ANNUAL STATEMENT OF ACCOUNTS 2010/11

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2011, and other statutory provisions.

The statement includes:

Further information about the Council's Accounts can be obtained from the Resources Directorate at the Shirehall. For details please contact James Walton on (01743) 255011, or Cheryl Williams on (01743) 252035.

James Walton
S151 Officer

EXPLANATORY FOREWORD

The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

The 2010/11 Statement of Accounts is now based on International Financial Reporting Standards (IFRS) and therefore there have fundamental changes to the format of the accounts and to a number of key accounting changes:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation.
- The main financial statements have changed, and there are additional requirements regarding segment reporting.
- There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced.
- Property leases are classified and accounted for as separate leases of land and buildings.
- Local authorities will also need to assess whether other arrangements contain the substance of a lease.
- Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve.
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset.
- The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification.
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay.
- The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **An Explanatory Foreword** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2010/11.
- **The Statement of Responsibilities** – this details the responsibilities of the Council and the S151 Officer concerning the Council's financial affairs and the actual Statement of Accounts.
- **The Audit Opinion and Certificate** – this is provided by the Audit Commission following the completion of the annual audit.

- **The Accounting Policies** – this statement explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

- **The Core Financial Statements,** comprising:

    - **The Movement in Reserves Statement –** this shows the movement in the year on the different reserves held by the authority which is analysed into 'usable reserves' and other reserves.

    - **The Comprehensive Income and Expenditure Statement** – 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.

    - **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council's financial position as at 31 March 2011. 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.

    - **The Cash Flow Statement** – this consolidated statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.

- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements.

- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the authority is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council's own finances. This statement is an extract from the pension fund annual report and summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2010/11 and assets and liabilities as at 31 March 2011.

- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.

- **The Collection Fund –** This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

EXPLANATORY FOREWORD

Financial Report

This section of the Statement of Accounts for 2010/11 sets out:

- The revenue budget strategy for 2010/11.
- The revenue outturn for 2010/11.
- The capital programme for 2010/11 – 2013/14.
- The capital outturn for 2010/11
- A note on the Council's Borrowing Position
- A note on the Investment Strategy of the Council
- A note on the Pensions Liability within the Statement of Accounts
- Current and future prospects.
- The Council's stewardship responsibilities and financial management policies.

The Revenue Budget Strategy for 2010/11

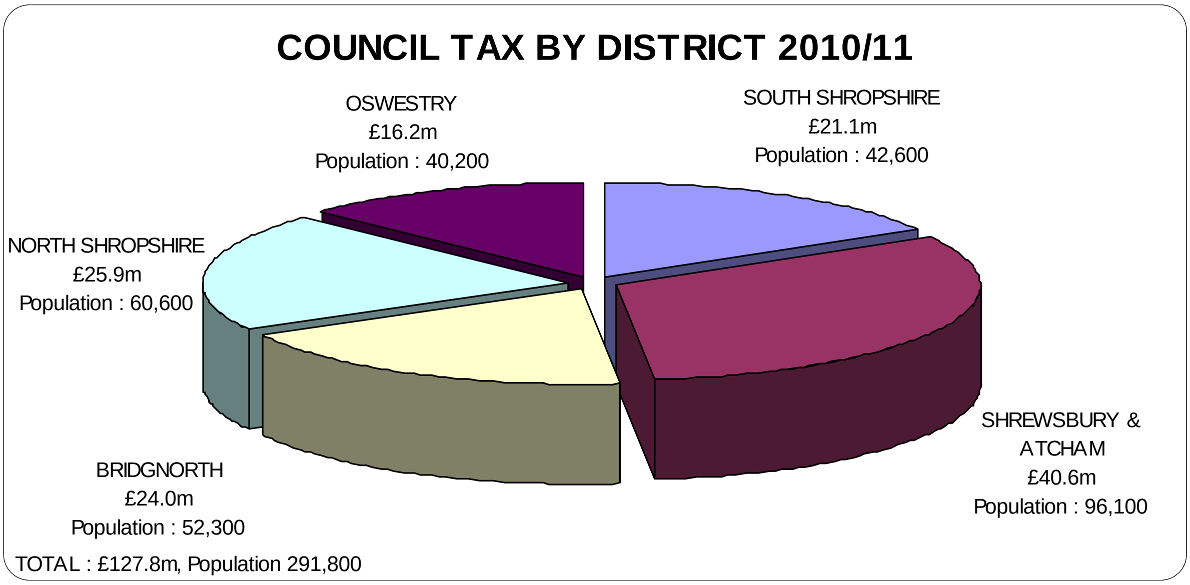
The 2010/11 detailed budget planning began in the summer of 2009. A key objective from the start was to direct resources towards delivering priority services and to both continue to equalise Council Tax across the County and keep Council Tax increases to an affordable level.

The final budget strategy for 2010/11, agreed by Council in February 2010, comprised the following items:

- Savings of £7.5m in areas that would have a minimal impact on service users.
- Growth for existing service areas that faced significant budget pressures such as Looked After Children, Public Transport, Transition Cases for Young People with Learning Disabilities into Adult Social Care and Physical Disabilities.
- Council Tax increases were in line with the equalisation of council tax policy agreed by the unitary council.

