GROUP ACCOUNTS

Introduction

The 2004 Statement of Recommended Practice (SORP) set out comprehensive new requirements for Group Accounts. These require authorities to enhance their Statement of Accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts

A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts.

WEST MERCIA SUPPLIES

West Mercia Supplies (WMS) is a Purchasing Consortium that was established in 1987. It is constituted as a Joint Committee, Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Borough of Telford & Wrekin.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WMS within this Council. The Council considers that WMS should be accounted for as a Joint Venture (under IAS 31 – Interests in Joint Ventures) with specific regard to the independence that West Mercia Supplies has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

Shropshire's share of West Mercia Supplies' balances is 27%. The company has been incorporated into the Group Accounts using the Proportionate Consolidation method.

COMMUNITY ASSET TRUST

The North Shropshire Community Asset Trust (CAT) was established by North Shropshire District Council with the aims of promoting community regeneration and social development in North Shropshire through commercial opportunities and community involvement including the provision of affordable housing. The CAT was established as a company limited by guarantee although it was never operational.

Shropshire Council has reviewed the accounting treatment that should be applied to the CAT and has concluded that Group Accounts should be prepared for the CAT under the requirements of IAS 27 (Consolidated and Separate Financial Statements).

SOUTH SHROPSHIRE LEISURE LIMITED

This is a company registered as an Industrial and Provident Society. As at 31 March 2009, the Council owned two of the allotted sixteen shares. The shares have equal voting rights, but the Council must represent less than 20% of the vote at all times.

The Society commenced trading on 1 April 2004, and manages leisure facilities in Ludlow, which are owned by the Council and leased to the Society.

South Shropshire Leisure Limited has been included in the accounts as a quasi-subsidiary. This recognises that the Council is unable to exercise dominant influence in the running of the Society, due to the small proportion of the shares held by the Council and the limited voting rights. It also recognises that a large proportion of the Society's income comes from the management fee paid by Shropshire Council and that the Council benefits from the provision of leisure services.

The Society has been incorporated into the Group Accounts by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. In order to recognise the influence of the other shareholders, the proportion of the Society represented by the remaining fourteen allotted shares is shown separately as minority interest.

Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserves £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2009	**15,529**	**25,902**	**974**	**0**	**1,503**	**43,908**	**852,192**	**896,100**	**2,027**	**898,127**
Movement in reserves during 2009/10										
Surplus or (deficit) on the provision of services	(44,267)	0	14,195	0	0	(30,710)	0	(30,710)	(134)	(30,206)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(61,825)	(61,825)	(327)	(62,152)
Total Comprehensive Income and Expenditure	**(44,267)**	**0**	**14,195**	**0**	**0**	**(30,710)**	**(61,825)**	**(92,535)**	**(461)**	**(92,358)**
Adjustments between Group Accounts and authority accounts	(638)					(638)	0	(638)	638	0
Net Increase/Decrease before Transfers	**(44,905)**	**0**	**14,195**	**0**	**0**	**(30,710)**	**(61,825)**	**(92,535)**	**177**	**(92,358)**
Adjustments between accounting basis & funding basis under regulations	43,674	0	(15,187)	(68)	(74)	28,345	(28,345)	0	21	21
Net Increase/Decrease before Transfers to Earmarked Reserves	**(1,231)**	**0**	**(992)**	**(68)**	**(74)**	**(2,365)**	**(90,170)**	**(92,535)**	**198**	**(92,337)**
Transfers to/from Earmarked Reserves	(4,117)	3,300	817	68	2,498	2,566	(2,966)	(400)	0	(400)
Increase/Decrease in 2009/10	**(5,349)**	**3,300**	**(175)**	**0**	**2,424**	**200**	**(93,136)**	**(92,936)**	**198**	**(92,738)**
Balance at 31 March 2010	**10,180**	**29,202**	**799**	**0**	**3,927**	**44,107**	**759,055**	**803,162**	**2,225**	**805,389**
Movement in reserves during 2010/11										
Surplus or (deficit) on the provision of services	44,442)	0	(8,172)	0	0	(52,614)	0	(53,614)	(1,094)	(53,708)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	141,140	141,140	140	141,280
Total Comprehensive Income and Expenditure	**(44,442)**	**0**	**(8,172)**	**0**	**0**	**(53,708)**	**141,140**	**87,432**	**(954)**	**87,572**
Adjustments between Group Accounts and authority accounts	(1,094)	0	0	0	0	(1,094)	0	(1,094)	1,094	0
Net Increase/Decrease before Transfers	**(45,536)**	**0**	**(8,172)**	**0**	**0**	**(53,708)**	**141,140**	**87,432**	**140**	**87,572**
Adjustments between accounting basis and funding basis under regulations	46,990	0	8,040	(107)	(73)	54,850	(54,850)	0	(154)	(154)
Net Increase/Decrease before Transfers to Earmarked Reserves	**1,454**	**0**	**(132)**	**(107)**	**(73)**	**1,142**	**86,290**	**87,432**	**(14)**	**87,418**

Transfers to/from Earmarked Reserves	(1,772)	1,653	117	107	(1,650)	(1,542)	1,391	(151)	515	364
Increase/Decrease in 2010/11	**(318)**	**1,653**	**(15)**	**0**	**(1,723)**	**(400)**	**87,681**	**87,281**	**501**	**87,782**
Balance at 31 March 2011	**9,861**	**30,855**	**785**	**0**	**2,204**	**43,705**	**846,736**	**890,443**	**2,726**	**893,172**

Reconciliation of Movement in Reserves Statement to Balance Sheet where there are Minority Interests

31 March 2010 £000		31 March 2011 £000
805,390	Total Reserves in the Movement in Reserves Statement	893,172
259	Minority interests' share of reserves of subsidiaries	105
805,649	**Total Reserves in the Balance Sheet**	**893,277**

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserves £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Sale of capital assets to subsidiaries	0	0	0	0	0	0	0	0	0	0
Purchase of goods and services from subsidiaries	1,094	0	0	0	0	1,094	0	1,094	(1,094)	0
Total adjustments between Group Accounts and authority accounts	**1,094**	**0**	**0**	**0**	**0**	**1,094**	**0**	**1,094**	**(1,094)**	**0**

GROUP ACCOUNTS

The Group Comprehensive Income & Expenditure Statement

2009/10 Group Expenditure £000	Expenditure on Continuing Services	2010/11 SC Net Expenditure £000	2010/11 Adjustments £000	2010/11 Group Expenditure £000
3,850	Central Services to the public	7,144	1,035	8,179
71,534	Cultural, Environmental, Regulatory and Planning Services	64,355	(33)	64,322
65,087	Education and Children's Services	84,383	0	84,383
31,412	Highways and Transport Services	31,381	0	31,381
(14,728)	Local Authority Housing (HRA)	7,948	0	7,948
3,388	Other Housing Services	8,842	(383)	8,459
70,718	Adult Social Care	69,014	0	69,014
7,543	Corporate and Democratic Core	7,140	0	7,140
7,245	Non Distributed Costs	2,183	0	2,183
	Share of Operating Results of Joint Venture			
(11,788)	- Turnover	0	(13,655)	(13,655)
10,780	- Cost of Sales and Operating Expenses	0	12,934	12,934
245,041	**Cost of Services**	**282,390**	**(103)**	**282,287**
11,739	Other Operating Expenditure	5,378	(2)	5,376
38,440	Financing and Investment Income and Expenditure	33,653	75	33,728
(264,784)	Taxation and Non Specific Grant Income	(267,713)	0	(267,713)
30,436	**(Surplus) or Deficit on Provision of Services**	**53,708**	**(29)**	**53,679**
0	Share of the surplus or deficit on the provision of services by associates	0	0	0
0	Tax expenses of subsidiaries	0	0	0
0	Tax expenses of associates	0	0	0
30,436	**Group (Surplus)/Deficit**	**53,708**	**(29)**	**53,679**
(23,220)	Surplus or deficit on revaluation of non-current assets	(32,151)	0	(32,151)
85,372	Actuarial gains/losses on pension assets/liabilities	(108,989)	(148)	(109,137)
0	Share of other comprehensive income and expenditure of associates and joint ventures	0	0	0
62,152	**Other Comprehensive Income and Expenditure**	**(141,140)**	**(148)**	**(141,288)**
92,589	**Total Comprehensive Income and Expenditure**	**(87,432)**	**(177)**	**(87,609)**

Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement

Attributable shares of income and expenditure

2009/10 Authority	2009/10 Minority Interests	2009/10 Total		2010/11 Authority	2010/11 Minority Interests	2010/11 Total
£000	£000	£000		£000	£000	£000
30,598	(162)	30,436	Surplus of Deficit on the Provision of Services	53,716	(37)	53,679
62,152	0	62,152	Other Comprehensive Income and Expenditure	(141,288)	0	(141,288)
92,751	**(162)**	**92,589**	**Total Comprehensive Income and Expenditure**	**(87,572)**	**(37)**	**(87,609)**

Group Balance Sheet at 31st March 2011

2009/10 (Restated) £000		2010/11 SC £000	Adjustments £000	Group £000
	Property, Plant & Equipment			
229,221	Dwellings	223,048		223,048
774,049	Land & Buildings	801,540	149	801,689
13,339	Vehicles, Plant and Equipment	16,010	95	16,105
275,943	Infrastructure	290,378		290,378
4,570	Community	4,832		4,832
30,673	Assets Under Construction	18,559		18,559
36,045	Investment Property	35,045		35,045
427	Intangible Assets	438		438
4,354	Assets Held for Sale	5,608		5,608
1,368,620	**Total Non Current Assets**	**1,395,458**	**245**	**1,395,703**
1,113	Long Term Investment	1,150		1,150
0	Investments in Associates and Joint Ventures	0	1,019	1,019
1,583	Long Term Debtors	1,472		1,472
1,371,289	**Total Long Term Assets**	**1,398,080**	**1,264**	**1,399,344**
	Current Assets			
673	Stocks	970	2	972
49,697	Debtors	41,142	935	42,077
26,167	Temporary Investments	22,600		22,600
1,117	Landfill Usage Allowances	749		749
73,765	Cash & Cash Equivalents	43,706	352	44,058
151,419	**Total Current Assets**	**109,167**	**1,289**	**110,457**
1,523,999	**Total Assets**	**1,507,247**	**2,553**	**1,509,801**
	Current Liabilities			
(4,938)	Temporary Loans	(101)		(101)
(74,563)	Creditors	(67,005)	467	(66,538)
(762)	Liability to DEFRA for Landfill Usage	(528)		(528)
(7,273)	Cash Overdrawn	(4,215)		(4,215)
(87,536)	**Total Current Liabilities**	**(71,849)**	**467**	**(71,382)**
1,436,463	**Total Assets Less Current Liabilities**	**1,435,398**	**3,020**	**1,438,418**
	Long Term Liabilities			
(277,918)	Long Term Loans	(280,632)	0	(280,632)
(18,837)	Deferred Liabilities	(20,830)	0	(20,830)
(7,293)	Provisions	(8,736)	0	(8,736)
(765)	Deferred premiums on early repayment of debt	(753)	0	(753)
(326,000)	Pensions Liability	(234,006)	(185)	(234,191)
(630,813)	**Total Long Term Liabilities**	**(544,957)**	**(185)**	**(545,142)**
805,650	**Total Assets Less Liabilities**	**890,441**	**2,835**	**893,276**
	Financed by:			
(758,520)	Unusable Reserves	(846,736)	(141)	(846,877)
(47,130)	Usable Reserves	(43,705)	(2,694)	(46,400)
(805,650)	**Total Reserves**	**(890,441)**	**(2,835)**	**(893,277)**

Group Cash Flow Statement

Revenue Activities	2010/11 SC £000	Adjustments £000	Group £000
Net (surplus) or deficit on the provision of services	53,708	(29)	53,679
Adjustments to net surplus or deficit on the provision of services for non cash movements	(95,232)	0	(95,232)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	38,410	236	38,788
Net cash flows from operating activities	3,114	207	3,321
Investing activities	(25,566)	(3)	(26,569)
Financing activities	(4,160)	0	(4,160)
Net increase or decrease in cash and cash equivalents	(26,602)	204	(26,398)
Cash and cash equivalents at the beginning of the reporting period	66,093	148	66,241
Cash and cash equivalents at the end of the reporting period	**39,491**	**352**	**39,843**

Notes to Group Accounts

G1. Consolidation of West Mercia Supplies

Figures in respect of West Mercia Supplies have been consolidated using the proportionate consolidation method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WMS £000	SC Share (27%) £000
Turnover	(50,389)	(13,655)
Cost of Goods Sold and Operating Expenses	47,727	12,934
Gain on Disposal of Fixed Asset	(7)	(2)
Interest and Investment Income	75	20
Pensions Interest Cost and Expected Return on Pensions Assets	204	55
Net Operating Surplus	**(2,390)**	**(648)**
Distribution of Surplus to Member Authorities	3,818	1,035
NET DEFICIT FOR THE YEAR	**1,428**	**387**

G2. Consolidation of Community Asset Trust

The operating income (£383,214) of the North Shropshire Community Asset Trust has been included within Housing Services. There was no expenditure incurred by the company in 2010/11.

G3. Consolidation of South Shropshire Leisure Ltd

The operating income (£2,125,456) and expenditure (£2,086,795) of South Shropshire Leisure Limited has been included within Cultural, Environmental and Planning Services. The inter-company transactions with Shropshire Council have been excluded from Culture, Environmental and Planning Services (Income/Expenditure £1,094,434).

G4. Long Term Investment included in Group Balance Sheet.

	WMS £000	SC Share (27%) £000
Assets	19,372	5,250
Liabilities	(15,611)	(4,231)
Value of investment	**3,761**	**1,019**

PENSION FUND ACCOUNTS

Shropshire Council acts as Administering Authority for the Shropshire County Pension Fund (SCPF). The fund covers the employees of the Council, other than teachers, for whom separate arrangements exist, and other bodies including the Borough of Telford & Wrekin, District Councils, colleges and voluntary organisations. Full details of SCPF's annual accounts, investment performance and governance arrangements are set out in the Shropshire County Pension Fund Annual Report 2010/11, a copy of which can be accessed at www.shropshirecountypensionfund.co.uk or requested from Pension Services on 01743 252130. A summary of the statement of accounts and compliance with Myners' principles is shown below.

Pension Fund Account for the year ended 31 March 2011

2009/10 £m		2010/11 £m
	Income	
	Contributions	
	Employers	
	Employees	
	Transfers In	
	Total Income	
	Expenditure	
	Benefits Payable	
	Pensions	
	Lump Sums	
	Refunds	
	Transfers Out	
	Administrative expenses	
	Total Expenditure	
	Returns on Investments	
	Investment Income	
	Gain/(loss) on cash and currency hedging	
	Irrecoverable Tax	
	Changes in Market Value	
	Investment management expenses	
	Net Returns on Investments	
	Opening net assets of the scheme	
	Closing net assets of the scheme	

Pension Fund Net Asset Statement as at 31 March 2011

31 March 2010 £000		31 March 2011 £000	%
	Investment Assets		
	Fixed Interest Securities		
	Public Sector Bonds		
	Corporate Bonds		
	Index Linked Securities		
	Equities		
	Derivatives		
	Futures		
	Forward Foreign Exchange		
	Unit Trusts		
	Property		
	Other		
	Hedge Funds		
	Cash Deposits		
	Margin Balances		
	Deposits		
	Investment Liabilities		
	Derivatives		
	Futures		
	Forward Foreign Exchange		
	Other Financial Liabilities		
	Margin Balances		
	Net Investment Assets		
	Current Assets		
	Cash		
	Debtors		
	Current Liabilities		
	Creditors		
	Net Assets at 31 March		

Myners' Principles

The Fund is required to report the level of compliance with six principles of good governance as set out in CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners Principles. The Shropshire County Pension Fund's compliance statement is published in the Statement of Investment Principles. A summary is shown below;-

1. Effective Decision Making – Full Compliance

The Pensions Committee takes decisions relating to investment objectives, strategic asset allocation and appointment of investment managers. The relatively small size of Pensions Committee enables it to fully consider investment issues. Members of the Committee receive regular training to support their decision making.

2. Clear Objectives – Full Compliance

The fund has the clear objectives of maintaining a 100% funding level with low and stable employers' contributions. Performance and risk levels are clearly specified in agreements with fund managers.

