<u>38,000</u>	<u>7,139,080</u>	<u>7,067,117</u>

In accordance with the Council’s accounting policy on fixed assets, certain minor equipment purchases are not included above as they fall either individually or collectively, below the materiality level which has been set at £5,000. Such expenditure has been charged to the appropriate service category.

Sources of Finance for Fixed Asset Additions

	2007/08	2006/07
	£	£
Usable Capital Receipts Reserve	47,900	112,000
Repairs & Renewals Reserve	54,811	627
Capital Contributions	24,403	0
Creditors to be financed in the following year	<u>0</u>	<u>0</u>
	<u>127,114</u>	<u>112,627</u>
Usable Capital Receipts Reserve :-	2007/08	2006/07
	£	£
Balance brought forward	141,529	62,834
Capital receipts	14,055	190,695
<i>Less :</i>		
Capital receipts used for financing fixed assets	<u>(47,900)</u>	<u>(112,000)</u>
Balance carried forward	<u>107,684</u>	<u>141,529</u>

The Capital Receipts Reserve represents capital receipts available to finance capital expenditure in future years.

11. Fixed Asset Valuation

The freehold and leasehold properties in the Council's property portfolio were valued at 1st April 2006 by external independent valuers, Thornes Chartered Surveyors, the Council's appointed Valuer and surveyor. Valuations have been made on the following basis in accordance with the Statement of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors (RICS).

Plant and machinery that form part of land and building is included in the valuation. Properties regarded by the Council as operational were valued on the basis of open market value for existing use or, at the net realisable value. Both values were obtained where necessary and the lower of these two values has been used in preparing the accounts. Vehicles, plant and equipment in the Balance Sheet relate to the Council's commercial vehicles, computer equipment and other operational equipment and car par ticket machines. Assets are reviewed on an annual basis.

12. Capital Commitments

As at 31st March 2007 there were no outstanding commitments.

13. Fixed Assets Held

Fixed Assets owned by the Council include the following:-

<i>Operational Land & Buildings</i>	<i>Vehicles Plant and Equipment</i>	<i>Community Assets</i>
Council Offices	Trucks (4)	Open Spaces & Woodland
Recreation Grounds and Open Spaces	Tractors (2)	Furniture & Paintings in Town Hall Chamber
Tourist Information Centre	Vans (5)	
Cemeteries (2)	Mowers (2)	
Allotments	Mechanical Sweeper	
Beaches & Foreshore		
Beach Gardens		
Beach Bungalows (67)		
Beach Chalets (7)		
Public Conveniences (9)		
Boat Park		
Caravan Park		
Park Homes (2)		
Car Parks (5)		

14. Debtors

	2007/08	2006/07
	£	£
Amounts falling due in one year :-		
Government Departments	0	0
Other Local Authorities	7,715	6,987
Sundry Debtors	568,839	226,669
Payments in Advance	16,531	1,968
	593,085	235,624
Amounts falling due after one year :-	0	0
	593,085	235,624

15. Analysis of Borrowing

	2007/08	2006/07
	£	£
Long term:- all PWLB		
Maturity:		
1 – 2 years	62,800	25,600
2 – 5 years	57,983	124,550
5 – 10 years	0	0
10+ years	667	689
Total outstanding	121,450	150,839
Short term:- Temporary Loans :		
Total outstanding as at 31 st March	0	0
Range of interest rates payable:	3% - 10.75%	

16. Stocks	As at 31/3/08 £	As at 31/3/07 £
Swanage Bay View Holiday Park :		
Caravans for re-sale	29,000	63,312
Other	9,471	1,716
Tourism Information Centre	4,799	5,632
Beach Gardens	501	56
	<u>43,771</u>	<u>70,716</u>
17. Creditors	2007/08 £	2006/07 £
Government Departments	178,970	165,266
Other Local Authorities	16,445	2,360
Sundry Creditors	247,064	186,578
	<u>442,479</u>	<u>354,204</u>
18. Receipts in Advance	2007/08 £	2006/07 £
Caravan Park	772,550	712,003
Beach Huts	61,220	62,260
Boat Park	13,455	7,397
TIC & Others	16,039	11,151
	<u>863,264</u>	<u>792,811</u>

19. Financial Instruments

The SORP 2007 requires authorities to disclose information relating to Financial Instruments in accordance with FRS25 and FRS29.

A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. It covers financial assets and financial liabilities and includes straightforward traded receivables and payables and also more complex derivatives.

Financial asset – cash, equity instrument of another entity or a contractual right to receive cash or the right to exchange a financial instrument with another equity on potentially favourable terms.

Financial liability – a contractual obligation to deliver cash or another financial asset to another entity or to exchange a financial instrument with another entity on potentially unfavourable terms.

The purpose of the disclosures is to enable users to evaluate both the significance of financial instruments for the authority's financial position and performance and the nature and extent

of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks.

In presenting the disclosures authorities need to consider if the financial assets and liabilities are measured correctly for balance sheet purposes and are in accordance with FRS26. If not then new measurement needs to be undertaken and the accounts need to be adjusted with notional entries which result in entries on the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the face value of items in the balance sheet, and new reserve accounts – a Financial Instrument Adjustment Account.

The authority has carried out the exercise of categorising the carrying amount of defined financial assets and liabilities. It has considered the measurement of the assets and liabilities and where necessary performed calculations to assess whether, after having regard for de minimus levels i.e. £5,000, it would be necessary to alter any of the carrying amounts beyond the previously acceptable practice. It has found that this has not been necessary.