	£'000	£'000
Resources		
Formula Grant	93,487	
Dedicated Schools Grant	151,369	
Council Tax	127,799	
Collection Fund Surplus	412	
Income	84,654	
Specific Grants	172,169	
		629,890
Expenditure		
Base Budget before Growth and Savings		378,660
Savings:		
List One (no service or redundancy implications)	(4,860)	
List Two (includes service or redundancy implications)	(2,680)	
		(7,540)
Growth:		
Looked After Children	500	
Transition cases for Young People with Learning Disabilities into Adult Social Care	335	
Physical Disabilities	150	
Public Transport	500	
Full year effect of reducing council tax increase to 0% in 2009/10	367	
Empty Properties	80	
Meals On Wheels	15	
		1,947
Expenditure Funded from Specific Grants		172,169
Expenditure Funded from Income		84,654
		629,890

EXPLANATORY FOREWORD



Revenue Outturn for 2010/11

Careful monitoring of budgets during the year has ensured that service pressure areas have been identified early and action taken by Directorates to manage potential overspends within their cash limited budgets. Budget monitoring reports have been produced monthly since quarter 2 and have shown the following position:

Directorate	Revenue Budget 2010/11 Projected Overspend/(Underspend)							
	Qtr 1 £000	Qtr 2 £000	Mth 7 £000	Mth 8 £000	Mth 9 £000	Mth 10 £000	Mth 11 £000	Outturn £000
Children and Young People's Services	500	645	296	274	279	124	122	0
Community Services	460	382	321	334	484	508	153	25
Development Services	23	228	(505)	(528)	548	635	523	299
Resources and Corporate Issues	22	780	233	239	436	436	507	174
Chief Executive's Office	(10)	78	15	107	187	204	162	152
Legal & Democratic Services	(53)	(46)	(116)	(110)	(100)	(78)	(128)	(132)
Total	**942**	**2,067**	**244**	**316**	**1,834**	**1,829**	**1,339**	**518**

The final outturn position for Directorates is shown in the table below which compares actual net expenditure with the approved budget.

Directorate	Budget (incl. in year virements) £000	Carry forwards from 2009/10 £000	Final Budget £000	Actual Outturn £000	Over/ (Under) £000
Children and Young People's Services	42,926	0	42,926	42,926	0
Community Services	78,758	(1,166)	77,592	77,617	25
Development Services	58,152	40	58,192	58,491	299
Resources and Corporate Issues	29,641	0	29,641	29,815	174
Chief Executive's Office	10,749	446	11,195	11,347	152
Legal & Democratic Services	1,473	0	1,473	1,341	(132)
Total	**221,699**	**(680)**	**221,019**	**221,537**	**518**

The overall overspend of £518,000 against directorate's budgets represents less than 0.1% of the original gross budget of £629,890,000.

In addition, School balances, including invested sums and Foundation schools, have decreased by £1,409,000 from the previous year. School balances represents an average of 4.2% of school's delegated budgets. Schools' balances have to be ring-fenced for use by schools and schools have the right to spend those balances at their discretion.

Any overspends funded from General Fund Balances in 2010/11 are to be repaid from service budgets in 2011/12.

Further detail on the Council's service expenditure can be found within the Income & Expenditure and Note 25 to the Accounts

DELIVERY OF COUNCIL SERVICES WITH COUNCIL TAX AND GOVERNMENT GRANT

Spending	**£000**
Primary and Pre-School Education	69,759
Secondary Education	62,909
Special Education	6,249
LEA Centrally Held School Funds	32,909
Other Education Services	1,793
Personal Social Services – Children & Families	22,184
Personal Social Services – Older People	35,403
Other Personal Social Services	27,374
Highways Maintenance	12,022
Other Transportation	5,534
Libraries	4,202
Culture and Heritage	3,322
Leisure & Outdoor Recreation	6,214
Housing	1,799
Economic Development	616
Community Development	1,713
Planning	4,320
Waste Collection & Disposal	25,883
Street Scene	6,034
Environmental Health & Licensing	2,421
Trading Standards	1,327
Bereavement Services	(153)
Courts	454
Corporate and Democratic Core	7,193
Capital and Financial Charges	22,470
Flood Defence Levies	125
Contribution to Balances/Controllable Carry Forwards	(547)
Other Services	10,665
Total	**374,196**
Income	
Revenue Support Grant (RSG)	11,854
Redistributed Business Rates (NDR)	81,634
Dedicated Schools Grant (DSG)	152,497
Council Tax	128,211
Total	**374,196**