3. Risk and Liabilities – Full Compliance

An asset / liability review is carried out every 3 years when a range of factors including longevity and the strength of the employer covenant are considered. The fund recognises that the single most important investment decision is the strategic allocation between equities and bonds.

4. Performance Assessment – Partial Compliance

Formal performance appraisal procedures are in place for investment managers, at both officer and Member level. The level of compliance will be improved by developing similar arrangements for monitoring investment advice.

5. Responsible Ownership – Full Compliance

An external voting agent is appointed to vote at company meetings in the UK and US. The fund also employs a programme of responsible engagement with the UK companies in which it invests. The Statement of Investment Principles outlines the fund approach to responsible investment.

6. Transparency and Reporting – Full Compliance

A range of documents are published relating to the fund investment management, governance and communication arrangements. These documents are available on the Fund's website and published within the Pension Fund Annual Report
Compliance with Myners Principles is monitored and reported to scheme members in the Statement of Investment Principles.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account reflects a statutory obligation to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The Housing Revenue Account consists of two statements, the Income and Expenditure Account which shows the detailed income and expenditure included in the authority's Income and Expenditure Account, and the Statement of Movement on the Housing Revenue Account Balance.

2009/10	HRA INCOME AND EXPENDITURE STATEMENT	2010/11		
£		£	£	£
Restated				
	Expenditure			
4,314,496	Repairs & Maintenance		4,071,794	
2,579,202	Supervision and Management		2,978,691	
28,334	Rents, rates taxes and other charges		6,493	
4,660,149	Negative Subsidy Payable		4,755,392	
69,401	Provision for Bad or Doubtful Debts		48,400	
2,524,182	Depreciation - Dwellings		2,552,310	
74,286	- Other		73,494	
(14,707,124)	Impairment		7,756,273	
	Debt Management Costs		17,000	
(457,074)	**Total - Expenditure**			22,259,847
	Income			
(13,449,310)	Dwelling Rents		(13,757,133)	
(227,813)	Non Dwelling Rents		(248,984)	
(705,909)	Charges for Services and Facilities		(713,680)	
(11,916)	Contributions towards expenditure		(27,153)	
(14,394,948)	**Total - Income**			(14,746,951)
(14,852,022)	**Net Cost of HRA Services included in the Comprehensive I&E Statement**			7,512,897
91,280	HRA Share of Corporate & Democratic Core			407,920
(14,760,742)	**Net Cost of HRA Services**			7,920,817
89,147	(Gain) or loss on sale of HRA Assets			(149,088)
69,404	Interest Payable			65,117
(26,789)	Interest and Investment Income			(30,823)
413,577	Pension Interest Cost and expected return on Pension Asset			366,046
(14,215,403)	**Net Cost of HRA Services**			8,172,068

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2009/10		2010/11		
£ Restated		£	£	£
(974,914)	**Balance on the HRA at the end of the previous year**			(799,836)
(14,215,403)	Deficit for the Year on HRA Account		8,172,068	
0	Difference between any other item of income and expenditure determined in accordance with the Code and those determined in accordance with statute.	18,761		
68,581	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute.	68,581		
68,581	**Adjustments between accounting basis and funding basis under statute**		87,342	
(89,147)	Gain or Loss on sale of HRA non-current assets	149,088		
(233,708)	HRA share of contributions to or from the Pension Reserve	(355,306)		
817,042	Capital Funded by the HRA	0		
(74,286)	Transfers to/from the Major Repairs Reserve	(73,494)		
14,719,040	Transfer to/from the Capital Adjustment Account	(7,848,890)		
0	Transfer from VER Reserve	(116,510)		
(817,042)	Transfer to/from Housing Repairs Account	0		
14,321,900	**Transfers to or (from) Reserves**		(8,245,112)	
175,078	(Increase) or Decrease in year on the HRA			14,298
(799,836)	**Balance on the HRA at the end of the current year**			(785,538)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

2009/10		2010/11
	Total Number of Dwellings at 31st March :	
3,278	Houses and Bungalows	3,270
971	Flats	970
4,249		4,240
	Change in Stock	
4,271	Stock at 1st April	4,249
(2)	Less: Sales – Right to Buy	(7)
(20)	Sales – Other	(2)
0	Disposal/restructuring	0
0	Acquisition	0
4,249		4,240

2. RENT ARREARS

2009/10		2010/11
£		£
310,388	Due from Current Tenants	157,514
334,239	Due from Former Tenants	344,749
644,627	Total Rent Arrears 31 March 2010	502,263
(320,981)	Pre-Payments	(315,987)
323,646	Net Arrears	186,276

As at 31st March 2011, the total provision set aside for housing rent bad debts is £414,937.

3. BALANCE SHEET VALUE OF ASSETS

	Council Dwellings	Other Land & Buildings	Infrastructure Assets	Total Property, Plant & Equipment	Investment Properties	Total
	£	£	£	£	£	£
Cost or Valuation						
At 1 April 2010	234,646,724	1,451,557	52,519	236,150,800	749,275	236,900,075
Additions	4,499,748			4,499,748		4,499,748
Surplus/Deficit on Provision of Services	(6,605,284)	(193,000)		(6,798,284)	(100)	(6,798,384)
Derecognition - disposals	(516,900)	(120,000)		(636,900)		(636,900)
As at 31 March 2011	232,024,288	1,138,557	52,519	233,215,364	749,175	233,964,539
Accumulated Depreciation and Impairment						
At 1 April 2010	(5,425,826)	(77,721)	(32,481)	(5,536,028)		(5,536,028)
Depreciation Charge	(2,588,840)	(33,280)	(3,684)	(2,625,804)		(2,625,804)
Depreciation written out to the Surplus,Deficit on the provision of services		13,603		13,603		13,603
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(971,591)			(971,591)		(971,591)
Derecognition - disposals	10,400			10,400		10,400
As at 31 March 2011	(8,975,857)	(97,398)	(36,165)	(9,109,420)	0	(9,109,420)
Net Book Value						
As at 31 March 2011	223,048,431	1,041,159	16,354	224,105,944	749,175	224,855,119
As at 31 March 2010	229,220,898	1,373,836	20,038	230,614,772	749,275	231,364,047

The Council's Head of Estates has advised that no general impairment should be charged to the 2010/11 accounts. However there was capital expenditure within the year of £971,591 which was considered not to give rise to an increase in the valuation of the Housing Stock and an impairment has been recognised with regard to this, together with an impairment of £179,397 relating to a devaluation of land. In recognition of a general decrease in property valuation of 2.89% during the year, an impairment of £6,605,284 has been recorded in the 2010/11 accounts. There is a difference of £221,534,039 between the tenanted valuation and the District Valuer's Vacant Possession Value of £436,167,415 at 1 April 2009.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market.
The difference represents the economic cost of the Government of providing council housing at less than market rents.

4. MAJOR REPAIRS RESERVE

2009/10 £		2010/11 £
0	Balance Brought Forward	3,927,534
1,503,126	Amount transferred from previous District Authorities	0
2,598,468	Amount Transferred to the MRR during the Year	2,625,804
(74,286)	Amount Transferred to HRA during the year - Excess Depreciation	(73,494)
(99,774)	Capital Expenditure Financing	(4,275,353)
3,927,534	**Balance Carried Forward**	**2,204,492**

5. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on the Council Housing Stock during the year was financed as follows.

2009/10 £		2010/11 £
0	Reserved Capital Receipts (in lieu of borrowing)	0
159,758	Usable Capital Receipts	165,242
0	Revenue Contributions utilised in year	0
99,774	Major Repairs Allowance	4,275,353
32,000	Government Supported borrowing	32,000
11,917	Government Grants and Contributions	27,153
817,042	Revenue Provision	0
1,120,491	**Total Capital Expenditure on Housing Stock**	**4,499,748**

6. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

2009/10 £		2010/11 £
124,000	Sale of Council Houses under Right to Buy (RTB)	537,500
9,040	RTB Discounts Repaid	17,688
309,500	Other Land & Buildings	226,000
0	Mortgage Receipts	0
442,540	Total Capital Receipts from HRA Asset Disposals	781,188
(94,834)	Less Capital Receipts subject to Pooling requirement	(408,218)
347,706	**Net Capital Receipts from HRA Asset Disposals**	**372,970**

7. DEFERRED CHARGES

A charge of £65,581 was made to the HRA in respect of premiums incurred for the premature redemption of debt by Oswestry Borough Council in 2003/04. Charges will continue to apply until 2013/14.