Financial Instruments

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

	Long Term		Current	
	As at	As at	As at	As at
	31/03/08	31/03/07	31/03/08	31/03/07
Creditors (note 17)			442,479	354,204
Long term borrowing (note 15)	92,060	121,450		
Short term borrowing			29,390	29,389
Bank Account overdrawn			0	41,768
Total Financial Liabilities amortised cost	<u>92,060</u>	<u>121,450</u>	<u>471,869</u>	<u>425,361</u>
Debtors (note 14)			593,085	235,624
Short term investments			1,528	1,529
Bank Account			273,037	301,579
Total Financial Assets – Loans and receivables	<u>0</u>	<u>0</u>	<u>867,650</u>	<u>538,732</u>

The Authority has determined that the carrying amount of its assets and liabilities are not materially different from fair value.

The fair value of trade and other receivables (short term debtors) and of payables (creditors) has been taken to be the invoiced or billed amount.

Loans and receivables where they relate to deferred payments are required to be classed as “soft loans” by the Authority. Any write down arising from valuing the loans at fair value is to the income and expenditure account. This amount can then be reversed out to the Financial Instruments Adjustment Account through the Statement of Movement on General Fund Balances. The SORP allows authorities to apply de minimus levels in assessing whether there is a need to action the adjustments. The de minimus level is set at £5,000.

Disclosure of nature and extent of risks arising from financial instruments

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

Credit risk – the possibility that other parties might fail to pay amounts due to the Authority

Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments

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

Credit risk exposure

The Authority's potential maximum exposure to credit risk is based on experience of default and collectability. The Authority reviews debtors on a monthly basis. Deposits with banks are considered to be 100% collectable. The Treasury Management policy ensures that the Authority would only deposit monies with highly rated financial institutions and would impose limits to how much can be invested with any one institution. No provision for impairment (previously known as bad debt) has been made in relation to total debtors.

The Council has increased its exposure to risk by permitting the payment of site fees at its Caravan Park to be paid in two instalments. The value included in the debtors to which this relates is £411,413.

Liquidity risk Exposure

The Council through its Medium Term Financial Plan ensures that it has a fully funded budget over the longer term. The Council's day to day liquidity is managed via proactive cashflow monitoring ensuring that funds are available to meet its commitments. In addition the authority has ready access to borrowings from the Public Works Loan Board, its bank and the financial market, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The maturity analysis of long term financial liabilities is shown in note "long term borrowings".

Interest Rate Risk Exposure

The Authority is not exposed to risk in the terms of its exposure to interest rate movements.

20. Prior Period Adjustments

Replacement of Fixed Asset Restatement Account and Capital Financing Account with a Revaluation Reserve and Capital Adjustment Account.

As at 31/03/07		FARA and CFA transfer to CAA	As at 31/03/07 Restated
(3,510,181)	Fixed Asset Restatement Account (FARA)	3,510,181	0
(2,602,431)	Capital Financing Account (CFA)	2,602,431	0
0	Revaluation Reserve	0	0
0	Capital Adjustment Account	(6,112,612)	(6,112,612)
<u>(6,112,612)</u>		<u>0</u>	<u>(6,112,612)</u>

21. Revaluation Reserve

The Balance Sheet figures for 31st March, 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve. The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £3.5m on the FARA at 31st March, 2007 has been written off, with the Capital Financing Account balance of £2.6m to form a new Capital Adjustment Account with an opening balance of £6.1m. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31st March, 2008 therefore only shows gains on revaluation of fixed assets, not yet realised through sales, accumulated since 1st April, 2007.

	2007/08 £	2006/07 £
Balance b/fwd	0	0
Revaluation gains	(14,497)	0
Disposal of fixed assets	0	0
Balance c/fwd	<u>(14,497)</u>	<u>0</u>

22. Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the rates at which assets are depreciated and are financed through the capital controls system. In this financial year the Account has been affected by the decision to implement the Revaluation Reserve (above) with a zero balance. See note 21 to the Revaluation Reserve.

The Capital Adjustment Account shows the amount of capital expenditure financed, in the sense of “paid for” from capital receipts and revenue. It also contains the depreciation charge for the year, as well as the capital grants and other external contributions used to finance capital expenditure that is then written off to match the depreciation of an associated asset or for the repayment of external loans. It includes the reversal of depreciation, to ensure that it does not impact on the amount to be met from the precept, and capital grants used to finance capital expenditure, which is written off to match the depreciation of the financed asset. It does not represent a reserve that can be used to support future expenditure.

	Capital Adjustment Account 2007/08 £	Capital Financing Account 2006/07 £
Balance b/fwd	6,112,612	2,389,807
Transfer from Fixed Asset Revaluation Reserve	0	3,510,181
Capital expenditure	127,114	112,627
Reversal of depreciation	(28,633)	(33,947)
Loan repayments	129,389	129,388
Capital Contribution written down	4,556	4,556
Capital Contribution rec'd	(24,403)	0
Sale of Assets	(14,055)	0
Reversal of Impairment	(26,798)	0
Revaluation losses	(162)	0
Balance c/fwd	<u>6,279,620</u>	<u>6,112,612</u>

23. Usable Capital Receipts Reserve

	2007/08	2006/07
	£	£
Balance brought forward	141,529	62,834
Capital receipts	14,055	190,695
Less:		
Capital receipts used for financing Assets	<u>(47,900)</u>	<u>(112,000)</u>
Balance carried forward	<u>107,684</u>	<u>141,529</u>