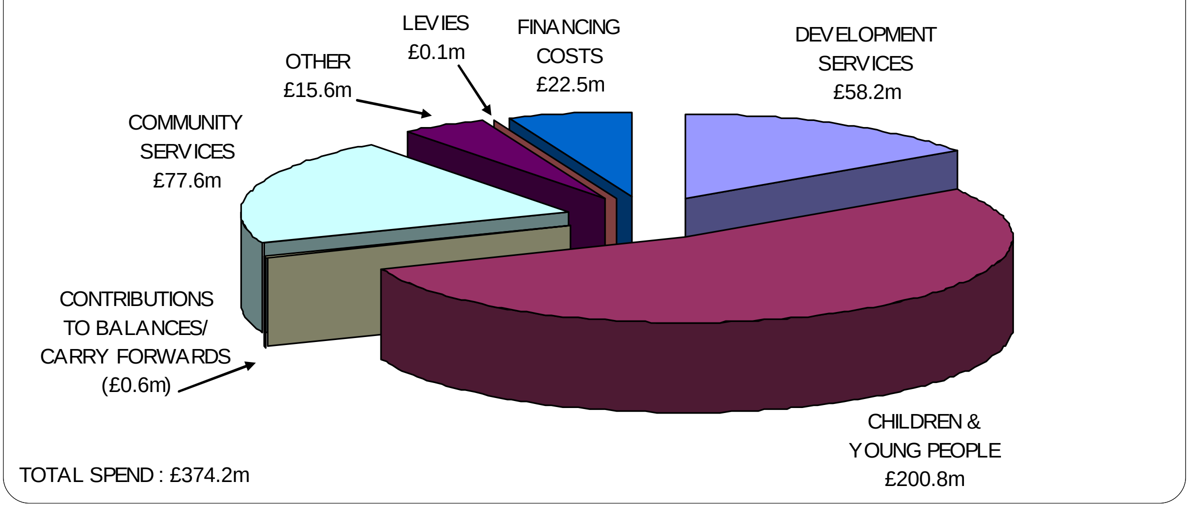
EXPLANATORY FOREWORD

HOW HAVE WE SPENT YOUR COUNCIL TAX?

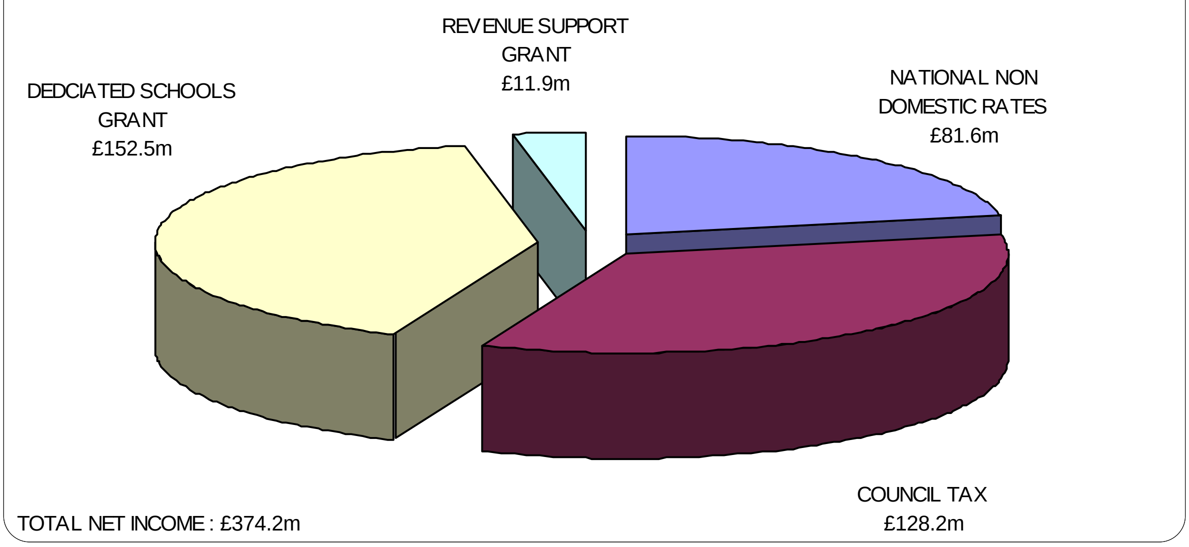
The Council's share of Council Tax on a band D Property*	**£**	**Total of Funding**		
		DSG **£000**	**RSG/NDR** **£000**	**Council Tax £000**
Primary and Pre-School Education Secondary Education Special Education LEA Centrally Held School Funds	106.06	152,497	8,151	11,178
Other Education Services	9.84	0	756	1,037
Personal Social Services – Children & Families	121.73	0	9,355	12,829
Personal Social Services – Older People	194.27	0	14,929	20,474
Other Personal Social Services	150.21	0	11,544	15,830
Highways Maintenance	65.97	0	5,070	6,952
Other Transportation	30.36	0	2,334	3,200
Libraries	23.06	0	1,772	2,430
Culture and Heritage	18.23	0	1,401	1,921
Leisure & Outdoor Recreation	34.10	0	2,620	3,594
Housing	9.87	0	759	1,040
Economic Development	3.38	0	260	356
Community Development	9.40	0	722	991
Planning	23.70	0	1,822	2,498
Waste Collection and Disposal	142.02	0	10,915	14,968
Street Scene	33.11	0	2,545	3,489
Environmental Health & Licensing	13.28	0	1,021	1,400
Trading Standards	7.28	0	559	768
Bereavement Services	(0.84)	0	(65)	(88)
Courts	2.50	0	191	263
Corporate and Democratic Core	39.47	0	3,033	4,160
Capital and Financial Charges	123.31	0	9,475	12,995
Flood Defence Levies	0.69	0	53	72
Contribution from Balances/Controllable Carry Forwards	(3.00)	0	(231)	(316)
Other Services	58.52	0	4,497	6,168
Total	**1,216.52**	**152,497**	**93,488**	**128,211**

* The Band D Council Tax figure quoted is the Council Tax level for the South Shropshire District. The Band D Council Tax in other areas of the County will be slightly lower than the £1,216.52 quoted above.