8. FRS17 RETIREMENT BENEFITS

The implementation of accounting arrangements for pensions have been applied to the HRA.

The adjustment needed to meet the Actuary's assessment of the Current Service Cost to the HRA has resulted in a contribution of £355,306 from the pension reserve for the year. The overall impact of these adjustments is nil to the HRA. Further information is given in note to the Income and Expenditure Account.

2009/10 £		2010/11 £
106,134	Current Cost of Service	292,742
413,577	Net Return on Assets	366,046
519,711	Movement on Pension Reserve	658,788
(286,004)	Employers Contribution payable to scheme	(303,482)
(233,707)	Contribution to/(from) the Pension Reserve	(355,306)

9. HOUSING SUBSIDY

The breakdown of the amount of subsidy payable is as follows:

2009/10 £		2010/11 £
5,735,641	Management & Maintenance	5,898,224
2,524,182	Major Repair Allowance	2,552,330
464,779	Charge for Capital	423,279
0	Rental Constrain Allowance	0
0	Interest on Receipts	0
(13,404,620)	Guideline Rent Income	(13,623,931)
(4,680,018)	**Housing Element (Subtotal)**	**(4,755,392)**
19,869	Previous Year Adjustment	(5,294)
(4,660,149)	**HRA Subsidy recoupment**	**(4,755,392)**

10. HOUSING REPAIRS ACCOUNT

2009/10 £		2010/11 £
0	Balance Brought Forward 1 April	142,561
599,491	Balance Transferred from previous District Authorities	0
(456,930)	Expenditure on Capital	0
142,561	**Balance Carried Forward 31 March**	**142,561**

COLLECTION FUND

The Collection Fund is a statutory account regarding income and expenditure relating to Council tax and National Non-Domestic Rates (NNDR). It is operated in isolation of the Council's General Fund on behalf of the main precepting authorities – Shropshire Council (including parish and town councils), West Mercia Police Authority and Shropshire and Wrekin Fire Authority.

	2010/11 £000	£000
Income:		
Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)		(144,288)
Transfers from General Fund		
- Council Tax benefits	(19,740)	
- Transitional relief	9	
		(19,731)
Income collectable from business ratepayers		(65,047)
TOTAL INCOME		**(229,066)**
Expenditure:		
Precepts		
- Shropshire Council and Parish and Town Councils	133,124	
- West Mercia Police	19,366	
- Shropshire & Wrekin Fire Authority	9,082	
		161,572
Business rate		
- payment to national pool	64,327	
- costs of collection	463	
		64,790
Bad and doubtful debts/appeals		
- write offs	(753)	
- provisions	1,619	
		866
Contributions		
- Towards previous year's estimated Collection Fund surplus		498
TOTAL EXPENDITURE		**227,726**
Deficit/(Surplus) for the Year		**(1,340)**
Balance brought forward		(449)
Balance carried forward		**(1,789)**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2010/11 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	61.75	5/9	34.31
A	20,695.20	6/9	13,796.80
B	29,800.30	7/9	23,178.01
C	24,506.05	8/9	21,783.16
D	17,468.60	9/9	17,468.60
E	13,035.15	11/9	15,931.85
F	6,998.20	13/9	10,108.51
G	3,908.60	15/9	6,514.33
H	255.80	18/9	511.60
	116,729.65		109,327.17
Adjustment for MoD Properties (683.50 Band D Equivalents) and Collection Rate (98.5%)			966.66
			108,360.51

2. NATIONAL NON-DOMESTIC RATES (BUSINESS RATES)

Shropshire Council collects NNDR on behalf of Central Government. All money collected, less allowance relief, is paid over to the national non-domestic rates pool with the exception of an allowance to cover costs of collection. The Government redistributes the pool to local authorities on the basis of a fixed amount per head of population.

At 31st March 2011, the total non-domestic rateable value for all business premises in Shropshire was £197,413,480. The multiplier set by Government to calculate rate bills in 2010/11 was 40.7p for small businesses and 41.4p for all other businesses.

3. COLLECTION FUND SURPLUSES AND DEFICITS

Any surplus or deficit on the Collection Fund is shared between the Authorities in proportion to their precept on the Fund, and will impact directly on the Council Tax of following years. The surplus or deficit on Council Tax is distributed to West Mercia Police Authority, Shropshire and Wrekin Fire Authority and to this Council.

GLOSSARY

TO BE UPDATED PRIOR TO 30TH JUNE

Accountable Body	An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds.
Accounting Concepts	The basis on which an organisations financial statements are based to ensure that those statements 'present fairly' the financial position and transactions of that organisation. Accounting concepts include 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements'.
Accounting Policies	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
Accruals	The accruals accounting concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
Actuarial Basis	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
Actuarial Gains	These may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).
Actuarial Losses	These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).
Adjusted Capital Financing Requirement	The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A.
Adjustment A	The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed.
Annual Governance Statement	This was a new statement introduced in 2007/08 and replaces the previously published Statement on Internal Control. The Annual Governance Statement explains how the Council has complied with the code of Corporate Governance during 2008/09 and also reports the outcome of the annual review of the effectiveness of the system of internal control. The Annual Governance Statement is included within the Statement of Accounts.
Appropriation	The transfer of sums to and from reserves, provisions and balances.
Assets	Right or other access to future economic benefits.

GLOSSARY

Associated Company	An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.). The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence.
Balances	Amounts set aside to meet future expenditure but not set aside for a specific purpose.
Balance Sheet	The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.
Below the Line Items	Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and FRS17 pension costs.
Best Value Accounting Code of Practice (BVACOP)	Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities.
Best Value Review / Service Review	A formal review of a specific service, undertaken to establish the efficiency of that service and whether changes can improve the services provided.
Bonds	Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.
Borrowing	Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council.
Budget	The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy.
Budget Strategy	A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities.
Cabinet	The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision- making powers are set out in the Council's Constitution.

GLOSSARY

Capital Adjustment Account	The creation of this account was a new requirement of the SORP in 2007/08. The Capital Adjustment Account combined with the Revaluation Reserve replaced the Fixed Asset Restatement Account and the Capital Financing Account. The Capital Adjustment Account absorbs the effect of differences between UK GAAP and statutory accounting requirements for Local Authorities, providing a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.
Capital Expenditure	Expenditure on items that have a life of more than one year, such as buildings, land, major equipment.
Capital Financing Account (CFA)	This account combined with the Fixed Asset Restatement Account was replaced in 2007/08 by the Revaluation Reserve and the Capital Adjustment Account. This account represented amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets, or for the repayment of external loans and certain other financing transactions.
Capital Financing Requirement (CFR)	This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. fixed assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision.
Capital Receipts	The proceeds from the sale of fixed assets such as land and buildings. These sums can be used to finance new capital expenditure.
Capitalised Expenditure	Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account.
Cash Flow Statement	The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
Collection Fund	A separate statutory fund which records Council Tax and non-domestic rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), the national pool of non domestic rates and the billing Council's own General Fund.
Comprehensive Spending Review	Every two years the Government review their spending plans over a rolling three year period and publish revised spending plans over the next three year period for each Government Department.
Constitution	The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people.
Contingent Liability	Potential costs that the Council may incur in the future because of something that happened in the past.

GLOSSARY

Corporate Bonds	Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.
Council	The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.
Council Tax	A local taxation that is levied on dwellings within the local Council area, the actual level of taxation is based on the capital value of the property, which are split into 8 bands from A to H, and the number of people living in the dwelling.
Council Tax Base	To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure.
Council Tax Precept	The amount of income due to the Council in respect of the total Council Tax collected.
Credit	A credit represents income to an account.
Credit Ceiling	A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing.
Creditors	Represents the amount that the Council owes other parties.
De-trunking Capital Grant	This grant provides support in recognition of Shropshire's responsibilities for the routine maintenance of former trunk roads within Shropshire, formerly maintained by the Highways Agency.
Debit	A debit represents expenditure against an account.
Debt Charges	This represents the interest payable on outstanding debt.
Debtors	Represents the amounts owed to the Council.
Dedicated Schools Grant (DSG)	A specific grant paid to Local Authorities to fund the cost of running its schools.
Deferred Charges	This has been replaced in 2008/09 by Revenue Expenditure Funded By Capital Under Statute. This used to represent expenditure that was classified as capital although it did not result in the creation of a fixed asset.
Deficit	Arises when expenditure exceeds income or when expenditure exceeds available budget.
Depreciation	The accounting term used to describe the charge made representing the cost of using tangible fixed assets The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time.

