ANNUAL STATEMENT OF ACCOUNTS 2009/10

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2003, as Amended 2006, 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 Laura Rowley on (01743) 252007, or Cheryl Williams on (01743) 252035.

Laura Rowley
Director of Resources

INTRODUCTION AND FINANCIAL REPORT

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 Statement of Recommended Practice on Local Authority Accounting, published by CIPFA (the SORP). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the SORP 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.

For 2009/10 there have been a number of changes to the previous SORP, the most significant of these changes, that affect the Authority, are detailed below:

- The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS). This will generally result in PFI properties which are used to deliver the PFI services will now be recognised on local authorities' Balance Sheets along with a liability for the financing provided by the PFI operator.

- Details of accounting for council tax and National Non-domestic Rates within the billing authorities and major preceptor's accounts to accurately reflect the "agent" role that the billing authority has.

- Consideration of the accounting treatment to be followed by all local authorities that have been reorganised from 1 April 2009.

- Five note disclosures have been removed as requirements of the 2009 SORP. These include notes on section 137 expenditure; expenditure on publicity; the building control account; Business Improvement District Schemes; and income under the Local Authorities Goods and Services Act. None of these disclosures are required by accounting standards or legislation. However, authorities can choose to voluntarily disclose any of these notes, if they considered it appropriate to their local circumstances.

- A more detailed disclosure regarding officers' remuneration which modifies the current disclosure requirements of banded salaries and extends them to include individual disclosure of the remuneration of senior officers.

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

- **An Introduction & Financial Report** – 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 2009/10.

- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Director of Resources 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 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.

  - **The 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.

  - **The Statement of Total Recognised Gains and Losses** – this 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.

  - **The Balance Sheet** – like the Income and Expenditure Account this is also fundamental to the understanding of the Council's financial position as at 31 March 2010. 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 deposits repayable on demand less overdrafts repayable on demand.

- **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 2009/10 and assets and liabilities as at 31 March 2010.

- **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.

- **The Annual Governance Statement –** the Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include an Annual Governance Statement with the Statement of Accounts. The Statement explains how the Council has complied with the code of Corporate Governance during 2009/10. However, any significant events or developments that occur between 31 March 2010 and the date on which the Statement of Accounts is signed by the Director of Resources must also be reported.

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.

INTRODUCTION AND FINANCIAL REPORT

Financial Report

This section of the Statement of Accounts for 2009/10 sets out:

- The creation of One Council for Shropshire
- The revenue budget strategy for 2009/10.
- The revenue outturn for 2009/10.
- The capital programme for 2009/10 – 2012/13.
- The capital outturn for 2009/10
- A note on the Council's Borrowing Position
- A note on the Investments 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 Creation of One Council for Shropshire

On 1st April 2009, Shropshire Council was created, which combined Shropshire County Council, Bridgnorth District Council, North Shropshire District Council, Oswestry Borough Council, Shrewsbury & Atcham Borough Council and South Shropshire District Council into One Council for Shropshire. The move to one council has given us the opportunity to look at how we provide services in Shropshire, improving them, making them more efficient and responsive to our communities.

Shropshire Council is committed to delivering on the promises made in the business case for One Council for Shropshire:

- Strong visible leadership
- Strong voice for Shropshire
- Local voice for Shropshire
- Improved service delivery
- Better access
- Improved procurement
- Financial savings

Shropshire Council is also committed to making the council work effectively at the local level. Local Joint Committees were introduced to bring council services and those of our key partners, close to communities. By working alongside Parish and Town Councils people have been given a powerful say in shaping the future for their communities.

The vision of Shropshire Council is "To improve significantly the quality of life for Shropshire people by working together". We aimed to achieve this by using our resources to:

- Give children and young people the best opportunities today and for the future;
- Improve the health and wellbeing of Shropshire's residents;
- Ensure safe and strong communities for everyone in the County;
- Build sustainable communities for local people to live and work in Shropshire.

The Council identified six top priorities, out of the 19 priorities identified, to focus on in 2009/10 to help deliver the aims of the Council:

- Support vulnerable children and young people to improve their life chances
- Improve the housing delivery for which Shropshire Council has direct responsibility
- Maximise vulnerable and older people's income and increase take up of benefits
- Give communities more of a say in service delivery and differences are recognised and respected
- Reduce the levels of worklessness and support increased economic prosperity
- Shropshire's environment is valued and improved.

The budget setting process for the authority aligns closely with the authority's service planning process and budgets are reviewed to ensure that our resources can be invested in our priorities and that we spend public money as effectively as possible.

The Revenue Budget Strategy for 2009/10

The 2009/10 budget strategy was developed on the basis of the "One Council for Shropshire" Business Case proposal. This included the following key assumptions:

- Savings of £7.8m in support services to be delivered from day one of the Unitary.
- The equalisation of former district and borough council services to the level of the best over the first three years of the Unitary.
- The equalisation of Council Tax over the first three years of the Unitary.

The final budget strategy for 2009/10, agreed by Council in February 2009, improved on these original projections and delivered additional resources to priority areas identified during budget consultation meetings. The budget comprised the following items:

- Savings of £10.8m from day one from the move to One Council.
- Growth for service equalisation and improvement from day one of £5.7m.
- Council Tax increases were constrained to 0% in 2009/10 for the whole of the county area.
- Further efficiency savings of £1.1m identified in service delivery areas, which were reinvested in priority areas.

	£'000	£'000
Resources		
Formula Grant	90,145	
Dedicated Schools Grant	146,999	
Council Tax	124,697	
Collection Fund Surplus	908	
Income	85,055	
Specific Grants	126,215	
		574,019
Expenditure		
Base Budget before Growth and Savings		362,318
Unitary Savings:		
Support Service Staff	(6,878)	
Members Allowances & Elections	(550)	
ICT	(647)	
Internal Audit Contracts	(93)	
Insurance	(613)	
Other Savings Identified (support services non pay budgets)	(1,806)	
Saving in Audit Commission Fees	(217)	
		(10,805)
Efficiency Savings in "Non-Unitary" Areas	(1,153)	
Reinvested in Priorities	1,153	
		0
Removal of District/Borough Reliance on Balances		1,710
Growth:		
Service Equalisation and Improvement	5,676	
Commitments made by Predecessor Authorities	1,827	
Removal of Recharges to Capital (unsustainable)	516	
Income Reduction due to Market Forces (loss of interest, building control, etc.)	1,507	
		9,526
Expenditure Funded from Specific Grants		126,215
Expenditure Funded from Income		85,055
		574,019

Revenue Outturn for 2009/10

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. The quarterly monitoring reports showed the following positions:

Directorate	Revenue Budget 2009/10				
	Projected Overspend/(Underspend)				
	Qtr 1 £000	Qtr 2 £000	Qtr 3 £000	Qtr 4 £000	Outturn £000
Children and Young People's Services	0	645	993	797	240
Community Services	343	382	548	285	24
Community Services (County Training)	0	0	0	0	1,141
Development Services	225	228	172	318	(40)
Resources, Chief Executive's Office, Legal & Democratic Services and Corporate Issues	(49)	812	674	(100)	(446)
Total	**519**	**2,067**	**2,387**	**1,300**	**919**

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 2008/09 £000	Final Budget £000	Actual Outturn £000	Over/ (Under) £000
Children and Young People's Services	46,683	0	46,683	46,923	240
Community Services	82,029	0	82,029	83,195	1,166
Development Services	67,666	(2,349)	65,317	65,277	(40)
Resources, Chief Executive's Office, Legal & Democratic Services and Corporate Issues	16,808	208	17,016	16,570	(446)
Total	**213,186**	**(2,141)**	**211,045**	**211,964**	**919**

For **Children and Young People** – The final outturn position is a net overspend of £239,513 against base budget provision, after applying available Reserves and Provisions. This overspend will be carried forward to 2010/11 to be managed as part of the monitoring process within the year.

For **Community Services** – The end of year outturn position is a £23,660 overspend plus an overspend on the County Training trading account of £1,141,531. This compares to the 2008/09 year end position for these services of a balanced budget. There is an overspend of £250,000 on Learning Disability services principally due to the cost of transition cases and a growing demand for services, but this is offset by an underspend within Business Strategy and Support.

For **Development Services** – The overall position is an underspend of £40,000 (after allowing for a £451,000 underspend within Waste Management being transferred to reserve) In line with previous years the overspends arising from Highways Maintenance and Severe Weather (£802,000) will be ring fenced to Highways and funded as a first call on the 2010/11 Highways Maintenance Budget. The revised underspend across the remainder of the Directorate of £863,000; as a result of increased vacancy management savings will be carried forward to offset a number of pressures in 2010/11.

For **Resources, Chief Executive's Office, Legal and Democratic Services and Corporate Issues** the overall position is an underspend of £446,000. There was a nil variation against Resources budgets, however Shire Services had a trading deficit of £11,000 for the year which will be carried forward to 2010/11. Within the Chief Executive's Office the most significant underspend was against the Area Partnership budgets and these balances will be carried forward to 2010/11. Legal and Democratic Services have a minor underspend of £2,000. Finally, within Corporate Issues an underspend has been generated within the Local Joint Committee budgets.

The overall overspend of £919,000 against directorate's budgets represents just 0.2% of the original gross budget of £574,019,000. This overspend excludes the effect of below the line items, the impact of below the line items is addressed through general balances, during 2009/10 a below the line underspend of £5,131 was dealt with in this way.

In addition, School balances, including invested sums and Foundation schools, have increased by £96,000 from the previous year, this represents an average of 5.4% 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.

Under the Council's Financial Management policies, over and underspends for Directorates and schools have been carried forward to 2009/10.

Further detail on the Council's service expenditure can be found within the Income & Expenditure and Note 2 to the Accounts. It should be noted that the comparative figures shown for 2008/09 are that of Shropshire County Council and therefore the expenditure of Shropshire Council may not be comparable for a number of service areas due to the new services provided within the Unitary Council. These new services areas and the net expenditure incurred during the year have been identified within Note 1 to the Accounts.

The Capital Programme 2009/10 to 2012/13

The Capital Programme for 2009/10 to 2011/12 was a holding position based on the existing scheme commitments inherited from the six constituent authorities. This included a number of ambitious, large scale schemes such as the William Brookes School, 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 2009/10 as included in the 2009/10 Budget Book.

Directorare	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**
Community Services	18,992	21,480	7,420
Children and Young People's Services	34,275	45,114	
Development Services			
Local Transport Plan	22,775	25,601	600
Other	8,820	6,363	0
Resources	447	157	0
	85,309	**98,715**	**8,020**

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 2009/10 Budget Book.

Financing	2009/10 £000	2010/11 £000	2011/12 £000
Supported Capital Expenditure	21,387	19,676	0
Prudential Borrowing	0	14,980	0
Government Grants	35,367	36,154	0
Other Grants & Contributions	3,606	666	160
Revenue Contributions	7,336	3,079	0
Capital Receipts	17,613	24,160	7,860
	85,309	**98,715**	**8,020**

Capital Outturn for 2009/10

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 2009/10 as at outturn.

Directorate	Revised Budget Outturn 2009/10 £000	Actual Spend Outturn 2009/10 £000	Variance Outturn 2009/10 £000
Community Services	16,543	11,349	5,194
Children and Young People's Services	38,464	34,344	4,120
Development Services			
Local Transport Plan	19,825	19,220	605
Other	10,795	5,389	5,406
Resources	8,953	7,968	985
	94,580	**78,270**	**16,310**

The table below provides a summary of the capital financing for the capital budget as per the 2009/10 Outturn budget.

Financing	2009/10 £000
Supported Capital Expenditure	21,387
Prudential Borrowing	7,454
Government Grants	36,543
Other Grants & Contributions	6,437
Revenue Contributions	5,121
Major Repairs Allowance	828
Capital Receipts / Capital Receipts Set-aside	16,810
	94,580

The areas of most significant expenditure for schemes undertaken in 2009/10 are as follows:

	Expenditure 2009/10 £000	Scheme Total Budget £000
Community Services		
Development Trust Houses	538	770
Acton Scott Historic Working Farm	422	2,315
Music Hall Refurbishment	644	10,224
Cleobury Resource Centre	417	1,001
Ellesmere Destination Improvements	534	2,241
Community Grants	632	Ongoing
Oswald Park Leisure Centre	2,449	9,916
Private Sector Housing Grants	2,675	Ongoing
Housing Major Repairs Programme	1,120	Ongoing
Children and Young People's Services		
Primary School Amalgamation Programme	1,113	16,246
William Brookes School Renewal	14,109	26,730
Church Stretton Sports Hall	2,259	2,764
Monkmoor Campus	428	18,534
Youth Myplace Schemes	603	4,496
Early Years Programme	2,672	Ongoing
Harnessing ICT	2,499	Ongoing
Asset Management Plan works	1,309	Ongoing
Devolved Formula Capital Projects	3,516	Ongoing
Development Services		
Oswestry Waste Management Site	755	3,040
Tern Valley Business Park	606	4,368
Chartwell Business Park - Bridgnorth	717	1,159
Affordable Housing Schemes	624	Ongoing
Growth Point (including Flaxmill project)	442	Ongoing
Highways and Bridges Infrastructure	15,623	Ongoing
Integrated Transport Plan	3,597	Ongoing
Resources		
Ptarmigan Building	3,772,940	3,772,940
Mount McKinley Building	2,809,677	3,809,677

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.