SPENDING BY MAIN SERVICE AREA 2010/11



SOURCES OF FINANCE 2010/11



The Capital Programme 2010/11 to 2012/13

The Capital Programme for 2010/11 to 2012/13 included a number of ambitious, large scale schemes such as the William Brookes School, school amalgamations, the new leisure centre for Oswestry and the Shrewsbury Music Hall redevelopment. Such schemes are underway and take more than one financial year to complete. Other significant areas include in the budget are schools, highways, transport and housing for which substantial allocations of government grants and borrowing approvals are received.

The table below provides a summary of the capital budget for 2010/11 as included in the 2010/11 Budget Book.

Directorare	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**
Community Services	27,825	19,047	7,251
Children and Young People's Services	51,575	16,800	15,900
Development Services			
Local Transport Plan	21,586	19,893	20,092
Other	20,166	12,133	8,209
Resources	2,896	2,902	1,652
	124,048	**70,774**	**53,104**

The Council can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding is borrowing, most of which is for schools and for highways and transportation schemes. For each of these service areas, bids are made in accordance with a plan, framework and timetable determined by the appropriate Government department. The Council also receives significant allocations of Government grants, the main areas these are schools, highways and transportation and housing.

The table below provides a summary of the capital financing for the capital budget as per the 2010/11 Budget Book.

Financing	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**
Supported Capital Expenditure	19,704	20,122	20,457
Prudential Borrowing	21,183	16,516	11,868
Government Grants	43,437	18,341	17,104
Other Grants & Contributions	4,604	2,060	0
Revenue Contributions	2,812	1,875	1,175
Capital Receipts	32,308	11,860	2,500
	124,048	**70,774**	**53,104**

Capital Outturn for 2010/11

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2010/11 as at outturn.

EXPLANATORY FOREWORD

Directorate	Revised Budget Outturn 2010/11 £000	Actual Spend Outturn 2010/11 £000	Variance Outturn 2010/11 £000
Community Services	14,830	13,307	1,523
Children and Young People's Services	35,244	31,015	4,229
Development Services			
Local Transport Plan	21,745	21,057	688
Other	7,178	6,794	384
Resources	2,993	2,871	122
Housing Revenue Account	4,222	4,500	(278)
	86,211	**79,544**	**6,667**

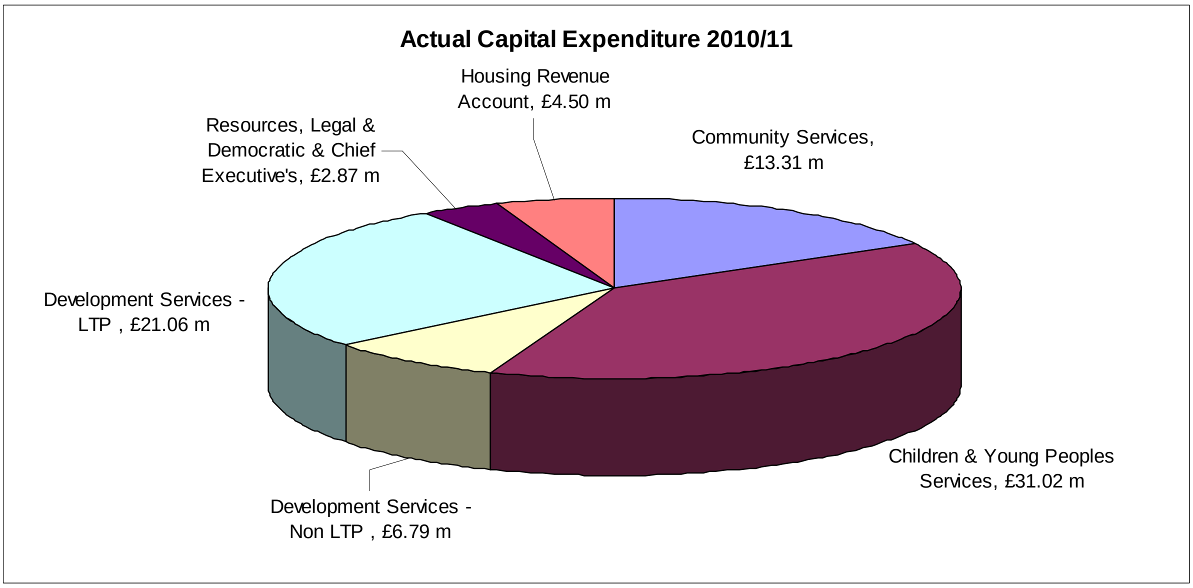
The table below provides a summary of the capital financing for the capital budget as per the 2010/11 Outturn budget.