Direct Revenue Financing	The cost of capital projects that is charged against revenue budgets.
Equities	Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.
Estimation Techniques	The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.
Financial Instruments	Financial instruments are formally defined in the SORP as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Authority, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees.
Financial Reporting Standard 17 (FRS 17) – Accounting for Retirement Benefits	This Financial Reporting Standard requires Local Authorities to reflect the true value of the assets and liabilities relating to the Pension Fund in their financial statements. This creates a notional amount in the balance sheet but does not impact on Council Tax.
Fixed Asset Restatement Account (FARA)	This account combined with the Capital Financing Account was replaced in 2007/08 by the Revaluation Reserve and the Capital Adjustment Account. It reflected any surpluses or deficits arising from valuations and disposals of land and property and also any balances arising from the introduction of the capital accounting system on 1st April 1994.
Fixed Assets	Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.
Fixed Interest Securities	Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.
Formula Grant	The general grant paid to Local Authorities by the Government to support the day to day costs of running its services. Formula grant is made up of two separate elements, redistributed NNDR and RSG.
Futures	A contract made to purchase or sell an asset at an agreed price on a specified future date.

GLOSSARY

General Fund Balance	The reserve held by the Council for general purposes, i.e. against which there are no specific commitments. This comprises Schools' Balances and a balance that is generally available for new expenditure. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year.
Going Concern	The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.
Government Grants Deferred	Grants and other external contributions towards capital expenditure are written off to the income and expenditure account as the assets to which they relate are depreciated. The balance on the Government Grants deferred account represent grants not yet written off.
Group Accounts	Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.
Hedge Funds	An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.
Housing Revenue Account	The statutory account to which the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy.
Impairment	Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset.
Income and Expenditure Account	This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
Index Linked Securities	Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges.
Inflow	This represents cash coming into the Council.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements.

Investments	An asset which is purchased with a view to making money by providing income, capital appreciation or both.
Joint Venture	An organisation in which the Council is involved where decisions require the consent of all participants.
Leases	A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system.
Liabilities	An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Liquid Resources	These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days.
Local Area Agreement (LAA)	The Council is the accountable body for the LAA, which is a partnership with other public bodies from across the County to work towards jointly agreed targets for local public services that have been agreed with the Government. The objectives of the LAA are financed from a combination of partners own resources and grants received from the Government.
Local Transport Plan (LTP)	A plan that is used to support a bid to Government for capital resources to fund the local transport network e.g. road improvements.
Managed Funds	A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.
Materiality	Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects.
Medium Term Financial Plan (MTFP)	A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFP covers five years.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).
Myners' Principles	A set of 10 principles issued by Government which Pension Schemes are required to consider and publish their degree of compliance. The principles require Pension Schemes to disclose, for example, the effectiveness of decision making, performance management reporting and approach to shareholder voting.
National Non Domestic Rates (NNDR)	Taxation that is levied on business properties, District Councils (i.e. billing authorities) collect this on behalf of the Government. The Government then redistribute these resources to Councils as part of the Formula Grant.

GLOSSARY

Net Book Value	The amount at which fixed assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.
Net Expenditure	The actual cost of a service to an organisation after taking account of all income charged for services provided.
Net Cost of Service	The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to fixed assets.
Operating Lease	A lease where the asset concerned is returned to the lessor at the end of the period of the lease.
Outflow	This represents cash going out of the Council.
Outturn	Actual expenditure within a particular year. In the Introduction and Financial Report this expenditure is stated before taking into account Depreciation and other Below the Line Items.
Post Balance Sheet Event	Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.
Primacy of Legislation	The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply.
Prior Period Adjustments	These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.
Private Finance Initiative (PFI)	A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.
PFI Credits	The financial support provided to Local Authorities to part fund PFI capital projects.
Provisions	Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation.
Prudential Code	The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis.
Public Works Loans Board (PWLB)	A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.
Public Sector Bonds	Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges.

GLOSSARY

Revaluation Reserve	The creation of this reserve was a new requirement of the SORP for 2007/08. The Revaluation Reserve combined with the Capital Adjustment Account replace the Fixed Asset Restatement Account and the Capital Financing Account. This reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation, therefore the opening balance for 2007/08 was zero. Gains arising before that date have been consolidated into the Capital Adjustment Account.
Revenue Expenditure	Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance.
Revenue Expenditure Funded By Capital Under Statute	Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of fixed assets.
Revenue Support Grant (RSG)	An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering.
Reserves	Sums are set aside in reserves for specific future purposes rather than to fund past events.
Specific Grant	A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.
Statement of Movement on General Fund Balance	This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.
Statement of Recommended Practice (SORP)	A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.
Statement of Total Recognised Gains and Losses (STRGL)	This statement demonstrates how the movement in total equity in the Balance Sheet is linked to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.
Subsidiary	An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.)
Supplementary Credit Approvals (SCA)	A term from the old Local Authority capital expenditure system, an SCA represented permission from the Government for the Council to borrow to fund a specific capital project.
Supported Capital Expenditure (SCE)	A term from the current Local Authority capital expenditure system. SCE's effectively replaced SCA's and represent the amount of capital expenditure that the Government will supports through the provision of revenue grant to fund the cost of borrowing, i.e. debt charges and interest payments.
Surplus	Arises when income exceeds expenditure or when expenditure is less than available budget.
Trading Service/Organisation	A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.
Treasury Strategy	A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year.

Unit Trusts	A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.
Usable Capital Receipts Reserve	Represents the resources held by the Council that have arisen from the sale of fixed assets that are yet to be spent on other capital projects.
Variation	The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Virement	The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution.

ACCOUNTING FOR THE QUALITY IN COMMUNITY SERVICES PRIVATE FINANCE INITIATIVE

During 2006/07 all six of the new Quality in Community Services (QICS) Private Finance Initiative (PFI) buildings became fully operational and payments to the contractor, Integrated Care Solutions (ICS), for the design, construction and maintenance started. This was the first time that the Council had entered into a PFI contract.

When the QICS PFI contract was originally entered into the operator's provision of assets and related services were not considered to be separable and, therefore, the accounting assessment of the PFI was carried out under Financial Reporting Standard 5 (FRS 5) - Reporting the Substance of Transactions. Under the FRS 5 assessment determined by the Council's officers and advisors, the risks and benefits, for the duration of the 30 year contract, were considered to lie with the operator (ICS). The project was, therefore, "off balance sheet" for the Council's purposes in accordance with the requirement of FRS 5. This accounting treatment was subsequently applied in the Council's 2006/07, 2007/08 and 2008/09 Statement of Accounts.

The Statement of Recommended Practice (SORP) 2009 for the closure of the Council's 2009/10 accounts redefined the requirements for accounting for PFI and similar contracts. These requirements were contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) of the SORP 2009 and required these contracts to be accounted for in a manner which was consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM) in order to assist in the transition to IFRS for 2010/11. IFRIC 12 is the interpretation of IFRS that applied to operators of PFI and similar contracts, and is expected to form part of UK GAAP in due course. The 2009 SORP is consistent with the accounting treatment required of other public sector bodies in the UK set out in the FReM and approved by the Financial Reporting Advisory Board.

The 2010/11 Code of Practice on Local Authority Accounting does not alter the accounting requirements for PFI schemes.

The accounting requirements contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) were subsequently applied in the Council's 2009/10 and 2010/11 Statement of Accounts.

The following paragraphs provide an explanation as to how the Council will record the QICS PFI arrangement, in financial terms, going forward.

12.1 <u>The Accounting View - IFRIC 12 Service Concession Arrangements Accounting Treatment</u>

In order to determine whether or not Appendix E (Accounting for PFI Transactions and Similar Contracts) of the 2009 SORP applies to the QICS PFI project the Council assessed the contract using the IFRIC 12 Service Concession Arrangements assessment.

Appendix E states:

"PFI contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement. The accounting treatment set out in this Appendix shall apply where:

(a) the local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where
(b) the local authority controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the property at the end of the term of the arrangement.