The Council undertook new borrowing of £17m in November 2009 and further borrowing £10.9m in February 2010 from the Public Works Loans Board (PWLB) which will be used to meet the Council's Prudential Borrowing requirements.

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 35, which commences on page 76.

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 2009, the Council's net pensions liability amounted to £227.5m (includes Shropshire County Council and 5 Shropshire District Councils). In comparison, the deficit amounts to £325.8m at 31 March 2010. 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 24, and the change to the pension liability in 2009/10 is analysed in note 12 to the accounts.

Current and Future Prospects

In 2010/11, Shropshire Council moves into the second year as a unitary council and progresses to the transformation stage. It is intended that during the year, the Council will work with local partners towards making public services in Shropshire more efficient and responsive to customer needs so that we deliver better value for money and quality of service, for example by joining up our services and sharing premises, expertise and intelligence.

The Council's priorities closely reflect the three key aims that Shropshire partners have committed to in the draft Community Strategy 2010-2020:

- Enterprise and growth, with strong market towns and rebalanced rural settlement;
- Responding to climate change and enhancing our natural and built environment and;
- Healthy, safe and confident people and communities.

The budget planning process for 2010/11 began in the summer of 2009. The key objectives was to direct resources towards priority services and to both continue to equalise Council Tax across the County and keep Council Tax increases to a minimum.

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 2010.

The key elements of the 2010/11 budget were:
- A Council Tax increase of between 0% - 3.5%.
- A Collection Fund surplus of £411,680.
- Formula Grant of £93,487,500.
- Dedicated Schools Grant based on the Department for Children, Schools and Families (DCSF) indicative allocations adjusted for local pupil number projections of £151,369,000.
- Savings of £7,540,000.
- Growth of £1,947,000, including priority service areas such as Looked After Children, Public Transport, Transition Cases for Young People with Learning Disabilities and Physical Disabilities.

Shropshire Council has approved a new five year Capital Programme for 2010/11 to 2014/15. This comprises the following five elements:
- The existing Approved Capital Budget, this includes previously approved scheme from the six constituent authorities and previously confirmed grant allocations, mainly in relation to schools, highways, transport and housing.
- Projected new allocations of Central Government grant for 2010/11 to 2014/15, principally schools, highways, transport and housing.
- Energy saving and carbon reduction scheme developed as part of the Council's Carbon Management Plan that have "payback" periods of 2 to 5 years.
- New schemes to be financed from Prudential Borrowing.
- Landmark schemes, which are included subject to confirmation of significant levels of external funding.

Shropshire Council has also made two successful bids for funding under the Private Finance Initiative (PFI) to the Homes and Communities Agency and the Department of Health. This funding will enable over 400 extra care housing units to be built for older people and people with dementia across the county and also 24 respite units with facilities for dementia sufferers and their carers/families. The combined bids amount to £136million.

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.

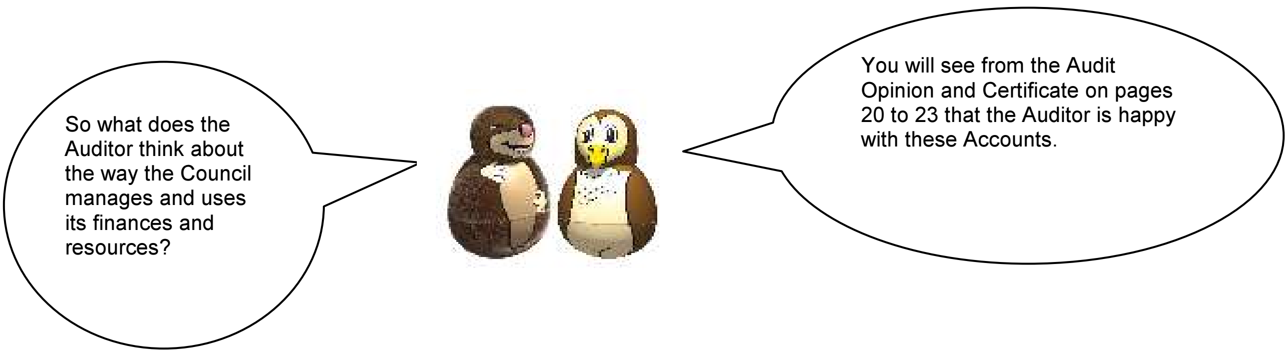
This Statement of Accounts is part of that stewardship process, part of the process for being publicly accountable for public money.

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 is included in this Statement of Accounts, this covers more than just financial matters and is set out in full on pages 111 to 122.

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.

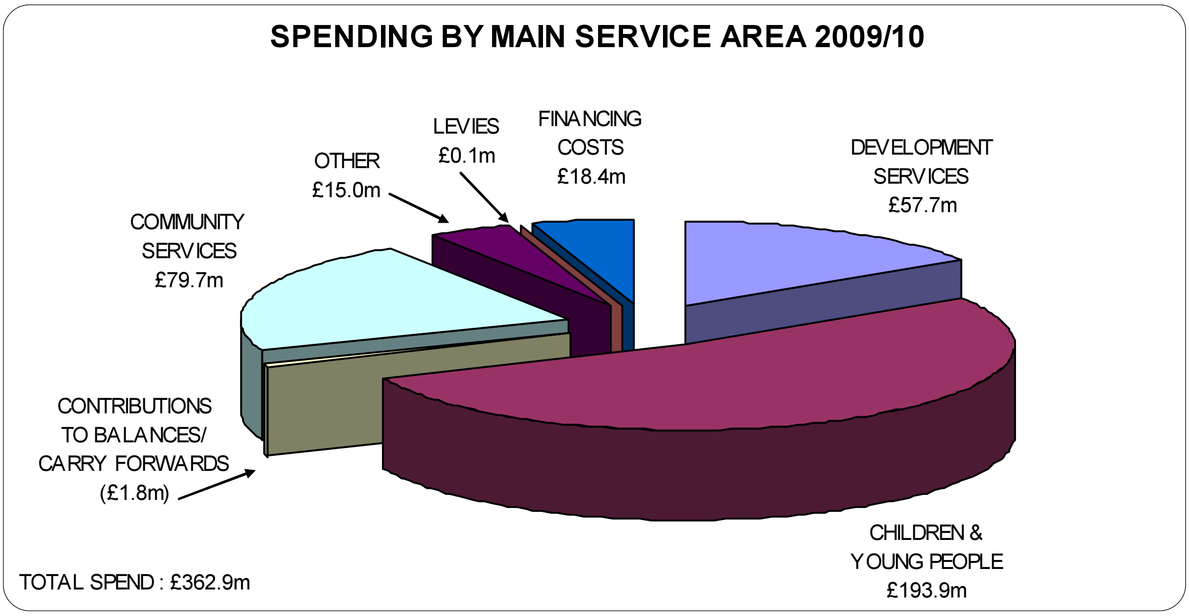


The Euro

During 2009/10 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.