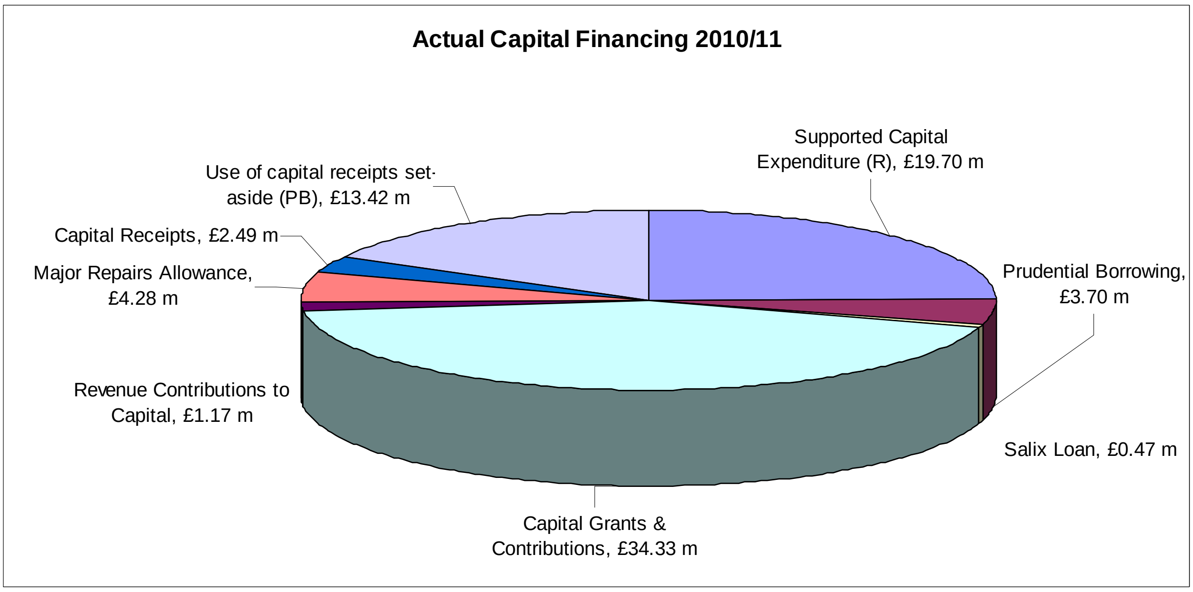
Financing	2010/11 £000
Supported Capital Expenditure	19,704
Prudential Borrowing	3,696
Salix Loan	471
Government Grants	34,325
Revenue Contributions	1,168
Major Repairs Allowance	4,275
Capital Receipts	2,487
Use of capital receipts set-aside	13,416
	79,544

The areas of most significant expenditure for schemes undertaken in 2010/11 are as follows:

	Expenditure 2010/11 £000	Scheme Total Budget £000
Community Services		
PFI - Site Acquisitions	958	1,058
Crown House Fit Out	287	375
Development Trust Houses	222	1,179
Music Hall Refurbishment	1,168	10,224
Cleobury Resource Centre	564	973
Community Grants	431	Ongoing
Oswestry Leisure Centre	3,843	10,416
Play Schemes	1,059	Ongoing
Disabled Facilities Grants	2,146	Ongoing
Housing Major Repairs Programme	4,500	Ongoing
Children and Young People's Services		
Primary School Amalgamation Programme	7,927	18,017
William Brookes School Renewal	8,148	26,937
14-19 Special Education Diploma Programme	2,440	Ongoing
Early Years Programme	2,015	Ongoing
Harnessing ICT	2,826	Ongoing
Devolved Formula Capital - Allocated by schools	3,947	Ongoing
Development Services		
Recycling Household Waste Site - Bridgnorth	1,418	1,439
Tern Valley BP Phase 2	799	4,075
Market Drayton Inner Relief Road	1,010	2,860
Affordable Housing Schemes	761	Ongoing
Growth Point Programme (including Flaxmill project)	943	7,830

Highways & Bridges Infrastructure	17,250	Ongoing
Integrated Transport Plan	3,807	Ongoing
Resources		
Mount McKinley Building	668	3,490
Purchase of Supported Living Properties	467	500
Market Drayton Market Hall	422	733
Council Wide Area Network	489	1,000





Borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the reduction in the capital programme and slippage within the programme, no additional borrowing was undertaken in 2010/11.

Investments

The Council's Annual Investment Strategy, The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy, outlines the Council's investment priorities as the security and liquidity of its capital.

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

A list of counterparties with whom funds could be invested was compiled with reference to the credit ratings issued by the credit agencies Fitch, Moody's and Standard & Poor.

Further details of investment activities are provided within Note 44, which commences on page 90.

Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2010, the Council's net pensions liability amounted to £325.8m. In comparison, the deficit amounts to £234.0m at 31 March 2011. Statutory requirements for funding the deficit mean that the financial position of the Council remain healthy, as the deficit will be made good by increased contributions over the remaining working life of employees.

Further details on the basis on which the Council accounts for retirement benefits are provided within the Statement of Accounting Policies on page 27, and the change to the pension liability in 2010/11 is analysed in note 42 to the accounts.

Current and Future Prospects

The budget planning for 2011/12 was focussed on delivering significant savings in the face of major cuts to Government funding with the announcement of the Comprehensive Spending Review. The Council had savings targets of £64m to find over a four year period (£28m in 2011/12, £20m in 2012/13, £9m in 2013/14 and £7m in 2014/15).

In developing the Medium Term Financial Plan, the Cabinet has identified a number of key principles in order to deliver the budgetary cuts required:

- protecting services for safeguarding those local people at risk, (both adults and children), because they are the most vulnerable;

- finding savings by reducing bureaucracy, duplication, administrative and managerial costs, as a first priority, in order to protect frontline service (so far as is possible);
- reducing staffing costs, (through a partial vacancy freeze pending a wider review of future staffing needs and changes in terms and conditions), in ways which avoid compulsory redundancies, (if possible);
- increasing income from fees and charges, to compensate partially for loss of Government funding; and
- keeping future Council Tax increases below the current rate of inflation, (or reducing them to zero, particularly when the Government's current policy of capping Council Tax comes to an end).