Where the property is used for its entire life, and there is little or no residual interest, the arrangement would fall within the scope of this Appendix where the authority controls or regulates the services as described in the first condition."

The QICS PFI meets both of these control tests. The services provided by ICS to the Council amount to buildings maintenance, including cleaning, grounds maintenance and utilities provision. The provision and cost of these services is determined by schedules drawn up by the Council during contract negotiations. Additionally, it is expected that the buildings provided under the contract will have a residual value and the contract decrees that the buildings will revert to the ownership of the Council at the end of the 30 year contract period for nil consideration. Upon reversion the buildings should be fit for purpose for a further 30 year period.

The Council determined, therefore, that Appendix E (Accounting for PFI Transactions and Similar Contracts) of the 2009 SORP applied to the QICS PFI project. The project is, therefore, "on balance sheet" for the Council's purposes.

The Council will revisit this accounting treatment periodically, and if there are any significant changes to accounting practice, to the contract or in the risk profile of the transaction.

12.2 <u>Recognising Assets and Liabilities</u>

Property used in a PFI and similar contract should be recognised as an asset or assets of the local authority. A related liability should also be recognised at the same time.

Assets used by the operator in providing services under the contract will be recognised, at fair value, as assets on the Council's balance sheet in the year that they are made available for use. This treatment applies to assets constructed under the contract, those previously owned by the Council and transferred or sold to the operator and assets previously owned by the operator. Assets originally transferred to the operator will be restored to the balance sheet at transfer date.

Elements of assets with substantially different useful economic lives will be identified to enable component depreciation to be applied if applicable. The new balance sheet assets will be depreciated and re-valued in the normal way.

At the same time as any new assets or enhancements are recognised on the Council's balance sheet a related liability to the operator to pay for that value will also recognised. This finance lease liability is classified as "Deferred Liabilities" on the Council's balance sheet.

12.2.1. The Accounting Treatment of Upfront Contributions

Where the Council has made upfront payments in mitigation of debt financing needs it will be netted off the lease liability.

During 2005/06, prior to the start of the contract, a total of £2,500,000 was made in upfront contributions to ICS. The purpose of these contributions was to enable demolition and site clearance to take place and effectively provided a contribution towards ICS' capital costs in order to reduce the required debt funding with a consequent reduction in the annual unitary payment. These upfront contributions have, therefore, been accounted for as prepayments, funded by capital receipts, in 2005/06 and subsequently used to reduce the resulting finance lease liability when the assets became available for use by the Council in 2006/07.

12.2.2. The Accounting Treatment of Existing Assets

Five of the six sites were already in the ownership of the Council before the contract was entered into and each of these sites had on it a building which required demolition prior to the new buildings being constructed. The existing buildings were demolished prior to the commencement of the contract and were therefore not donated into the contract. To reflect the demolitions, each of these buildings was written out of the asset register in 2005/06. This approach is consistent with Appendix E of the 2009 SORP.

Under the contract the operator has been provided with a non-exclusive licence to occupy the land on which the properties are situated until the date on which the PFI contract terminates.

This means that the land element of the sites was not donated into the PFI transaction and so remain assets of the Council. The 2005/06 and subsequent Statement of Accounts have reflected the fact that the land remains in the Council's asset register. This approach is also consistent with Appendix E of the 2009 SORP.

12.2.3. The Accounting Treatment of New Assets Purchased Prior to Contract Commencement

Some of the QICS PFI buildings required the purchase of new land. These new purchases, which all took place during 2005/06, have been included in the Council's asset register as land purchases in the normal manner since 2005/06. This approach is also consistent with Appendix E of the 2009 SORP.

The land retained in, and added to, the asset register will be periodically re-valued by Property Officers in accordance with the normal SORP valuations requirements.

12.2.4. The Accounting Treatment of Assets Constructed Under the Contract

Under the QICS PFI contract ICS constructed six buildings all of which became fully operational during 2006/07. Payments to the contractor for the design, construction and maintenance started as buildings became operational during 2006/07.

In accordance with Appendix E, therefore, these buildings have been recognised at their capital cost (£17,645,098), as detailed in the operator's financial model, on the Council's balance sheet in 2006/07. The buildings have subsequently been depreciated and also re-valued by the Council (as at April 2006 and April 2009) in accordance with the Council's policies.

Also in accordance with Appendix E of the 2009 SORP, a finance lease liability equivalent to the capital cost of the assets has been created in 2006/07.

12.3 <u>Accounting for the Liability</u>

The annual unitary charge payable to ICS for the buildings and services provided under the QICS PFI contract is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

In order to appropriately account for the finance lease element, the annual unitary charge is split into three distinct elements:

- **Payment for services** - this represents the fair value of the services received each year under the contract.

- **Payment for lifecycle replacement** - this represents the costs incurred to maintain the asset in the required condition throughout the life of the contract.

- **Payment for assets** - this represents the annual lease rental for the assets and can be further split between repayment of the finance lease liability, an annual finance charge on the outstanding liability and contingent rental (lease rental inflation).

The finance lease rental is the amount remaining after deducting the fair value of services and lifecycle replacement costs from the expected unitary payments for each year of the contract; the fair value of services, lifecycle replacement costs and expected unitary payments all being derived from the operator's financial model.

The split of the finance lease rental between interest and principal is determined by scheduling out the minimum lease rental payments for the assets across the financial years of the scheme and then determining the interest rate that reduces the total of the payments, plus any unguaranteed residual value, to the initial fair value of the assets.

The implicit interest rate is then applied each year to the opening finance lease liability to give the finance cost for the year. The difference between the total finance lease rental and the finance cost is the principal repayment for the year - the amount by which the liability is to be written down.

The finance lease rental is also likely to be affected by inflation over the life of the contract and this cost, known as the “contingent rental” is determined by deducting the finance cost and principal from the nominal finance lease rental contained in the financial model.

The annual principal will be written down against the outstanding finance lease liability and both the annual finance cost and the contingent rental will be expensed as incurred.

All the assets to be constructed by the operator were made available for use at the commencement of the contract and, therefore, a finance lease liability equivalent to the fair value of the assets has been created in 2006/07. The finance lease rental element of the unitary charge associated with payment for assets constructed under the contract has been determined and analysed between interest, principal and contingent rental.

12.4 Capital Accounting

Once fixed assets are recognised on the Balance Sheet, they will be brought fully within the scope of capital accounting. Fixed assets will be depreciated, re-valued and reviewed for impairment in accordance with the general provisions of the SORP.

In accordance with the general provisions of the SORP the buildings constructed under the QICS PFI contract were valued (as at April 2006) by Property Services when the properties were made available for use in 2006/07. The assets were subsequently re-valued by Property Services as at April 2009.

Depreciation on the assets will be charged over the useful life of the assets for the authority, not the contract term.

12.5 Minimum Revenue Provision

Under the previous accounting requirement, most PFI schemes, including the QICS PFI Project, were advance purchase arrangements with regard to the Prudential Framework. A fixed asset acquisition would be recognised at the end of the scheme when the residual asset transferred to the authority, which, if the transfer took place for nil consideration, would have been paid for in advance from the unitary payment.

From a capital financing point of view, PFI schemes would be revenue transactions during the contract life, with a capital financing requirement being triggered only for the residual value when the scheme terminated.

The new arrangements required a fundamentally different approach. Where assets are recognised up front, then a capital financing requirement is triggered much earlier. Schemes will qualify to be credit arrangements under section 7 of the Local Government Act 2003 - arrangements where the recognition of fixed assets is matched by a liability repayable in more than 12 months. The capital financing requirement (CFR) will rise when fixed assets are recognised, bringing schemes within the scope of minimum revenue provision (MRP).

Appendix E of the 2009 SORP states:

“Assets acquired under a PFI and similar contract that are recognised on the authority’s Balance Sheet are subject to minimum revenue provision (MRP) in the same way as assets acquired using other forms of borrowing. The amounts of MRP to be charged to the General Fund for the year shall be in accordance with the appropriate regulations and statutory guidance. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Statement of Movement on the General Fund Balance.”

In accordance with the Communities & Local Government (CLG) document “Guidance on Minimum Revenue Provision” the MRP requirement of the QICS PFI project will be met by including within the annual MRP charge an amount equal to the element of the finance lease rental that goes to write down the balance sheet liability.