24. Earmarked Reserves & Other Funds

	Balance at 01/04/2007	Net Contributions to/(from) Fund	Balance at 31/03/2008
	£	£	£
Earmarked Reserves			
Repairs & Renewals Fund	41,092	26,161	67,253
James Day Trust	512	131	643
King George's Trust Pavilion	6,189	335	6,524
Festive Lights	888	1,339	2,227
Insurance Fund	(1,280)	(2,027)	(3,307)
Sub-total	<u>47,401</u>	<u>25,939</u>	<u>73,340</u>
Other Funds			
De Moulham Trust	14,770	98,162	112,932
Swanage Town & Community Partnership	19,818	10,849	30,667
Burlington Chine Chalets	0	56	56
Mayor's Appeal	168	218	386
Sub-total	<u>34,756</u>	<u>109,285</u>	<u>144,041</u>
Total	<u>82,157</u>	<u>135,224</u>	<u>217,381</u>

25. Trust Funds

Funds for which the Council acts as Corporate Trustee:

The De Moulham Trust receives income from the variation of covenants on the De Moulham Estate, the expenditure relates to the associated legal fees.

	Income	Expenditure
	£	£
De Moulham trust <i>Established in 1990 as a gift of land and holding of Trust land covenants</i>	100,000	1,838
James Day trust (Day's Park) <i>Gift of pleasure grounds</i>	323	192
King George's Field <i>Deed of dedication entered into 5th May 1951</i>	0	0
Balance as at 31/3/08	<u>100,323</u>	<u>2,030</u>

26. Capital Grants Deferred Account

Capital grants received are credited to a deferred capital grants account and are released to the Income & Expenditure Account over the expected useful life of the related asset on a basis consistent with depreciation policy.

	2007/08	2006/07
	£	£
Balance b/fwd	36,374	40,930
Capital Grants Applied	24,403	0
Capital Grants Written Down	<u>4,556</u>	<u>4,556</u>
Balance c/fwd	<u>56,221</u>	<u>36,374</u>

27. Defined Benefit Pension Scheme

Swanage Town Council participates in the Dorset County Council Pension fund. The latest actuarial valuation was completed as at 31st March 2004 and updated to 31st March 2007 by a qualified independent actuary.

On 4th April 2007, the Department for Communities and Local Government (DCLG) issued regulations for the Local Government Pension Scheme (LGPS) in England and Wales effective from 1st April 2008. Under the regulations benefits earned after 31 March 2008 will remain final salary benefits but will be payable from age 65. Pensions will accrue at 60ths with no separate lump sum accrual although scheme members will be able to exchange pension for lump sum benefits. The Rule of 85 has also been completely removed for benefits accruing after 31 March 2008 for those reaching age 60 after 31 March 2016.

A number of other benefit changes will also come into force including variable employee contributions rates. However, as the new regulations only affect benefits accruing and contributions payable from 1 April 2008, there is no impact on this year's disclosure.

28. Reconciliation of net surplus to cash inflow from revenue activities

	2007/08	2006/07
	£	£
General Fund (deficit) surplus	198,872	254,583
Non cash transactions:-		
Contributions to Reserves	135,839	49,381
Items classified in another classification in the Cash Flow Statement:-		
Add interest paid	21,915	16,648
Less interest received	(11,026)	(3,308)
Loan repayments applied	0	100,000
PWLB Repaid	29,389	29,388
Other internal financing items	(60,157)	(145,134)
Items on an accrual basis:-		
Increase/(Decrease) in creditors/provisions	158,729	251,732
(Increase)/Decrease in stocks	26,945	20,709
(Increase)/Decrease in debtors	(357,461)	(10,135)
Revenue Activities net cash flow	<u>143,045</u>	<u>563,864</u>

29. Management of Liquid Resources and Financing

	Balance 1st April 2007	Balance 1st April 2008	Movement in Year
	£	£	£
Financing :-			
Temporary loans	0	0	0
Long term loans (PWLB)	<u>150,839</u>	<u>121,450</u>	<u>29,389</u>
	<u>150,839</u>	<u>121,450</u>	<u>29,389</u>

30. Introduction of the Euro within the E.U.

The Council incurred no expenditure during the financial year, nor had any outstanding commitments at 31st March 2007 specifically in respect of the possible adoption of the Euro as the U.K.'s currency.

31. Post Balance Sheet Events

The Council first lodged a claim for VAT in respect of Car Parking income in 2002. A further claim was submitted in 2004. The total amount now claimable as at 31st March 2008 is £797,774. The final outcome may affect all local authorities providing off-street parking. The matter will be concluded following determination at the European Court of Justice. The Council is protecting its position in respect of any potential claim. However, a preliminary hearing has been scheduled for August 2008 to consider the special circumstances of a demand from HMRC seeking recovery of withheld VAT in 2004 and since 1st October 2007.

Following the approval of the draft accounts by the Council in July 2005, it sought advice from the National Association of Local Councils in May 2006 regarding its legal power to operate some aspects of its operation of the Swanage Bay View Holiday Park.

The Council decided to seek counsel's opinion in May 2007 to provide greater clarity over the legal status of these arrangements, including the sale or provision of caravans and ancillary commercial activities. The accounts for 2007/08 contain £804,383 income from the sale of caravans, on which it made a gross surplus of £259,691.

On the basis of this advice, the Council believes that it has the required powers to operate the Caravan Park. Agreement on this matter has however not been reached with the Council's external auditor. For this reason, until tested, it is not currently possible to remove uncertainty about the legality of entries in the Council's accounts in relation to the sale or provision of caravans and ancillary commercial activities.