THE YEAR IN VIEW



What is included in Other expenditure?

This includes central costs that cannot justifiably be allocated directly to service delivery areas. This includes items such as Members' allowances, external audit fees, strategic activities of the Council's Management Team, providing Members' support and other central system developments.

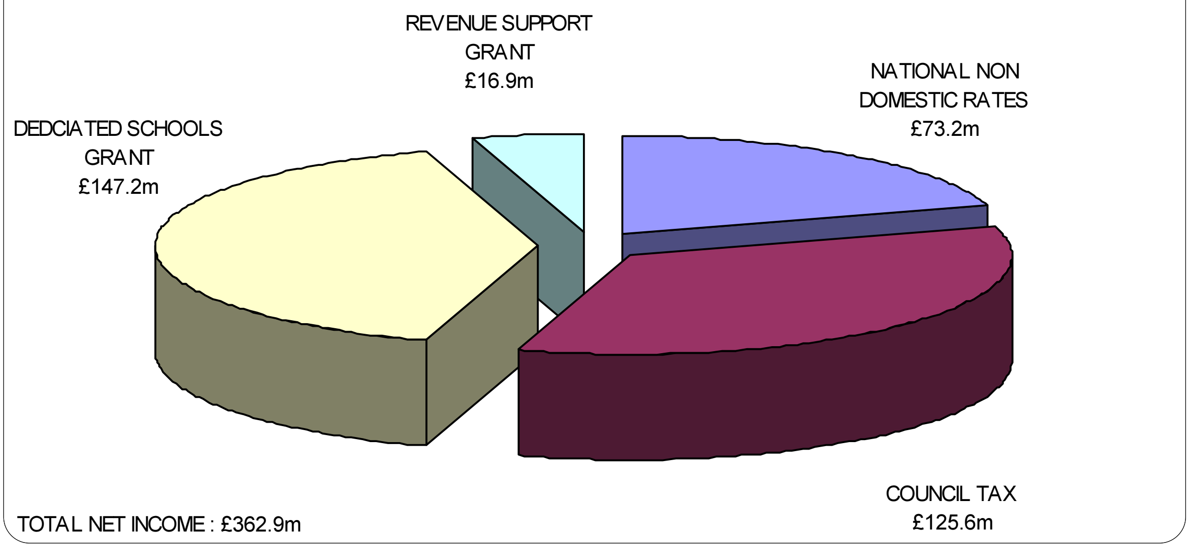
What are the financing costs for?

The Council borrows significant sums of money to fund capital expenditure, e.g. building new schools. This borrowing has to be repaid. As with your own mortgage repayments this will include an element of interest and also an element of principal repayment.

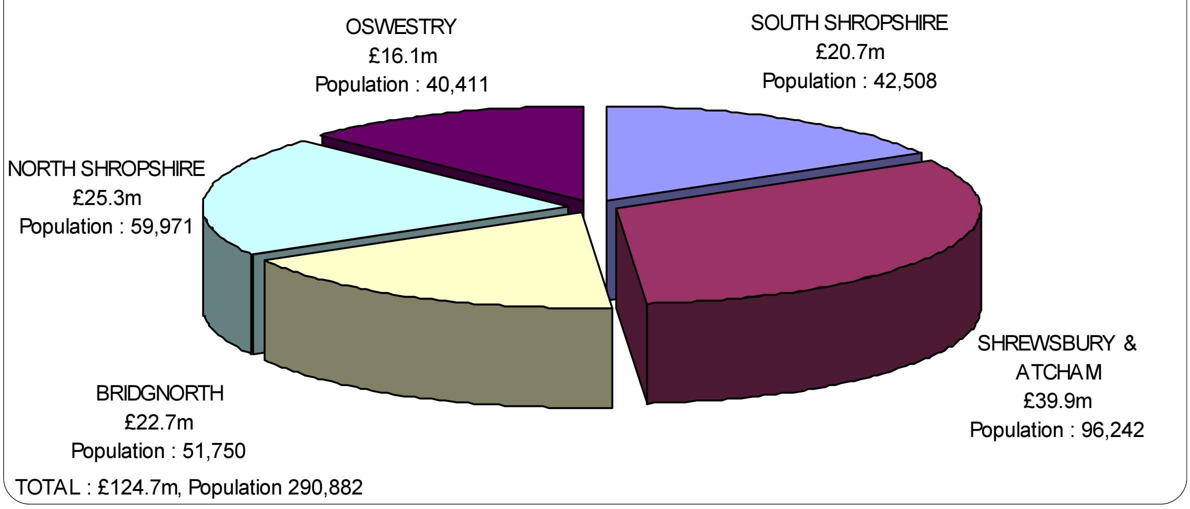
I assume that Services to Children & Young People includes Education.

That is right, it does. The Council is responsible for the schools in the area. Education is the largest service provided by the Council and our schools and pupils get excellent results.

SOURCES OF FINANCE 2009/10



COUNCIL TAX BY DISTRICT 2009/10



Why does the Council Tax rise more than inflation?

Council Tax only makes up about one third of the Council's total funding. The Government's contribution is fixed and does not increase if our spending increases. Hence once spending rises beyond a certain level the Council Tax Payer picks up the extra cost.

I'd like to know more about these figures

As well as the detailed analysis provided on pages 15 to 16 you may also like to have a look at the Core Financial Statements, and particularly the Income & Expenditure Account starting on page 34.