12.6 The Treatment of the PFI Annuity Grant from Central Government

Both the Department of Health (DoH) and the Department for Communities & Local Government (CLG) are sponsoring the Quality in Community Services (QICS) Project and will jointly provide £20,400,000 in PFI credits to the Council over the life of the contract. These grant payments are paid to the Council in equal instalments every quarter following the handover of the first building in April 2006.

As is normal practice with the receipt of government grant these receipts will be recorded on the Balance Sheet during the year and applied to the revenue accounts as appropriate at the end of each year.

12.7 Disclosure Requirements

The Quality in Community Services (QICS) PFI represents a long term revenue contract and as such must be disclosed in the notes to the Income & Expenditure Account. A statement of accounting policy in relation to the QICS PFI project is included in the Statement of Accounting Policies section (Note 28) and specific disclosures are set out in the Notes to the Core Financial Statements section (Note 39). Specific disclosures include actual payments made to the contractor and the level of income received from Central Government, the value of assets under the contract held at each balance sheet date and an analysis of the movement in the values, the value of liabilities resulting from the contract at each balance sheet date and an analysis of the movement in the values and details of payments due to be made under the contract (separated into repayments of liability, interest and service charges)

The Explanatory Foreword section of the accounts gives details of the sources of finance available to meet the Council's financial commitments, including those arising from PFI contracts.

12.8 Contract Variations

Over the 30 year life of the contract it is possible that contract variations may be agreed between the operator, ICS, and the Council which could materially affect the accounting treatment arrangements detailed here. The Council will, therefore, review these accounting arrangements on a regular basis and make any adjustments as necessary.

ACCOUNTING FOR THE WASTE SERVICES PRIVATE FINANCE INITIATIVE

On 29th September 2007 the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited (Veolia). Services under the contract commenced on 1st October 2007.

The contract is a Private Finance Initiative (PFI) contract and is part funded by £40,800,000 of PFI credits which are paid as an annual PFI grant, in quarterly instalments.

There are two separable elements to the contract:

- a collection and recycling element
- waste treatment services

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the proposed Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

The waste treatment services element is also an output based arrangement. Veolia is proposing to deliver this element of the contract by developing and operating a 90,000 tonne per annum Energy Recovery Facility.

When the Waste Services PFI contract was originally entered into the operator's provision of assets and related services were not considered to be separable and, therefore, the accounting assessment of the PFI was carried out under Financial Reporting Standard 5 (FRS 5) - Reporting the Substance of Transactions. Under the FRS 5 assessment determined by the Council's officers and advisors, the risks and benefits, for the duration of the 27 year contract, were considered to lie with the operator (Veolia ES Shropshire Ltd.) The project was, therefore, "off balance sheet" for the Council's purposes in accordance with the requirement of FRS 5. This accounting treatment was subsequently applied in the Council's 2007/08 and 2008/09 Statement of Accounts.

The Statement of Recommended Practice (SORP) 2009 for the closure of the Council's 2009/10 accounts redefined the requirements for accounting for PFI and similar contracts. These requirements were contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) of the SORP 2009 and required these contracts to be accounted for in a manner which was consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM) in order to assist in the transition to IFRS for 2010/11. IFRIC 12 is the interpretation of IFRS that applied to operators of PFI and similar contracts, and is expected to form part of UK GAAP in due course. The 2009 SORP was consistent with the accounting treatment required of other public sector bodies in the UK set out in the FReM and approved by the Financial Reporting Advisory Board.

The 2010/11 Code of Practice on Local Authority Accounting does not alter the accounting requirements for PFI schemes.

The accounting requirements contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) were subsequently applied in the Council's 2009/10 and 2010/11 Statement of Accounts.

The following paragraphs provide an explanation as to how the Council will record the Waste Services PFI arrangement, in financial terms, going forward.

ACCOUNTING FOR THE WASTE SERVICES PRIVATE FINANCE INITIATIVE

13.1. The Accounting View - IFRIC 12 Service Concession Arrangements Accounting Treatment

In order to determine whether or not Appendix E (Accounting for PFI Transactions and Similar Contracts) of the 2009 SORP applied to the Waste Services PFI project the Council assessed the contract using the IFRIC 12 Service Concession Arrangements assessment.

Appendix E states:

"PFI contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement. The accounting treatment set out in this Appendix shall apply where:

(a) the local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where

(b) the local authority controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the property at the end of the term of the arrangement.

Where the property is used for its entire life, and there is little or no residual interest, the arrangement would fall within the scope of this Appendix where the authority controls or regulates the services as described in the first condition."

The Waste Services PFI meets both of these control tests. The contractor, Veolia, must deliver waste, collection, disposal and recycling services with the property provided (meaning the wheelie bins, kerbside boxes, vehicles and waste sites transferred) and any additional property created according to the terms of the contract. The level of service, to whom the services are provided, where the services are provided and at what cost to the Council are all stipulated within the terms of the contract. The Council has stipulated that certain recycling targets must be achieved.

In terms of the buildings that were transferred to Veolia it is expected that they will have a residual life of 5 years at the end of the 27 year contract. The buildings will revert to the ownership of the Council at the end of the 27 year contract period for nil consideration. In terms of the new facilities to be built by Veolia in accordance with the contract, these are also expected to have a five year residual life and will also revert to the Council for nil consideration. Vehicles, mobile plant and other equipment (bins and boxes) will be handed back at expiry date or termination date in their prevailing condition. Vehicles and plant must be maintained in good working order to deliver the service throughout the contract period.

The Council determined, therefore, that Appendix E (Accounting for PFI Transactions and Similar Contracts) of the 2009 SORP applied to the Waste Services PFI project. The project is, therefore, "on balance sheet" for the Council's purposes.

The Council will revisit this accounting treatment periodically, and if there are any significant changes to accounting practice, to the contract or in the risk profile of the transaction.

13.2. Recognising Assets & Liabilities

Property used in a PFI and similar contract should be recognised as an asset or assets of the local authority. A related liability should also be recognised at the same time.

Assets used by the operator in providing services under the contract will be recognised, at fair value, as assets on the Council's balance sheet in the year that they are made available for use. This treatment applies to assets constructed under the contract, those previously owned by the Council and transferred or sold to the operator and assets previously owned by the operator. Assets originally transferred to the operator will be restored to the balance sheet at transfer date.

Elements of assets with substantially different useful economic lives will be identified to enable component depreciation to be applied if applicable. The new balance sheet assets will be depreciated and re-valued in the normal way.

At the same time as any new assets or enhancements are recognised on the Council's balance sheet a related liability to the operator to pay for that value will also recognised. This finance lease liability is classified as "Deferred Liabilities" on the Council's balance sheet.

13.2.1. The Accounting Treatment of Existing Assets

The Council has made existing waste infrastructure assets (the Battlefield, Craven Arms and Whitchurch Integrated Waste Management Facilities) available to the contractor at a peppercorn rent for the duration of the contract.

The land element of the existing waste infrastructure assets has not been donated into the PFI transaction and so remains an asset of the Council. Both the 2007/08 and 2008/09 Statement of Accounts, therefore, reflected the land value and the 2009/10 and 2010/11 Statement of Accounts will continue to reflect this value.

The building element of the existing waste infrastructure assets made available and originally transferred to the contractor have now been restored to the Council's balance sheet, at their fair value as at transfer date, and so included with the reversionary interest of these assets carried within fixed assets on the Council's balance sheet since the commencement of the contract.

In its capacity as Contracting Authority for the former Shropshire Waste Partnership, the former County Council also purchased some refuse vehicles, using pooled grant funding. The vehicles were passed on to Veolia, free of charge, at the start of the contract. These vehicles have also been restored to the Council's balance sheet at their fair value as at transfer date.

The assets restored to the Council balance sheet will be depreciated and re-valued according to the Council's policies.

13.2.2 The Accounting Treatment of Assets to be Provided Under the Contract

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

Under the Collection and Recycling Services element of the contract, Veolia planned to upgrade the existing Integrated Waste Management Facilities (IWMF) at Craven Arms and Whitchurch, to develop two new IWMFs to serve the Oswestry and Bridgnorth areas and also to construct a 60,000 tonne per annum In Vessel Composter (IVC) to serve the County.

Under the Waste Treatment element of the contract, Veolia planned to construct and manage a 90,000 tonne per annum Energy from Waste (Energy Recovery Facility (ERF)) treatment facility.