Following the final grant settlement from the Government and also in light of the comments made by local people and representative organisations during budget consultation meetings and via an online Budget Simulator, the final budget strategy was agreed in February 2011.

The key elements of the 2011/12 budget were:
- No increase in Council Tax.
- A Collection Fund surplus of £447,000.
- Formula Grant of £95,251,000.
- Dedicated Schools Grant based on the Department for Children, Schools and Families (DCSF) indicative allocations adjusted for local pupil number projections of £175,716,300.
- Savings of £28m.
- Growth of £6m, including priority service areas such as Looked After Children, Transition Cases for Young People with Learning Disabilities, Older People, Severe Weather and invest to save projects.

Further work is not ongoing to ensure delivery of the savings in 2011/12 and also to identify savings proposals to deliver the remaining £36m required over the next 3 years.

Shropshire Council has also scaled back the size of the capital programme over the next four years in order to reduce the level of prudential borrowing within the programme and therefore reduce the funding pressure on the revenue budget. The focus of the review was to examine schemes that were financed by either capital receipts or prudential borrowing. Schemes were then placed into the following categories:
Schemes in progress/committed that were not feasible to stop
- School schemes that the cost of Prudential Borrowing could be met from schools funding or alternative sources
- Spend to save schemes that could finance the cost of Prudential Borrowing
- Schemes that were proposed to be added to the Capital Programme
- Schemes proposed to be cut from the Capital Programme

The final Capital Programme for 2011/12 that was approved by Council on 24th February 2011 showed a reduction of £32.6m in 2011/12 and a further £46.6m over the next 3 years.

The Council's Stewardship Responsibilities and Financial Management Policies

The Council deals with considerable sums of public money. The Council's Financial Rules provide the framework within which financial control is operated. To conduct its business efficiently, a Council needs to ensure that it has sound financial management policies in place and that they are strictly adhered to. Strict compliance with these policies ensures that the Council's policy objectives are pursued in a prudent and efficient way. These Financial Rules provide clarity about the accountabilities of individuals – Cabinet Members, the Chief Executive, the Monitoring Officer (Head of Legal and Democratic Services), the Chief Finance Officer (The Director of Resources), and Corporate Directors.

The present policies have operated successfully since 1991/92 and provide for:

- The cash limiting of budgets.
- The allocation of pay and price contingencies at the start of the year with no further supplements.

- All variations to be met by Directorates from existing budgets.
- The carry forward of any over or underspendings at the year end.
- Virements to be allowed between budget heads, subject to rules laid down in the Constitution (Financial Rules).

There are five areas covered by the Financial Rules. These are:

i) Financial management and control.
ii) Financial planning.
iii) Risk management and control of resources.
iv) Systems and procedures.
v) External arrangements.

These Financial Rules link with other internal regulatory documents forming part of the Council's Constitution, for example – Contract Rules, Schemes of Delegation, the Role of Overview and Scrutiny Committees and Employee and Member Codes of Conduct.

This Statement of Accounts is part of that stewardship process, part of the process for being publicly accountable for public money.

The responsibilities of the Council and its designated Chief Finance Officer, who is the Director of Resources, are set out in the Constitution. The Council also has an Annual Governance Statement which accompanies this Statement of Accounts which covers more than just financial matters.

The Council, through the Integrated Community Strategy, Corporate Plan and Medium Term Financial Plan takes a long term view of its strategic aims, priorities for improvement, service targets and the allocations of resources to meet those targets. This approach has helped bring about a number of improvements in our financial management:

- There is a close connection between the determination of service delivery priorities, as crystallised within our corporate aims and priorities for improvement, and our budget setting.
- Budgeting is more strategically focused.
- Changes in service delivery can be planned over a longer period.
- There is no longer a focus on one year only changes.
- It allows integration of revenue and capital planning.
- Consultation processes are more meaningful.

Our financial monitoring process relies upon the quality of the financial systems of the Council. There is a commitment continually to improve systems to ensure that budget holders receive information in the form and at the time they require and that key financial processes are managed efficiently and economically.

The Euro

During 2010/11 the Council has continued to review the impact of the Euro on its on-going operations and its financial information systems. Until a decision is taken as to whether the UK should adopt the Euro, the very limited amount of time that we are spending on keeping an overview of the potential impact of entering into a European Currency is being absorbed within existing budgets. Our main area of activity is limited to ensuring that any new IT systems purchased by the Council could accommodate a transition to the Euro if necessary. So, our activities are limited to avoiding wasted investment rather than taking any proactive measures.

Nevertheless, the Council is a member of the CIPFA Euro Forum which provides practical advice and guidance to Councils in planning and preparing for the possible introduction of the Euro and we will be in a position to respond should there be a decision to join.

STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, the responsibility of Chief Financial Officer is allocated to the S151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approved by Council

The Statement of Accounts was approved at a meeting of the Council on xx September 2011.