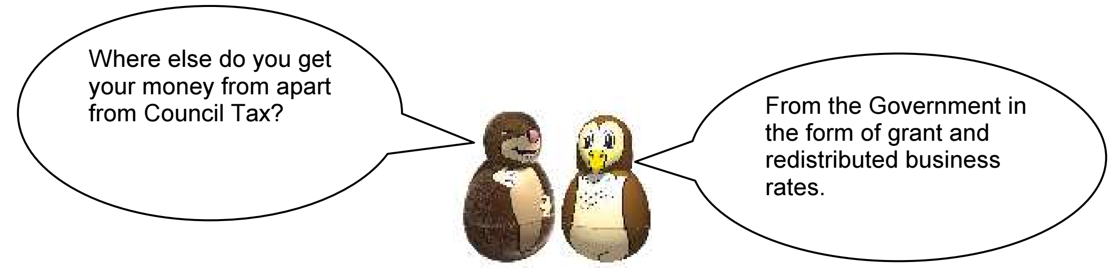
DELIVERY OF COUNCIL SERVICES WITH COUNCIL TAX AND GOVERNMENT GRANT

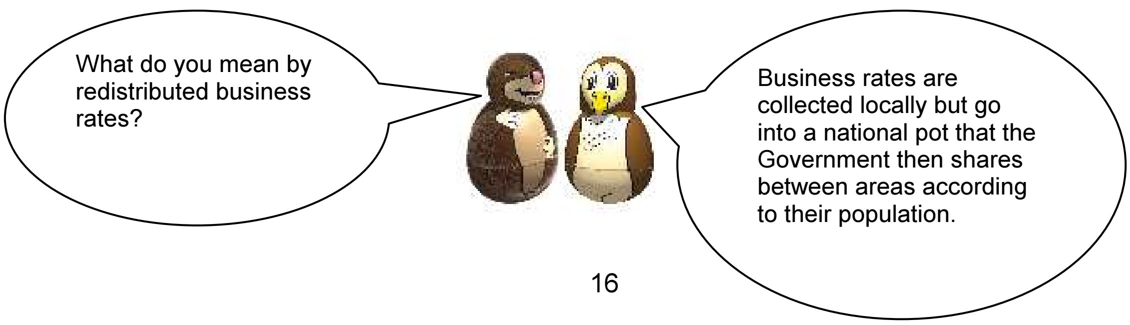
Spending	**£000**
Primary and Pre-School Education	66,106
Secondary Education	61,508
Special Education	5,392
LEA Centrally Held School Funds	32,099
Other Education Services	3,220
Personal Social Services – Children & Families	20,885
Personal Social Services – Older People	38,254
Other Personal Social Services	30,643
Highways Maintenance	9,361
Other Transportation	7,689
Libraries	3,886
Culture and Heritage	6,755
Leisure & Outdoor Recreation	(1,004)
Housing	1,845
Economic Development	401
Community Development	1,671
Planning	5,683
Waste Collection & Disposal	23,678
Street Scene	5,805
Environmental Health & Licensing	3,397
Trading Standards	1,338
Bereavement Services	(135)
Courts	490
Corporate and Democratic Core	7,814
Capital and Financial Charges	18,364
Flood Defence Levies	111
Contribution to Balances/Controllable Carry Forwards	(1,850)
Other Services	9,520
Total	**362,926**
Income	
Revenue Support Grant (RSG)	16,905
Redistributed Business Rates (NDR)	73,240
Dedicated Schools Grant (DSG)	147,176
Council Tax	125,605
Total	**362,926**

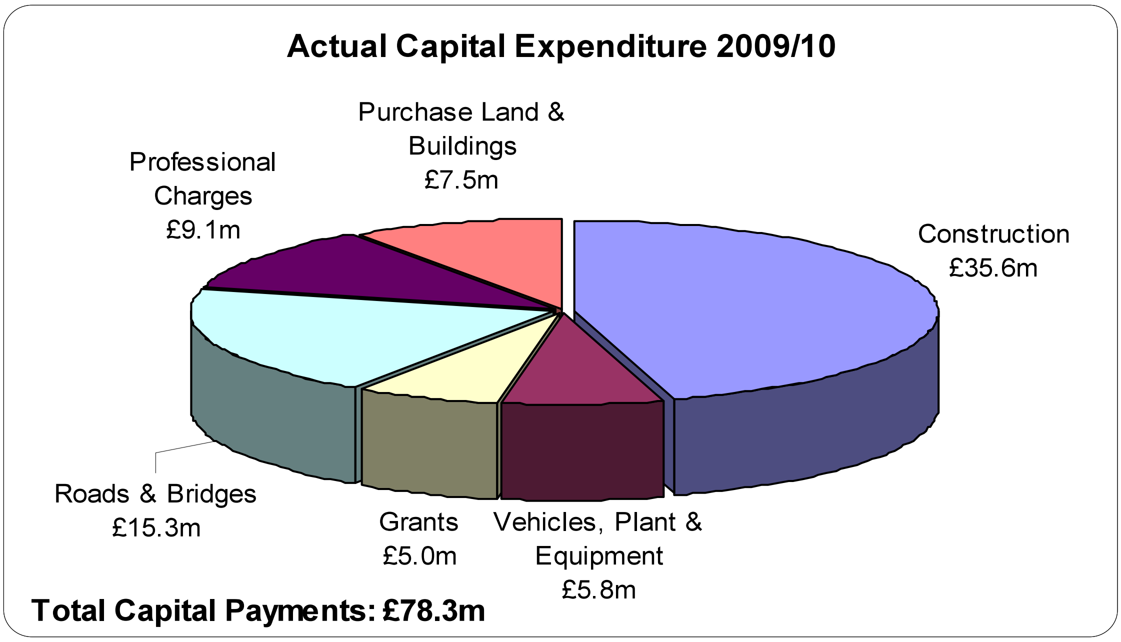
HOW HAVE WE SPENT YOUR COUNCIL TAX?