Although the Council is advised that the legality of caravan sales and all of its ancillary activities are either lawful or arguable in law, due to the risk of significant financial cost to be incurred should the District Auditor seek a declaration in the High Court, it has led the Council into commissioning an independent supplementary Options Appraisal. The Options Appraisal will seek to explore the financial valuations in respect of either a "sell" or "lease" option. The outcome is scheduled to be determined by the Council in August 2008. The District Auditor has been informed of the situation and is currently considering the position

32. Summary introduction to detail of 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 2007	Net Movement in Year	Balance 31 March, 2008	Purpose of Reserve	Further Detail of Movements
	£	£	£		
Revaluation Reserve	0	14,497	14,497	Details unrealised gains on revaluation of fixed assets	Note 20/21
Fixed Asset Restatement Account (FARA)	0	0	0	Store of gains on revaluation of fixed assets	Note 20
Capital Adjustment Account	6,112,612	167,008	6,279,620	Store of capital resources set aside to meet past expenditure	Note 20/22
Usable Capital Receipts	141,529	(33,845)	107,684	Proceeds of fixed asset sales available to meet future capital investment	Note 23
Repairs & Renewals Reserve	41,092	26,161	67,253	Resources available to meet capital investment	Note 24
General Fund	34,874	15,481	50,355	Resources available to meet future running costs	Statement of Movement on the General Fund Balance

Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

- 1.1 Swanage Town 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 Town 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.
- 1.2 In discharging these overall responsibilities, Swanage Town Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 This statement explains how Swanage Town Council delivers good governance and reviews the effectiveness of these arrangements (including the system of internal control). It also meets the requirements of regulation 4(2) of the Accounts and Audit (Amendment) Regulations 2006, which require the Council to publish a statement on internal control (now subsumed within the Annual Governance Statement).

2. THE COUNCIL'S GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Town Council is directed and controlled, and by which it is accountable to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

2.3 The following paragraphs summarise the Town Council's Governance Framework, which has been in place for the year ended 31st March 2008 and up to the date of approval of this Annual Governance Statement and the Statement of Accounts. The Framework is described with reference to the **six core principles of effective governance** and demonstrates how each principle is complied with.

The six core principles are:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

Principle 1.

Purpose of the Council, Outcomes for the Community and Vision for the local area

2.4 The Town Council will identify and describe its vision for Swanage and the local community in its Corporate Performance Plan (formerly published annually as its Best Value Performance Plan). It also aims to deliver high quality services that provide value for money, and which are aligned to the needs and priorities of the local community.

2.5 The Town Council provides support and assistance to the Swanage Town and Community Partnership. It recognises the importance of partnership working to deliver its vision and objectives as part of the district and regional strategic planning process and function.

2.6 The Corporate Strategy is determined by the Council and influenced by the active public participation in its democratic process, consultative engagement with local representative bodies, groups and service users. To ensure that the Council meets the needs of all the community its Corporate Strategy is reviewed annually to take account of issues, such as changes in local environmental and economic factors.

- 2.7 The Corporate Strategy is communicated to individual employees through regular management team and staff briefings. Corporate strategic and key objectives provide clear identification of service objectives with key targets being identified in respect of each of the Council's functions or operational departments.
- 2.8 The Finance & Performance Management Committee undertakes a scrutiny role, monitoring the Council's strategic and service priorities in order to identify areas for improvement. A range of performance measures are also used to monitor progress. Routine regular reporting of Internal Audit Reports are considered by the Committee.
- 2.9 The Town Council has recognised the need to further improve performance management. Recognition is also given to the introduction of a more comprehensive range of Value for Money (VFM) indicators across all of its functional activities to ensure best value is achieved.
- 2.10 The Council has a Medium Term Financial Plan and Capital Programme to ensure that resources are aligned to its corporate priorities. The annual budget process also identifies targets for savings and efficiencies to ensure that resources are redeployed where possible to meet key Council priorities.
- 2.11 Swanage Town Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised.
- 2.12 The Council receives monthly financial monitoring reports and the Finance & Performance Management Committee reviews progress against key decisions. It also reviews outstanding matters and performance measures, identifying corrective action where necessary.
- 2.13 The Council regularly seeks feedback from local residents and other stakeholders via public participation sessions held at the commencement of all of its open meetings. It encourages input from outside representatives appointed to its range of Committees and from consultative forums of service users.

- 2.14 The Council publishes its newsletter ‘Swanage Matters’ which is delivered to all households in the Town, up to four times a year. The website, ‘swanage.gov.uk’, is used by residents and visitors alike. Each medium encourages feedback aimed at assisting the Council in shaping future plans and policies.
- 2.15 The Council also operates a complaints procedure and uses this to identify where services or policies should be considered for review.

Principle 2.