Malcolm Pate
Chairman of the Council
xx September 2011

Responsibilities of S151 Officer as Chief Financial Officer

The S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the S151 Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The S151 Officer has also:

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

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2011 and also that the Statement of Accounts complies with the requirements of the Accounts and Audit Regulations 2003, as Amended 2009, and that the Pension Fund Accounts as set out in the separate publication of Shropshire County Pension Fund Annual Report 2010/11 also complies with these Regulations.

James Walton
S151 Officer
30 June 2011

AUDIT OPINION AND CERTIFICATE

Opinion on the accounting statements

In my capacity as District Auditor I have audited the Authority and Group accounting statements, and related notes of Shropshire Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the S151 Officer and auditor

The S151 Officer's responsibilities for preparing the financial statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility as Auditor is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

- the financial position of the Authority and its income and expenditure for the year; and

- the financial position of the Group and its income and expenditure for the year.

I review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Governance Statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority amd Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, the financial position of the Authority as at 31 March 2011 and its income and expenditure for the year then ended; and

- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, the financial position of the Group as at 31 March 2011 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts[1]

I have audited the pension fund accounts for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the S151 Officer and auditor

The S151 Officer's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the

[1] If the authority publishes separate accounts in respect of more than one LGPS fund, this section will need to be replicated for each fund with a suitable reference in each to the fund to which the opinion relates.

pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, the financial transactions of the Pension Fund during the year ended 31 March 2011, and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, Shropshire Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Grant Patterson
District Auditor
Audit Commission
Staffordshire Technology Park
Beaconside
Stafford
ST18 0LQ

30 September 2011

STATEMENT OF ACCOUNTING POLICIES

1. General

The general principles adopted in compiling the Accounts are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Accounts have been designed to present a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where the information is of such significance as to justify its inclusion. The accruals 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. The going concern concept assumes that the Council will continue in operational existence for the foreseeable future and will not significantly curtail the scale of its operation. Local authorities derive their powers from statute and their financing and accounting framework is closely controlled by primary and secondary legislation. It is a fundamental concept of local authority accounting that wherever accounting principles and legislative requirements are in conflict the latter shall apply.

2. Basis of Accounting for Items of Expenditure and Income

Revenue transactions are recorded on an accruals basis. This means that sums due to the Council in the year are accounted for even if the cash had not yet been received.

All payments made which related to the financial year 2010/11 have been included in the accounts, together with any identifiable and material sums which still remain to be paid for goods and services provided up to 31 March 2011.

3. Reserves

The Council maintains certain specific revenue reserves to meet future expenditure. The purpose of the Council's reserves is explained on pages 44 to 47.

4. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by the transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

5. Intangible Fixed Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the authority (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually up to five years.

6. Tangible Fixed Assets

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

<u>Recognition</u>
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and should be charged to revenue.

Initial Measurement
An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition
Fixed assets are subsequently valued at fair value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	**Valuation Method (Fair Value definition)**
Council Dwellings	Existing Use Value – Social Housing (EUV-SH)
Land & Buildings	Existing Use Value (EUV) – in accordance with UKPS 1.3 of the RICS Valuation Standards. Depreciated Replacement Cost (DRC) – for specialist properties where no there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold.
Vehicles, Plant & Equipment	Depreciated Historic Cost (HC)
Infrastructure	Historic Cost (HC)
Community Assets	Historic Cost (HC)
Assets Under Construction	Historic Cost (HC)

Assets included in the Balance Sheet at current value are revalued at intervals of no more than five years or where there is evidence of material changes in the value. When an asset is re-valued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the re-valued amount of the asset.

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 9.), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset as a whole and they have substantially different economic lives, they should be recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:
- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a re-valued amount an additional entry is required; the balance on the Revaluation Reserve in respect of asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (75% less any statutory deductions and allowances) of receipts relating to dwelling disposed under the Right to Buy are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a ‘housing pooled capital receipt’ is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance and reported in the Movement in Reserves Statement. Disposals of other Housing Revenue Accounts assets are subject to a 50% pooling requirement, however, the Council has opted to set a Capital Allowance to enable the full receipt to be retained for affordable housing schemes.

7. Investment Properties

An Investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date.

8. Non-current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:
- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are that are to be disposed of are not reclassified to Asset Held for Sale and remain as Investment Properties until disposed.

9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:
- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset’s carrying amount during the period, that is specific to the asset;

- Evidence of obsolescence or physical damage of an asset;
- A commitment by the authority to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the authority operates.

An impairment loss on a re-valued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset and thereafter in Surplus or Deficit on the Provision of Services.

The impairment of Housing Revenue Account assets is subject to an annual review of value in line with the requirements of the CLG; this is based on the quarterly house price statistics published by CLG.

10. Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or re-valued amount, with the exception of:
- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method, with the exception of Council Dwellings for which the depreciation charge is based on the Major Repairs Allowance for the year.

On a re-valued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the re-valued carrying amount of the asset and the depreciation based on the asset's historical cost.

11. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used by relevant service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible fixed assets attributable to the service.

Depreciation, Amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings, which are real charges to the HRA since the Major Repairs Allowance constitutes a reasonable estimate of depreciation for HRA dwellings.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 15 (The Redemption of Debt). Depreciation, Amortisation and revaluation/impairment losses are therefore replaced by revenue provision transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement on Reserves Statement.

12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Movement in Reserves Statement.