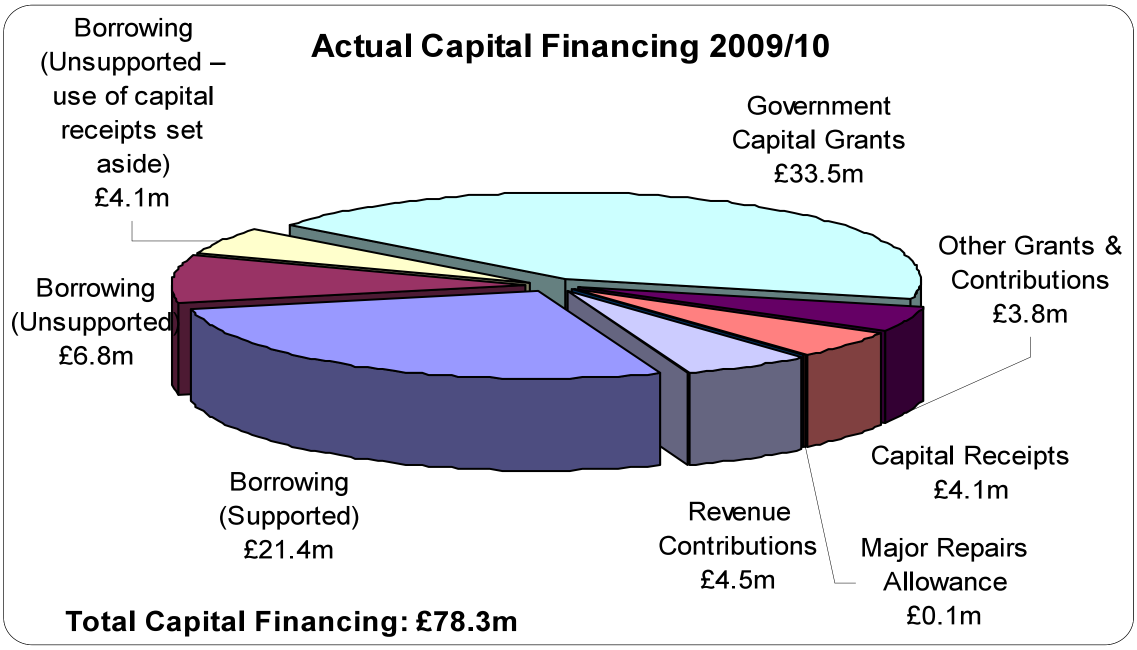
The Council's share of Council Tax on a band D Property*	£	Total of Funding DSG £000	RSG/NDR £000	Council Tax £000
Primary and Pre-School Education Secondary Education Special Education LEA Centrally Held School Funds	101.10	147,176	7,491	10,438
Other Education Services	18.16	0	1,345	1,875
Personal Social Services – Children & Families	117.75	0	8,726	12,158
Personal Social Services – Older People	215.70	0	15,983	22,271
Other Personal Social Services	172.79	0	12,803	17,840
Highways Maintenance	52.79	0	3,911	5,450
Other Transportation	43.35	0	3,213	4,476
Libraries	21.91	0	1,624	2,262
Culture and Heritage	38.09	0	2,822	3,933
Leisure & Outdoor Recreation	(5.67)	0	(419)	(585)
Housing	10.40	0	771	1,074
Economic Development	2.26	0	168	233
Community Development	9.42	0	698	973
Planning	3205	0	2,374	3,309
Waste Collection and Disposal	133.51	0	9,893	13,785
Street Scene	32.74	0	2,425	3,380
Environmental Health & Licensing	19.16	0	1,419	1,978
Trading Standards	7.54	0	559	779
Bereavement Services	(0.77)	0	(56)	(79)
Courts	2.76	0	205	285
Corporate and Democratic Core	44.06	0	3,265	4,549
Capital and Financial Charges	103.55	0	7,673	10,691
Flood Defence Levies	0.62	0	47	64
Contribution from Balances/Controllable Carry Forwards	(10.43)	0	(773)	(1,077)
Other Services	53.68	0	3,978	5,542
Total	**1,216.52**	**147,176**	**90,145**	**125,604**

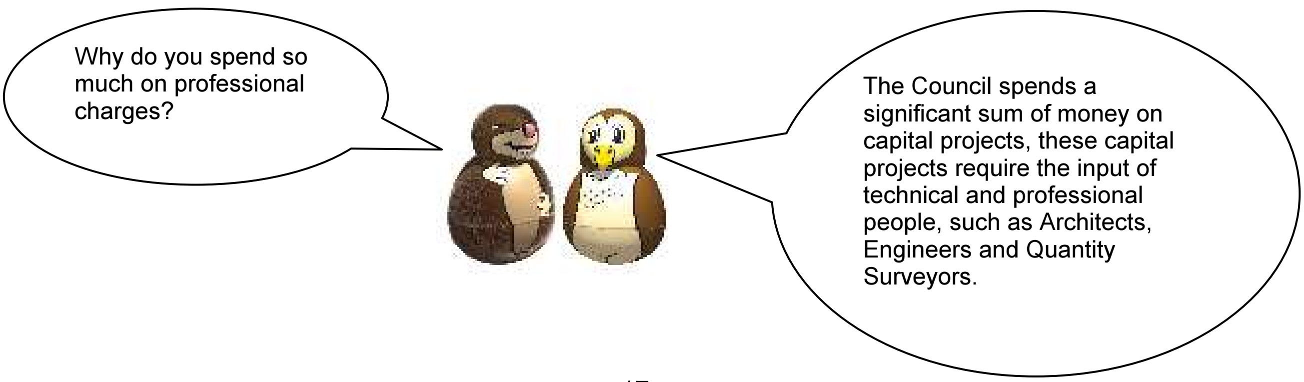
* The Band D Council Tax figure quoted is the Council Tax level for the South Shropshire District. The Band D Council Tax in other areas of the County will be slightly lower than the £1,216.52 quoted above.



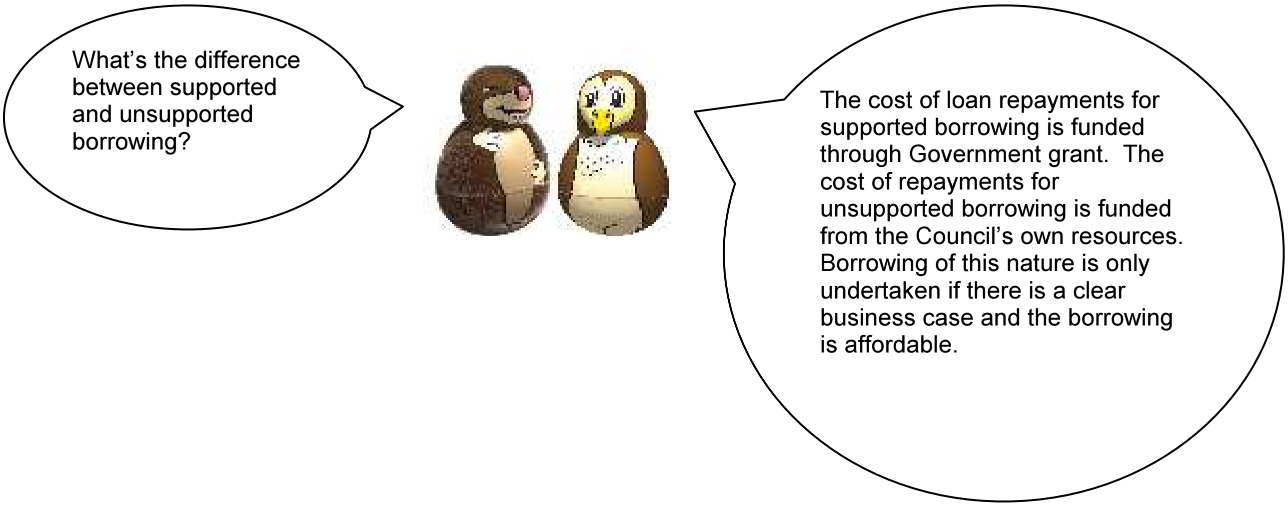



Actual Capital Expenditure 2009/10
Purchase Land & Buildings £7.5m
Professional Charges £9.1m
Construction £35.6m
Roads & Bridges £15.3m
Grants £5.0m
Vehicles, Plant & Equipment £5.8m
Total Capital Payments: £78.3m


Borrowing (Unsupported – use of capital receipts set aside) £4.1m
Actual Capital Financing 2009/10
Government Capital Grants £33.5m
Other Grants & Contributions £3.8m
Borrowing (Unsupported) £6.8m
Capital Receipts £4.1m
Borrowing (Supported) £21.4m
Revenue Contributions £4.5m
Major Repairs Allowance £0.1m
Total Capital Financing: £78.3m


Why do you spend so much on professional charges?
The Council spends a significant sum of money on capital projects, these capital projects require the input of technical and professional people, such as Architects, Engineers and Quantity Surveyors.