Members and Officers Working Together with Clearly Defined Roles

- 2.16 The Council has recognised the need to improve aspects of how the Authority operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- 2.17 Policy and decision-making is facilitated through regular special meetings of the full Council. Two Policy & Planning daytime meetings are held each month in addition to an evening monthly meeting. The roles and responsibilities of all the Council’s Committees are summarised in its Corporate Performance Plan. All Council meetings are open to the public, except where personal or confidential matters are being disclosed. Each Committee Chairman, in conjunction with a relevant Departmental Manager, may take delegated decisions within the scope of specific areas of operations. The Council’s Standing Orders and Financial Regulations provide for the Town Clerk to authorise non-budgeted expenditure, within clearly defined financial limits. This scheme of delegation is extended to include the Town Mayor and Deputy Town Mayor subject to other restrictions. The Annual Estimates are issued in the form of Management Accounts to Departmental Managers. Budget holders are identified and are authorised to make decisions within their areas of operation, subject to budgetary constraints.
- 2.18 A protocol for effective Member and Officer communications and relationships is in place.
- 2.19 The Council’s Finance & Performance Management Committee (F&PM) meets regularly to consider internal audit, quarterly performance and activity reports. Additionally, the F&PM Committee reviews and approves the internal audit annual risk based audit plan, assurance reports, the Annual Report of the appointed Internal Auditor and any results of

the external auditor's review of the Council. The appointed Internal Auditor normally attends these meetings. The Committee also receive relevant external audit reports, including their Annual Governance Report and Annual Audit Letter.

- 2.20 The Council's F&PM Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.
- 2.21 The Town Clerk leads and chairs meetings of the Council's Management Team. Individual departmental team briefings are held on an ad hoc basis ensuring that corporate policy decisions and other matters of a strategic nature are clearly communicated.
- 2.22 The financial management of the Authority is conducted in accordance with the financial rules set out in the Council's Standing Orders and Financial Regulations. The Council has designated the Town Clerk as its Responsible Financial Officer (RFO) in accordance with Section 151 of the Local Government Act 1972. The Council has in place a three-year Medium Term Financial Plan, updated annually as part of the Annual Estimates. This Plan reflects the medium term aims of the Corporate Strategy as set out in the Corporate Performance Plan.
- 2.23 All staff, including departmental managers, have been issued with a staff handbook in addition to conditions of employment and job descriptions setting out their roles and responsibilities. Terms and conditions of employment and pension provisions, are overseen by the Council's Personnel Committee. The Council has engaged the services of a contractor to provide employment law advice. The terms of this contract provides indemnities for the award of costs against the Council by an employment tribunal.
- 2.24 Protocols for partnership working are in need of development to ensure there are clear governance arrangements and accountabilities when working with partners engaged in projects, fundraising or community related activities.
- 2.25 The Council is the corporate Trustee of three registered charitable Trusts. It has sought to clarify its legal obligations and is seeking to establish a protocol in respect of its management arrangements and the shared use of resources.

Principle 3.

Promoting Values for the Authority and Upholding High Standards of Conduct and Behaviour

- 2.26 The Council expects high standards of conduct from its officers and members. The Council has adopted a Members' Code of Conduct. The Code adopted incorporates the Ten Principles of Public Life. It includes the requirements for declarations of interests, gifts and hospitality.
- 2.27 The Members' Code of Conduct was reviewed during 2007/08 and is enforced by the Standards Committee of Purbeck District Council. The role of the Standards Committee includes strengthening and maintaining high standards of conduct, through, for example, promoting, advising on, and monitoring the Members' Code of Conduct and investigating alleged breaches.
- 2.28 The Town Council takes fraud, corruption and maladministration very seriously. It has an 'Anti-Fraud and Corruption' Policy, which clearly states the Council's commitment to fighting fraud and corruption, and explains the role of Members, senior officers and employees in reporting possible fraud. A Whistleblowing Policy is also in place that provides avenues for employees to raise concerns without fear of reprisal. It also provides the basis on which the complaint will be investigated.
- 2.29 All officers are expected to comply with the Council's Standing Orders and Financial Regulations in respect of contracts and the procurement of goods and services. Compliance relating to the award of contracts and tenders, forms part of the strategic internal audit plan.
- 2.30 The Council has an established Email and Internet Policy in respect of employee use of computers and information technology. This policy is aimed at reducing the risk of abuse of IT facilities.

Principle 4.

Taking Informed and Transparent Decisions and Managing Risk

- 2.31 The Council's Standing Orders and Financial Regulations set out how the Authority operates and its process for policy and decision making.
- 2.32 Committees may only make recommendations or decisions within their area of delegated responsibility. All policy decisions are made at meetings of the full Council. Briefing notes, that include details of the legal and financial implications of decisions, are often produced in order to inform the decision making process. Consideration should also be given to include an assessment of risk, equalities, environmental impact and resource implications within future briefing notes.
- 2.33 Decisions are reviewed and monitored by the Finance & Performance Management Committee. Consideration is to be given to expanding the scrutiny role of this Committee during 2008/09.
- 2.34 Other decisions are made by officers under delegated powers. The Town Council's scheme of delegation provides for day to day operational decisions to be made in line with existing policies and budgetary limits.
- 2.35 Policies and procedures governing the Council's operations are included within its Standing Orders and Financial Regulations and also the Risk Management and Control of Resources Policy. It is the responsibility of management across the Council to ensure these policies are adhered to. The Council's appointed Internal Auditor checks that policies are complied with. Appropriate action is taken where incidents of non-compliance are identified.
- 2.36 The Council's Risk Management and Control of Resources Policy is in need of review to ensure consideration of risk in all key management processes as part of a corporate risk assessment. The Council is required to ensure systems for identifying and evaluating all significant risks with the pro-active participation of all those associated with operational functions and the delivering of services.

- 2.37 The Council has contracted out the services of an external Health & Safety consultant to advise in the compliance with risk identification and implementation of mitigation measures.
- 2.38 The Council has recognised the need to adopt a form of corporate risk register to ensure the reporting and recording of any significant matters for future monitoring and review.