13. Government Grants and Contributions

<u>Revenue Grants</u>

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and Area Based Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

<u>Capital Grants</u>

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extend that the grant or contribution has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance other capital expenditure or to repay debt.

15. The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory "Minimum Revenue Provision" (MRP) requirements. For supported borrowing MRP is 4% p.a. of the adjusted (by the *A adjustment*) Capital Financing Requirement. For unsupported borrowing under the Prudential system MRP is calculated over the estimated life of the asset for which the borrowing is undertaken. This amount is transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

16. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term

2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised

3) the lease term is for the major part of the economic life of the asset

4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, and

5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

The Council as Lessee

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate on interest on the remaining balance of the liability. Finance charges are recognised in calculating the council's Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are assessed as to whether they are operating or finance leases.

The Council as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

17. Financial Assets

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued interest receivable at the year end. Interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial statements, instead Note 44 to the Core Financial Statements provides details about these soft loans.

18. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

19. Interest on Surplus Funds and Balances

Interest earned on surplus cash or funds and balances is taken to the revenue account except for some interest that is credited to certain reserves and provisions, and unused school balances deposited with the Council reflecting the level of the account balance.

20. Debtors and Creditors

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

21. Stocks

Stocks are valued at the lower of cost price or net realisable value.

22. Costs of Support Services

The revenue accounts of the various services include charges for the related support services, which are based upon service level agreements. These are agreed annually and are based upon agreed criteria.

23. Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IAS 27 - Consolidation and Separate Financial Statements, IAS28 - Investments in Associates and IAS 31 - Interests in Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting.

24. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure.

25. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement relating to the Spring Term.
An accrual has been calculated for other staff based on the amount of untaken leave as at 31st March.

In relation to pension costs IAS 19 requires a Council to see beyond its commitment to pay contributions to the pension fund and to determine the full longer-term effect that the award of retirement benefits in any year has had on the Council's financial position. A net pensions asset indicates that the Council has effectively overpaid contributions relative to the future benefits earned to date by its employees. A net pensions liability shows an effective underpayment by the Council.

Full details of the Council's accounting for pension costs are given in Note 42 on pages 85 to 89.

26. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

27. Prior Period Adjustments

Prior period adjustments are the correction of fundamental errors or changes required to reflect changes in accounting policies. Material adjustments applicable to prior periods are included in the accounts by restating comparative figures for the previous period and adjusting opening balances on the balance sheet.

28. PFI – Statement of Accounting Policy Private Finance Initiative Schemes (PFI)

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document.

Where the Council has entered into PFI contracts the accounting treatment accords with proper practice as determined by the International Accounting Standards Board (IASB). Prior to the SORP 2009, previous editions of the SORP required PFI contracts to be accounted for in accordance with Financial Reporting Standard 5 Substance of Transactions. SORP 2009 required these contracts to be accounted for in a manner consistent with IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM). The detailed accounting requirements were contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) of the SORP 2009.

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

IFRIC 12 Service Concession Arrangements
Using the IFRIC 12 Service Concession Arrangements assessment Council officers have determined that Appendix E (Accounting for PFI Transactions and Similar Contracts) applies to both the QICS and Waste Services PFI projects. The project are, therefore, "on balance sheet" for the Council's purposes.

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

Quality in Community Services PFI*: 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.*

Treatment of Assets (Existing and New) Used by the Operator in Providing Services
Assets used by the operator in providing services under the contracts will be recognised as assets, at fair value on the Council's balance sheet in the year that they are made available for use. This treatment will apply 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. The new balance sheet assets will be depreciated and re-valued in the normal way.

Quality in Community Services PFI: *The sites for five of the six buildings to be constructed under the contract 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. To reflect the demolitions, each of these buildings was written out of the asset register in 2005/06.*

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.

All of the buildings constructed under the contract became operational during 2006/07. The assets have been recognised on the Council's balance sheet in 2006/07 at their capital cost, as detailed in the operator's financial model, and subsequently depreciated and re-valued in accordance with the Council's policies.

Waste Services PFI: *At the commencement of the contract the Council made various existing waste infrastructure assets available to the contractor. The assets transferred to the contractor have been restored to the Council's balance sheet to their carrying value as at transfer date.*

In addition new assets are to be constructed under the contract and existing assets enhanced. Assets actually constructed under the contract will be recognised at fair value once they have been made available for use and enhancements will be recognised at their fair value in the carrying value of the asset.

Treatment of the Resulting Liability

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

The annual unitary charge payable to the operator for the buildings and services provided under a 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 asset 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.

***Quality in Community Services PFI**: 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*

***Waste Services PFI:** The assets originally transferred to the operator at the commencement of the 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.*

Treatment of Payment Deductions
Payment deductions will be separated into deductions for poor service and deductions for unavailability.

Deductions for poor service will be accounted for as a reduction in the cost of the affected service. Deductions for unavailability will be split into two elements: a property related element and a service element. The service element will be accounted for in the same way as poor service deductions and the property related element will be treated as a reduction of the finance lease rental, starting with the contingent rental element.

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 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 both PFI projects 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.

PFI Credits
PFI credits are received from the government in the form of a specific grant on an annuity basis. Receipts are credited to Current Assets - Government Debtors in the Council’s Balance Sheet, and are drawn down at the end of the year, by applying the grant to the revenue account, against the unitary payments that have been made to the operator.