THE YEAR IN VIEW



STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, the responsibility of Chief Financial Officer is allocated to the Director of Resources;
- 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 24 June 2010.

Malcolm Pate
Chairman of the Council
24 June 2010

Responsibilities of Director of Resources as Chief Financial Officer

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

In preparing this Statement of Accounts, the Director of Resources 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 Director of Resources 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 2010 and also that the Statement of Accounts complies with the requirements of the Accounts and Audit Regulations 2003, as Amended 2006, and that the Pension Fund Accounts as set out in the separate publication of Shropshire County Pension Fund Annual Report 2009/10 also complies with these Regulations.

Laura Rowley
Director of Resources
18 June 2010

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 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, 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 Director of Resources and auditor

The Director of Resources' 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 2009 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 2009:

- 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.

AUDIT OPINION AND CERTIFICATE

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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Authority as at 31 March 2010 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Group as at 31 March 2010 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 2010 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 County 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 Director of Resources and auditor

The Director of Resources 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 2009 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 2009, the financial transactions of the pension fund during the year and 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.

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 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 2009, the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, 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.

AUDIT OPINION AND CERTIFICATE

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 2010.

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

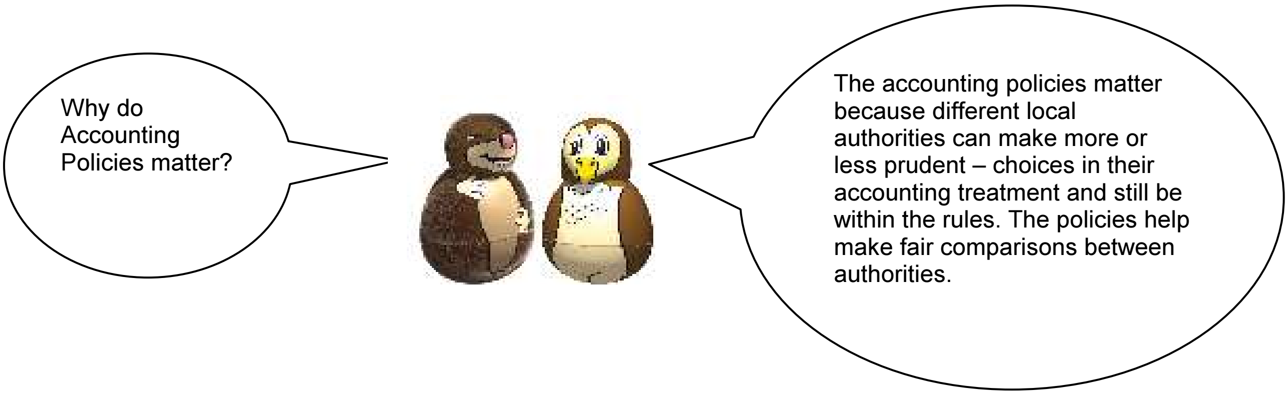
xx September 2010

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: A Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Accounts have been designed to 'present fairly' 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 2009/10 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 2010.

3. Reserves

The Council maintains certain specific revenue reserves to meet future expenditure. The purpose of the Council's reserves is explained on pages 87 to 90.

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

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

Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life. No intangible asset life exceeds 5 years.

6. Tangible Fixed Assets

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

Recognition

All expenditure above a de-minimus level (£50,000 for land and operational properties and £10,000 for other operational assets) on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis provided that it yields benefits to the Council for more than one year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

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

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

- Dwellings, land, operational properties and other operational assets are included in the Balance Sheet at the lower of net current replacement cost or net realisable value.
- Non-operational assets; comprising investment properties, assets that are surplus to requirements and assets under construction. Generally these are included in the Balance Sheet at the lower of net current replacement cost or net realisable value. The exception to this is assets under construction which are valued at historic cost.
- Infrastructure assets and community assets are included in the Balance Sheet at historical cost, net of depreciation.

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

The Revaluation Reserve contains revaluation gains since 1 April 2007 only, the date of the formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- Where attributable to the clear consumption of economic benefits, the loss is charged to the relevant service revenue account.

- Otherwise the loss is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

<u>Disposals</u>

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written off value of disposals is not are charge against council tax, as the cost of fixed assets is fully provided under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

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. 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.

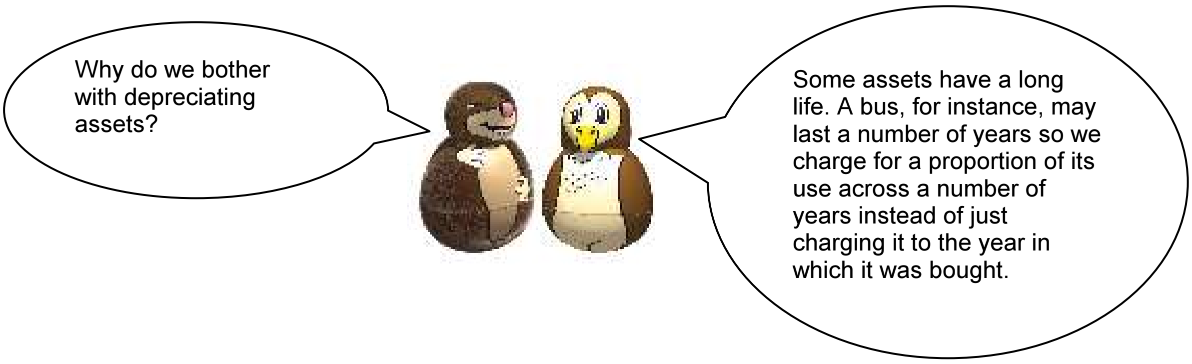
7. Depreciation

Depreciation is provided on all fixed assets with a finite useful life, with the exception of:

- Non-depreciable land.
- Non-operational investment properties.
- Any asset where the depreciation charge would be immaterial.
- Assets under construction.

The finite useful life of an asset is determined at the time of acquisition or revaluation. 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.

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



8. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service.

