# GROUP ACCOUNTS

**Introduction**

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

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

**WEST MERCIA SUPPLIES**

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

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WMS within this Council. The Council considers that WMS should be accounted for as a Joint Venture (under FRS 9 - Associates and Joint Ventures) with specific regard to the independence that West Mercia Supplies has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

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

**COMMUNITY ASSET TRUST**

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

Shropshire Council has reviewed the accounting treatment that should be applied to the CAT and has concluded that Group Accounts should be prepared for the CAT under the requirements of FRS2 (Accounting for Subsidiary Undertakings).

**SOUTH SHROPSHIRE LEISURE LIMITED**

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

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

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

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

## The Group Income & Expenditure Account

| 2008/09 Restated Group Expenditure £000 | Expenditure on Continuing Services | 2009/10 SC Net Expenditure £000 | 2009/10 Adjustments £000 | 2009/10 Group Expenditure £000 |
|---|---|---|---|---|
| 13,035 | Central Services (Note G1) | 14,572 | 938 | 15,510 |
| 398 | Court Services | 483 | | 483 |
| 25,908 | Cultural, Environmental and Planning Services (Note G3) | 37,868 | (185) | 37,683 |
| 45,181 | Education Services | 39,361 | | 39,361 |
| 28,279 | Highways, Roads and Transport Services | 28,566 | | 28,566 |
| 484 | Housing Services (Note G2) | 964 | (504) | 460 |
| 88,319 | Social Services | 93,353 | | 93,353 |
| | Share of Operating Results of Joint Venture | | | |
| (9,969) | - Turnover (Note G1) | 0 | (11,609) | (11,609) |
| 8,755 | - Cost of Sales and Operating Expenses (Note G1) | 0 | 10,638 | 10,638 |
| | **Expenditure on Acquired Services** | | | |
| 0 | Services transferred from Shropshire District Councils | 42,851 | | 42,851 |
| 0 | Expenditure on the Housing Revenue Account | (14,761) | | (14,761) |
| 200,390 | **Net Cost of Services** | 243,257 | (722) | 242,535 |
| 19,142 | (Gain) or loss on disposal of fixed assets | 5,918 | | 5,918 |
| 0 | Parish Precepts | 5,462 | | 5,462 |
| (1) | Share of Joint Venture Profit/Loss on Disposal of Fixed Assets (Note G1) | 0 | (1) | (1) |
| 3,298 | (Surpluses)/deficits on trading undertakings not included in Net Cost of Services | 3,690 | | 3,690 |
| 12,565 | Interest payable and similar charges | 14,795 | | 14,795 |
| 0 | Contribution of housing capital receipts to government pool | 105 | | 105 |
| (3,768) | Interest and Investment Income | (771) | | (771) |
| (28) | Share of Interest Payable by Joint Venture (Note G1) | 0 | (4) | (4) |
| 9,295 | Pensions Interest Cost & Expected Return on Pensions Assets | 19,689 | 5 | 19,694 |
| 46 | Share of Joint Venture FRS17 Interest Cost/Return on Assets (Note G1) | 0 | 61 | 61 |
| (1,176) | Debt charges income | (1,135) | | (1,135) |
| 39,373 | | 47,753 | 61 | 47,814 |
| 239,763 | **Net Operating Expenditure** | 291,010 | (661) | 290,349 |
| (23,095) | General Government Grants | (33,853) | | (33,853) |
| (55,705) | Non-domestic rate income | (73,240) | | (73,240) |
| (109,867) | Demand on Collection Fund | (130,796) | | (130,796) |
| 51,096 | **(Surplus)/Deficit for the Year** | 53,121 | (661) | 52,460 |

## Group Statement of Movement on the General Fund Balance

| 2008/09 Group A/C £000 | | 2009/10 SC £000 | 2009/10 Adjustments £000 | 2009/10 Group A/C £000 |
|---|---|---|---|---|
| 51,096 | Deficit for the Year on the Income and Expenditure Account | 53,121 | (661) | 52,460 |
| (52,224) | Net additional amount required by statute and non statutory proper practice to be debited or credited to the General Fund Balance for the year | (47,771) | 661 | (47,110) |
| **1,128** | **(Increase)/Decrease in General Fund Balance for the Year** | **5,350** | **0** | **5,350** |
| (10,516) | General Fund Balance brought forward | (9,388) | 0 | (9,388) |
| 0 | General Fund Balance brought forward – Districts | (6,141) | 0 | (6,141) |
| **(9,388)** | **General Fund Balance carried forward** | **(10,179)** | **0** | **(10,179)** |
| (7,139) | Amount of County Fund Balance held by schools under local management schemes | (7,304) | | (7,304) |
| (2,250) | Amount of General Fund Balance generally available for new expenditure | (2,875) | | (2,875) |
| **(9,388)** | | **(10,179)** | **0** | **(10,179)** |

## Reconciliation of the Single Entity Deficit for the Year to the Group Deficit For the Year Ended 31 March 2010

| 2008/09 £000 | | 2009/10 £000 |
|---|---|---|
| 51,319 | Single Entity Deficit | 53,121 |
| 0 | CAT Ltd (Profit)/Loss | (504) |
| 0 | South Shropshire Leisure Ltd (Profit)/Loss | (180) |
| (223) | SC share of Joint Venture (Profit)/Loss – West Mercia Supplies | 23 |
| **(51,096)** | **Group Account Deficit for the year** | **52,460** |