Assets actually provided under the Waste Services PFI contract will be recognised on the Council's balance sheet in the year that they are made available for use.

The new assets to be constructed under the contract (Bridgnorth IWMF, IVC and ERF) were not scheduled to be available for use until after 2009/10 and, therefore, will not be recognised on the Council's balance sheet until they are actually made available for use. Under the terms of the contract, the former Shropshire County Council has made a total of £2.51m of milestone payments to Veolia to fund the development of the Oswestry IWMF during 2008/09 and 2009/10. During development this has been recorded in the Council's asset register as an asset under construction. Construction of this facility was completed during 2009/10 and once made available for use was recorded on the Council's asset register as an operational asset.

Various vehicles and waste receptacles have actually been made available for use since the commencement of the contract and these have been recorded on the Council's balance sheet at fair value (purchase cost) in the appropriate year.

The assets recognised on the Council's balance sheet have subsequently been depreciated in accordance with the Council's policies.

At the same time as the new assets are recognised on the Council's balance sheet a related finance lease liability to the operator to pay for that value is also recognised.

13.3 Accounting for the Liability

The annual unitary charge payable to Veolia for the facilities and services provided under the Waste Services PFI contract is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

In order to appropriately account for the finance lease element, the annual unitary charge is split into three distinct elements:

- **Payment for services** - this represents the fair value of the services received each year under the contract.

- **Payment for lifecycle replacement** - this represents the costs incurred to maintain the asset in the required condition throughout the life of the contract.

- **Payment for assets** - this represents the annual lease rental for the assets and can be further split between repayment of the finance lease liability, an annual finance charge on the outstanding liability and contingent rental (lease rental inflation).

The finance lease rental is the amount remaining after deducting the fair value of services and lifecycle replacement costs from the expected unitary payments for each year of the contract; the fair value of services, lifecycle replacement costs and expected unitary payments all being derived from the operator's financial model.

The split of the finance lease rental between interest and principal is determined by scheduling out the minimum lease rental payments for the assets across the financial years of the scheme and then determining the interest rate that reduces the total of the payments, plus any unguaranteed residual value, to the initial fair value of the assets.

The implicit interest rate is then applied each year to the opening finance lease liability to give the finance cost for the year. The difference between the total finance lease rental and the finance cost is the principal repayment for the year - the amount by which the liability is to be written down.

The finance lease rental is also likely to be affected by inflation over the life of the contract and this cost, known as the "contingent rental" is determined by deducting the finance cost and principal from the nominal finance lease rental contained in the financial model.

The annual principal will be written down against the outstanding finance lease liability and both the annual finance cost and the contingent rental will be expensed as incurred.

The assets originally transferred to the operator at the commencement of the Waste Services PFI contract were owned and fully funded by the Council and, therefore, no liability needs to be recognised in relation to these assets. When new assets and enhancements are provided under the contract a corresponding finance lease liability will be recognised by the Council equivalent to the fair value of the new asset or enhancement in order to reflect the liability to the operator for the asset or enhancement. The finance lease rental element of the unitary charge associated with payment for assets constructed under the contract has been determined and analysed between interest, principal and contingent rental.

Where assets scheduled to be provided under the contract are not actually realised as planned, than the relevant proportion of the finance lease rental attributable to these assets will be recognised as a prepayment. Once the asset is provided and, therefore, recognised on the Council's balance sheet, the related liability will also be recognised and the prepayment applied to reduce the outstanding liability.

13.4. Capital Accounting

Once fixed assets are recognised on the Balance Sheet, they will be brought fully within the scope of capital accounting. Fixed assets will be depreciated, re-valued and reviewed for impairment in accordance with the general provisions of the SORP.

Depreciation on the assets will be charged over the useful life of the assets for the authority, not the contract term.

13.5. Minimum Revenue Provision

Under the previous accounting requirement, most PFI schemes, including the Waste Services PFI Project, were advance purchase arrangements with regard to the Prudential Framework. A fixed asset acquisition would be recognised at the end of the scheme when the residual asset transferred to the authority, which, if the transfer took place for nil consideration, would have been paid for in advance from the unitary payment.

From a capital financing point of view, PFI schemes would be revenue transactions during the contract life, with a capital financing requirement being triggered only for the residual value when the scheme terminated.

The new arrangements required a fundamentally different approach. Where assets are recognised up front, then a capital financing requirement is triggered much earlier. Schemes will qualify to be credit arrangements under Section 7 of the Local Government Act 2003 - arrangements where the recognition of fixed assets is matched by a liability repayable in more than 12 months. The capital financing requirement (CFR) will rise when fixed assets are recognised, bringing schemes within the scope of minimum revenue provision (MRP).

Appendix E of the 2009 SORP states:

"Assets acquired under a PFI and similar contract that are recognised on the authority's Balance Sheet are subject to minimum revenue provision (MRP) in the same way as assets acquired using other forms of borrowing. The amounts of MRP to be charged to the General Fund for the year shall be in accordance with the appropriate regulations and statutory guidance. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Statement of Movement on the General Fund Balance."

In accordance with the Communities & Local Government (CLG) document "Guidance on Minimum Revenue Provision" the MRP requirement of the Waste Services PFI project will be met by including within the annual MRP charge an amount equal to the element of the finance lease rental that goes to write down the balance sheet liability.

13.6. The Treatment of the PFI Annuity Grant from Central Government

The Department of the Environment, Food and Rural Affairs (DEFRA) is the sponsoring department for the Waste Services PFI project and will provide £40,800,000 in PFI credits to the Council over the life of the contract. These grant payments are paid to the Council in equal instalments every quarter following commencement of the PFI contract on 1st October 2007.

As is normal practice with the receipt of government grant, these receipts are recorded in the Balance Sheet during the year and applied to the revenue accounts as appropriate at the end of each year.

13.7. Waste PFI Reserves
There are a number of reserve balances for the Waste Services PFI contract. There is a Waste Services PFI Reserve of £19,570,000.

There are two elements to the £19,570,000 Waste Services PFI Reserve: a £13,850,000 PFI Smoothing Reserve and a £5,720,000 Prepayment Reserve.

The Smoothing Reserve reflects the budgeted contributions in the early years of the Waste Services PFI contract that will be used to smooth the step up in the unitary charge once additional facilities come on line. The Smoothing Reserve will ensure that the Council does not pay for services in advance of receiving them. The 2010/11 Business Plan anticipates the Smoothing Reserve earning interest at 5% per annum.

A proportion of the annual unitary charge relates to finance lease rentals (comprised of principal, interest and inflation) for assets due to be provided under the contract. Actual capital expenditure and, therefore, the provision of assets, under the Waste Services PFI contract to date have varied from that originally planned. Planned capital expenditure not yet undertaken but still paid for from the finance lease rental element of the unitary charge payment has been recognised by posting prepayments to the Balance Sheet. The Prepayment Reserve reflects these prepayments by holding the proportion of unitary charge payments which relate to assets planned but not yet delivered under the Waste Services PFI contract.

Once the assets are provided the fixed assets and corresponding finance lease liability will be created and the corresponding prepayments will be reversed by expensing to the income and expenditure account (finance lease interest and contingent rental) and using to write down the finance lease liability (finance lease principal).

13.8. Disclosure Requirements
The Waste Services PFI represents a long term revenue contract and as such must be disclosed in the notes to the Income & Expenditure Account. A statement of accounting policy in relation to the Waste Services PFI project is included in the Statement of Accounting Policies Section (Note 28) and specific disclosures are set out in the Notes to the Core Financial Statements section (Note 39). Specific disclosures include actual payments made to the contractor and the level of income received from Central Government, the value of assets under the contract held at each balance sheet date and an analysis of the movement in the values, the value of liabilities resulting from the contract at each balance sheet date and an analysis of the movement in the values and details of payment due to be made under the contract (separated into repayments of liability, interest and service charges)

The Introduction & Financial Report section of the accounts gives details of the sources of finance available to meet the Council's financial commitments, including those arising from PFI contracts.

13.9. Contract Variations
Over the 27 year life of the contract it is possible that contract variations may be agreed between the operator, Veolia, and the Council which could materially affect the accounting treatment arrangements detailed here. The Council will, therefore, review these accounting arrangements on a regular basis and make any adjustments as necessary.