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

The Council is not required to raise Council Tax to cover depreciation or 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 12 (The Redemption of Debt). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 7 (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 Statement of Movement on the General Fund Balance.

9. Revenue Expenditure Funded from 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 has been charged as expenditure to the relevant service revenue account in the year. Where capital resources have been used to meet this expenditure, this is charged to the Capital Adjustment Account and the expenditure is reversed out of the Statement of Movement on the General Fund Balance so that there is no impact on the level of council tax.

10. Government Grants and Contributions

Revenue Grants

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.

Capital Grants

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other external contribution, the amount of the grant or contribution is credited initially to the Government Grants Deferred Account. The balance is then written down against service revenue accounts to offset depreciation or impairment charges made for the related assets, in line with the depreciation policy applied to those fixed assets. The only exception is revenue expenditure funded from capital under statute (see Accounting Policy note 9) for which the grant income is credited directly to the service revenue account to which the expenditure has been charged. When an asset is dipsoed of any balance on the Government Grants Deferred Account is transferred to the Capital Adjustment Account and included in the calculation of gain or loss on disposal charged to the Income and Expenditure Account.

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

11. 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.

12. 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.

13. Leases

The use of leasing, together with the amount of rentals paid during the year and the undischarged obligation is explained in Note 11 to the Core Financial Statements.

Rentals payable under operating leases are charged to revenue on an accruals basis.

The cost of assets acquired under operating leases and the related liability for future rentals payable are not included in the Balance Sheet.

14. 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 Statement of Movement on the General Fund Balance. 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 35 to the Core Financial Statements provides details about these soft loans.

15. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

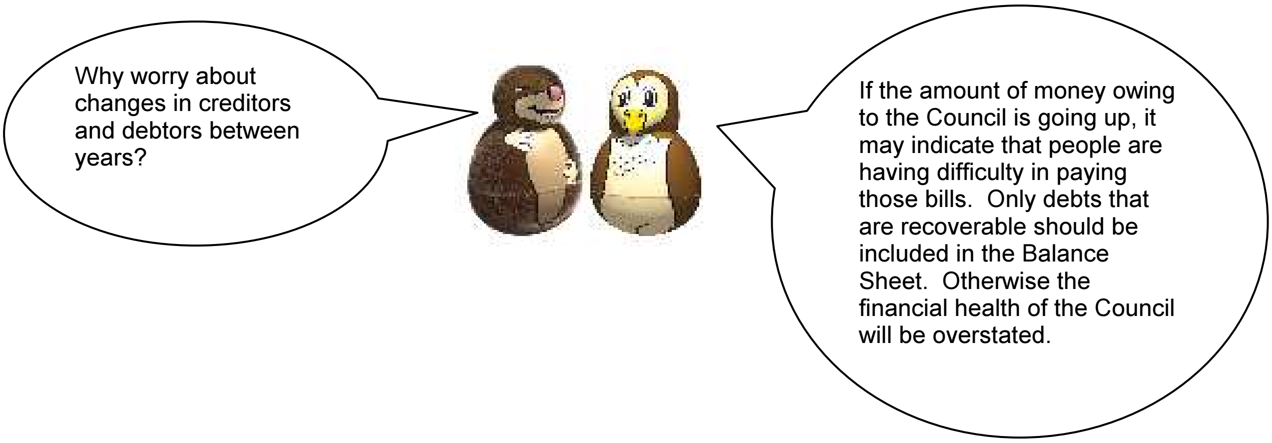
Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was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

16. 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.

17. Debtors and Creditors

The revenue accounts of the Council are maintained on an accruals basis in accordance with the SORP and FRS18, *Accounting Policies*. 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.



18. Stocks

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

19. 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.

20. 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.

In preparing Group Accounts the Council has followed CIPFA guidance and in general, the following policies have been applied:-
- All financial relationships within the scope of Group Accounts have been assessed.
- The Council's accounts have been aligned with UK GAAP (Generally Accepted Accounting Practice) and therefore a number of adjustments have been made to the main financial statements when the SORP diverges with the UK GAAP. This is in order to achieve consolidation on a comparable basis.
- Associates and joint ventures have been accounted for in line with the provisions of FRS 9 – "Associates and Joint Ventures"
- Subsidiaries have been accounted for in line with the provisions of FRS2 – "Accounting for Subsidiary Undertakings".

21. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure.

22. Pensions

The pension costs charged to the Council's accounts for its employees have been determined in accordance with the requirements of FRS17, *Retirement Benefits*. FRS17 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 12 on pages 47 to 51.

23. Foreign Currency Transactions

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

24. 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.

25. 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 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 now requires these contracts to be accounted for in a manner that is consistent with IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM). The detailed accounting requirements are contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) of the SORP 2009.

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 the QICS PFI project. The project is, 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 (market 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 market value as determined by Property Services and subsequently depreciated and re-valued in accordance with the Council's policies.

Waste 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.

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 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 against the unitary payments that have been made to the operator.

INCOME AND EXPENDITURE ACCOUNT

This statement 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.

2008/09 (Restated) Net Expenditure £000		2009/10 Gross Expenditure £000	2009/10 Income £000	2009/10 Net Expenditure £000
	Expenditure on Continuing Services (Note 2)			
12,061	Central Services	22,693	8,121	14,572
398	Court Services	554	71	483
25,908	Cultural, Environmental and Planning Services	50,885	13,017	37,868
45,181	Education Services (Note 15)	240,674	201,313	39,361
28,279	Highways, Roads and Transport Services	31,975	3,409	28,566
484	Housing Services	6,625	5,661	964
88,319	Social Services	125,278	31,925	93,353
200,630		478,684	263,517	215,167
	Expenditure on Acquired Services (Note 1)			
0	Service transferred from Shropshire District Councils	142,066	99,215	42,851
0	**Expenditure on the Housing Revenue Account**	(366)	14,395	(14,761)
200,630	**Net Cost of Services**	620,384	377,127	243,257
19,142	(Gain) or loss on disposal of fixed assets			5,918
0	Parish council precepts			5,462
3,298	(Surpluses)/deficits on trading undertakings not included in Net Cost of Services			3,690
12,565	Interest payable and similar charges			14,795
0	Contribution of housing capital receipts to government pool			105
(3,768)	Interest and Investment Income			(771)
9,295	Pensions Interest Cost & Expected Return on Pensions Assets (Note 12)			19,689
(1,176)	Debt charges income (Note 20)			(1,135)
39,356				47,753
239,986	**Net Operating Expenditure**			291,010
(23,095)	General Government Grants (Note 17)			(33,853)
(55,705)	Non-domestic rate income			(73,240)
(109,867)	Demand on Collection Fund			(130,796)
51,319	**(Surplus)/Deficit for the Year**			53,121