Principle 5.

Effective Management – Capacity and Capability of Members and Officers

- 2.39 The Town Council aims to ensure that all Members and employees of the Council have the skills, knowledge and capacity they need to discharge their responsibilities effectively. All Members are required to sign up to the Code of Conduct for Members and are encouraged to participate in any induction or training courses provided.
- 2.40 The Council recognises the value of a well-trained, competent workforce. It has encouraged all frontline staff to attain the ‘Welcome Host’ accreditation.
- 2.41 To ensure that corporate needs are met, training requirements are identified through a combination of staff appraisals and routine individual assessment of employee development. Training budgets are included within all operational service departments.
- 2.42 The Authority is conducting a Job Evaluation exercise across the organisation, which aims to ensure that all employees are rewarded fairly and consistently for the jobs they do. The Authority also seeks to ensure that all employees are trained to meet forthcoming challenges.

Principle 6.

Engaging with Local People and other Stakeholders to ensure Robust Accountability

- 2.43 The Town Council has established clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and actively encouraging open consultation.

- 2.44 The Town Council actively encourages feedback to shape its future plans. The Council's newsletter 'Swanage Matters' is also delivered to all households in the town up to four times a year.
- 2.45 The Council has a separate complaints procedure for receiving and investigating complaints from the public. The effectiveness of policy and procedure are regularly monitored by the Council's Finance & Performance Management Committee.
- 2.46 The Town Council actively seeks to work with partners and other stakeholders to meet local needs and priorities. The Council has recognised that it can improve governance arrangements in respect of its strategic planning and decision making process. It has previously recognised the positive benefits of youth representation in its democratic process and is supportive of the formation of a youth council.

3. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

- 3.1 Swanage Town Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review is normally undertaken by the Finance & Performance Management Committee whose responsibilities include the development and maintenance of the governance environment. As part of its review of effectiveness the Council also places reliance on the appointed Internal Auditor's annual report, and also comments made by the external auditors.
- 3.2 In its review of effectiveness the Council identified the following elements of the Council's Governance Framework.
- The Finance & Performance Management Committee is responsible for the overall financial and performance management and, as and when required, receives comprehensive and detailed reports on behalf of the Council. Membership comprises of the Town Mayor, Deputy Town Mayor and the Chairmen of its individual Committees.
 - Members are also committed to upholding good governance through their role at the heart of the decision making process.

- The Finance & Performance Management Committee provide a scrutiny function. The Council acknowledges there is scope for improvement in the overview and scrutiny functions and intends to take corrective action to address this.
- The Town Clerk and Assistant Town Clerk meet with the Town Mayor and Deputy Town Mayor at least monthly to discuss issues including probity and propriety.
- In accordance with Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006, the Finance & Performance Management Committee also reviews the effectiveness of the Council's system of internal audit and the results of the external auditor's review of internal audit. The Finance & Performance Management Committee is also responsible for overseeing the audit functions of the Council, and meets regularly to consider internal audit quarterly performance and activity reports. The Council's appointed Auditor normally attends these meetings for this agenda item. The Town Clerk in his capacity as the Responsible Financial Officer reviews and approves the internal audit annual risk based audit plan, assurance reports, and the Auditor's Annual Report.
- The Council maintains an Internal Audit function through its appointed Auditor, complies with the standards set out in the CIPFA Code of Internal Audit in Local Government in the United Kingdom, including the Practice Assurance Scheme, Audit Practices Board and International Standards, and the NALC/SLCC Practitioner's Guide to Governance and Local Councils in England and Wales.
- Internal Audit is an independent and objective assurance service. The Auditor works to a risk based Audit Plan that is approved by the Responsible Financial Officer, as required by Section 151 of the Local Government Act 1972. The Audit Plan together with progress reports, are scheduled to be reported throughout the year to the Finance & Performance Management Committee.
- In addition, the Internal Auditor undertakes fraud investigation and proactive fraud detection work, which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control

environment identified by Internal Audit are reported to management and the Finance & Performance Management Committee.

- The Audit Commission's Annual Governance Report and Annual Audit Letter is considered by the Finance & Performance Management Committee. This Committee is required to ensure that corrective action plans are put in place for any key issues identified.
- The Finance & Performance Management Committee is empowered to monitor best value and key performance indicators at least on a quarterly basis and to ensure adherence to the Council's Corporate Performance Plan.

3.3 An annual review of the governance arrangements and the control environment identified a number of aspects of its corporate governance arrangements in need of corrective action. These are detailed below:-

- Introducing a more comprehensive range of VFM indicators across all of its functional activities to ensure best value is achieved.
- Improve aspects of how the Council's decisions are made, and the procedures that are followed to ensure that these are effective, transparent and accountable to local people.
- Protocols for partnership working to ensure that there are clear governance arrangements and accountabilities when working with partners.
- Review its Risk Management Policy to ensure consideration of risk in all key management processes as part of a Corporate Risk Assessment.

3.4 Whilst the Internal Audit function is unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that:

- Key central systems and internal control arrangements continue to be effective.
- Agreed policies, regulations and Standing Orders are complied with.
- Managers are aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve internal controls.
- Adequate arrangements are in place to deter and detect fraud.

- 3.5 The appointed Internal Auditor has not issued any qualified reports this year on key systems and is satisfied that adequate progress have been made by the Council with Departmental Managers, implementing the recommendations covering improvements to internal controls.
- 3.6 The Audit Commission produced, during 2007/08, an Annual Governance Report and Annual Audit Letter which included a review of effectiveness of the Council's governance arrangements. An extract of the Key Messages is reproduced below:

Key messages

Financial statements

9 Our work on the financial statements is now substantially complete. The main outstanding work is to receive and check the amended 2005/06 accounts. We anticipate being able to issue an unqualified opinion by 30 September 2007 (a draft report is attached at Appendix 5).

10 We intend to issue an opinion on a similar basis to our opinion on the 2004/05 audit. The Council will include a note in its accounts detailing the disagreement over the legality of certain aspects of the operations at the caravan park and we will draw attention to this in our opinion. The wording of this note was agreed with members following our discussion on 31 August 2007. This will allow us to issue an opinion on the 2005/06 accounts prior to the legal issues relating to the caravan park being drawn to a conclusion.

11 We are pleased to note that the Council improved its accounting arrangements in 2005/06. However a large number of non-material amendments were found to be necessary and further improvements are still required to reduce the number of errors and make the accounts compatible with the Statement of Recommended Practice.

Use of resources

12 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. The Audit Commission has specified eleven criteria against which we have evaluated the Council's performance.

13 The Council has not met minimum requirements in six of the eleven criteria and we therefore expect to issue an adverse conclusion on the use of resources by 30 September 2007. (Further details are set out in paragraph 51 of this letter and the proposed conclusion is included in the draft report attached at Appendix 5).

Financial Standing

14 The Council estimated that it would make a surplus of £138,000 in 2005/06, but actually incurred a deficit of £124,000, thus leaving a cumulative deficit of £126,000 at 31 March 2006. One of the main reasons for this substantial shortfall was the failure to deliver the predicted income from the new restaurant facility at the caravan park.

15 Unaudited accounts for 2006/07 show that the Council has improved its financial position and increased the balance on its general fund by £97,000 over the year and had a cumulative deficit of £43,000 at 31 March 2007.

16 The programme of capital expenditure was suspended in February 2007 due to concerns over the financial position of the Council and it remains important that the Council improves both its financial position and its awareness of the financial position.

Legality

17 The question of the legality of aspects of the caravan park remains outstanding.

In our 2004-05 Annual Audit letter (presented in 29 June 2007) we said that: *'The Council must now act urgently to regularise the position and should seek counsel's advice as to the way forward as a matter of priority. It should also stop with immediate effect undertaking those activities (namely the selling of caravans and other ancillary commercial activities) which it has been advised it does not have the powers to do'*.

18 We discussed the position with four members of the Council in May 2007 and it was agreed that the Council would seek counsel's opinion as a matter of urgency.

The Council received counsel's opinion in June 2007. We formally requested a copy of this opinion on 13 July 2007 under S 6 of the Audit Commission Act. However the Council were seeking further clarification on some aspects of this opinion and requested that the deadline for supplying the information be extended. We agreed to extend the deadline to 3 August 2007.

19 We subsequently received a copy of Counsel's opinion and this is being considered by us. We met with the Town Clerk and Councillors Suttle, Pratt and Trite on 31 August to discuss aspects of the opinion, the contents of this report, and whether we could reach agreement on concluding the 2005-06 audit opinion.

20 As a result we agreed to issue our opinion on the 2005-06 accounts on the basis of the approach outlined in paragraph 10. We will not conclude the audit however and we will be reporting further on the issues concerning the caravan park later this year. We will have to consider whether we need to take any further formal action in this matter. This will depend in part on any action the Council takes as a result of its Holiday Park Options Appraisal which is planned to be completed by 2 November 2007.

21 The council remains under an obligation to repay ultra vires temporary borrowing over the medium term. We highlighted in our Management Letter to Members 1999/2000 that £700,000 temporary borrowing had been incurred ultra vires to fund capital expenditure. The Council agreed to a schedule of repayments to ensure that the borrowing was paid off by 2011. No payment was made in 2004/05 or 2005/06. However the Council remains on target as it made an overpayment in earlier years.

Source:

Audit Commission

Annual Governance Report and Annual Audit Letter September 2006 | Key messages
Swanage Town Council Audit 2005/06 Pages 7 & 8

4 SIGNIFICANT GOVERNANCE ISSUES

- 4.1 Arising from the Audit Commission's Annual Governance Report the District Auditor has identified concerns regarding the legality of caravan sales and other ancillary commercial activities in the Council's operation of its Caravan Park. In response the Council was required to obtain Counsel's Opinion. In May 2008 the Council accepted an invitation to discuss the matters in dispute with the District Auditor and his advising Counsel. The firm stance taken by the Audit Commission prompted the Council to review its decision of January 2008 regarding the retention and management of the Caravan Park as a Council function.

- 4.2 Although the Council is advised that the legality of caravan sales and all of its ancillary activities are either lawful or arguable in law, the risk of the significant financial cost that would be incurred should the District Auditor seek a declaration in the High Court, has led the Council to commission an independent supplementary Options Appraisal. The Options Appraisal will seek to explore the financial valuations in respect of either a sell or lease option. The outcome is scheduled to be determined by the Council in August 2008.
- 4.3 In a non-related legality issue concerning site licence agreements granted to the private owners of caravans at its 300 unit Caravan Park, the newly formed Bay View Caravan Owners' Association has given notice of intent to challenge the legality of some aspects of the Council's operation and application of these contractual agreements. The potential challenge is in respect of the Council's ability to increase pitch fees, an income stream that represents the Authority's largest single budgeted source of revenue.
- 4.4 The Council has identified issues of concern regarding advice that it received from its former legal advisers in its management of one of its registered charitable Trusts. It has sought advice and is currently seeking a remedy on behalf of the Council and the Charitable Trust itself.
- 4.5 The Annual Review process has highlighted a number of other significant issues regarding the Council's governance framework and internal control environment. Some of these are ongoing issues identified by the Audit Commission's Annual Governance Report from the previous year.
- Although progress has been made throughout the year, their resolution remains a priority for the Council. The Audit Commission's recommendations and Action Plan form part of the Annual Governance Report. A summary of the key elements of this Action Plan and the Council's responses are included below:

Recommendation	Priority 1= Low 2= Med 3.=High	Responsibility	Agreed	Comments	Target Date
R1 Improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from error and supported by a robust set of working papers.	2	RFO	Yes	Acquired CiPFA SORP and Guidance Notes. Engaged services of CiPFA Qualified Accountant and sought additional advisory support from Poole Borough Council.	June 2008
R2 The Council should improve its budget forecasting procedures.	2	RFO & Budget holders	Yes	Recognition is given to forecasting fluctuations due to changing economic factors affecting some income streams & protracted disputes in the settlements of rent reviews.	Ongoing
R3 The Council should reduce risk by devolving responsibility to run suitable commercial activities to a private contractor.	2	Council	Yes	The Town Council has commenced a Service Review, identifying this a key driver for changes in service delivery.	March 2009
R4 The council should resolve the legal issues concerning the caravan park as soon as possible.	3	Council	Yes	This is acknowledged as the Council's most urgent corporate priority.	August 2008
R5 The council should ensure it maintains repayments in accordance with the schedule to reduce its temporary borrowing.	3	RFO	Yes	The Council remains on target to repay the agreed balances outstanding by 2011.	Annually until March 2011
R6 The council should aim to improve management in each of these areas where it is not achieving the necessary standard;	3	See below			
• arrangements for monitoring and scrutiny of performance;	2	Council	Yes	The Council in recognition is seeking to improve this through its Finance & Performance Management Committee.	Ongoing
• arrangements to manage its significant business risks;	3	Council	Yes	A Corporate Risk Assessment followed by corrective actions are aimed at addressing this.	September 2008
• arrangements to manage and improve value for money;	2	Council	Yes	The Council adopted a new VFM Policy in September 2007.	Ongoing
• arrangements to ensure that its spending matches its available resources;	3	RFO & Budget Holders	Yes	New measures were introduced during 2007/08 to improve budget holder accountability.	Complete as at May 2007
• arrangements for managing performance against budgets;	3	Council	Yes	Management accounts are presented to Council monthly for monitoring and review.	Complete as at May 2007
• arrangements for the management of its asset base.	3	Town Clerk/ Operations Manager	Yes	This is to be used to inform the new capital programme prioritisation, assessment and funding criteria.	September 2008

4.6 The following issues are ongoing with agreed actions identified as appropriate:

1. **Anti-Fraud and Corruption** - An Officers' Code of Conduct is to be introduced. Further work is planned and ongoing to embed anti-fraud measures into the organisation's culture via a range of media.
2. **Business Continuity Plan** - A two-year action plan, is to be put in place. This will contain key milestones and targets to help develop a fully functional and tested corporate business continuity plan (incorporating the Council's Emergency Planning role and function). Completion of the Plan is scheduled for 30th September 2008 and thereafter reviewed annually.
3. **Arrangements for working with Partners** - The Council will continue working closely with a range of partners and service providers to deliver improved services and capital projects. It will be seeking to obtain and achieve grants and other partnership funding and is committed to improving existing governance arrangements for its partnerships, to ensure that they are subject to detailed scrutiny, performance is monitored, and they are delivering desired outcomes.
4. **Capital Projects** - The Council recognises that there are significant risks to the achievement of its Capital Programme, due to both capacity and funding constraints. New arrangements for project management in support of undertaking and achieving delivery of the Council's ambitious Capital Programme are to be developed. The Town Council has recognised the need to adopt a consistent programme and project management process across the Council.
5. **Asset Management** - A Corporate Asset Management Plan needs to be developed by the Council as a priority. The establishment of an Asset Management Plan will inform the prioritisation of schemes for inclusion in the Capital Programme. A process of ranking non-approved existing schemes against new schemes, given restricted funding availability, will also need to be established.
6. **Value for Money** - The Council is to continue working towards improving arrangements for achieving VFM following the adoption of its new Value for Money policy in September 2007. Its Internal Auditor will be requested to design a programme to identify, monitor and assess achievement of VFM objectives across the Council. The development of new cost allocation methods will be incorporated into a revised financial performance measures, following the completion and implementation of the current extensive review of services.

7. **Risk Management** - Improvements in risk management have been achieved in respect of matters relating to Health & Safety. The Council is now to prioritise the work needed to improve its overall approach to risk management in order to ensure progress and to fully embed risk management within its culture. The Council is to introduce a range of measures; to include consideration of financial, legal and operational risk factors as part of its corporate decision making processes.

5. CONCLUSION

5.1 This statement explains how Swanage Town Council has complied with the requirements of the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

5.2 The Council propose over the coming year to take the necessary steps to address the above matters and to further enhance its governance arrangements. It is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness. Monitoring of their implementation and operation will form part of the periodic reviews and will be included in the next annual review.

Signed _____ Date _____

A J Leeson

Town Clerk and Responsible Financial Officer

Signed _____ Date _____

Cllr M Pratt

Town Mayor