## Group Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2010

| 2008/09 Group A/C £000 | | 2009/10 SC £000 | 2009/10 Adjustments £000 | 2009/10 Group A/C £000 |
|---|---|---|---|---|
| 51,096 | (Surplus)/deficit for the Year on the Income and Expenditure Account | 53,121 | (661) | 52,460 |
| (60,228) | (Surplus)/deficit arising on revaluation of fixed assets | (23,581) | 0 | (23,581) |
| (12,880) | Actuarial (gains)/losses on pension fund assets and liabilities | 85,045 | 170 | 85,215 |
| **(22,012)** | | **114,585** | **(491)** | **114,094** |
| 0 | Exceptional Additional Loss arising from the Write off of Overhanging Premiums (Note 34) | 0 | 0 | 0 |
| **(22,012)** | **Total recognised (gains)/losses for the year** | **114,585** | **(491)** | **114,094** |
| **0** | **Balance Transferred from Districts on opening Balance Sheet** | **109,422** | **0** | **109,422** |
| **0** | **Recognised Interests in CAT Ltd and South Shropshire Leisure Ltd** | **0** | **1,422** | **1,422** |
| **(22,012)** | | **224,007** | **931** | **224,938** |

## Group Balance Sheet at 31st March 2010

| 2008/09 (Restated) £000 | | 2009/10 SC £000 | 2009/10 Adjustments £000 | 2009/10 Group £000 |
|---|---|---|---|---|
| 128 | Intangible Assets | 427 | | 427 |
| | Fixed Assets | | | |
| | Operational | | | |
| 0 | Dwellings | 229,221 | | 229,221 |
| 271,029 | Land | 289,411 | | 289,411 |
| 397,496 | Buildings | 483,632 | 4 | 483,636 |
| 261,214 | Infrastructure | 275,919 | | 275,919 |
| 5,537 | Vehicles, Plant and Equipment | 12,721 | 24 | 12,745 |
| 599 | Community | 4,570 | | 4,570 |
| | Non-Operational | | | |
| 9,210 | Investment Assets | 22,241 | | 22,241 |
| 12,696 | Surplus Assets | 19,618 | | 19,618 |
| 5,796 | Assets Under Construction | 30,673 | | 30,673 |
| 963,577 | Total Fixed Assets | 1,368,006 | 27 | 1,368,006 |
| | Long Term Investment in Joint Venture (Note G4): | | | |
| 3,429 | - Authority's share of Gross Assets | 0 | 4,906 | 4,906 |
| (1,891) | - Authority's share of Gross Liabilities | 0 | (3,662) | (3,662) |
| 0 | Long Term Investment | 1,113 | | 1,113 |
| 96 | Long Term Debtors | 1,583 | | 1,583 |
| **965,339** | **Total Long Term Assets** | **1,371,129** | **1,271** | **1,372,400** |
| | Current Assets | | | |
| 520 | Stocks | 670 | 3 | 673 |
| 26,624 | Debtors | 47,120 | 579 | 47,699 |
| 65,070 | Temporary Investments | 99,932 | | 99,932 |
| 0 | Landfill Usage Allowances | 1,117 | | 1,117 |
| 92,214 | | 148,839 | 582 | 149,421 |
| **1,057,553** | | **1,519,968** | **1,853** | **1,521,821** |
| | Current Liabilities | | | |
| (2,151) | Temporary Loans | (2,612) | | (2,612) |
| (61,509) | Creditors | (72,451) | 414 | (72,037) |
| 0 | Liability to DEFRA for Landfill Usage | (762) | | (762) |
| (4,623) | Cash Overdrawn | (7,677) | 399 | (7,278) |
| (68,283) | | (83,503) | 813 | (82,690) |
| **989,270** | **Total Assets Less Current Liabilities** | **1,436,465** | **2,666** | **1,439,131** |
| | Long Term Liabilities | | | |
| (251,115) | Long Term Loans | (280,343) | | (280,343) |
| (18,542) | Deferred Liabilities | (20,341) | | (20,341) |
| (4,311) | Provisions | (4,643) | | (4,643) |
| (90,266) | Government grants deferred | (118,475) | | (118,475) |
| (777) | Deferred premiums on early repayment of debt | (765) | | (765) |
| (160,632) | Pensions Liability | (325,802) | (198) | (326,000) |
| (525,643) | | (750,369) | (198) | (750,567) |
| **463,627** | **Total Assets Less Liabilities** | **686,097** | **2,468** | **688,565** |
| | Financed by: | | | |
| 157,440 | Revaluation Reserve | 187,529 | 20 | 187,549 |
| 444,218 | Capital Adjustment Account | 785,845 | | 785,845 |
| (7,458) | Financial Instruments Adjustment Account | (7,356) | | (7,356) |
| 9 | Usable Capital Receipts Reserve | 0 | | 0 |
| 0 | Deferred Capital Receipts | 926 | | 926 |
| 0 | Collection Fund | 372 | | 372 |
| (271) | Council Tax Adjustment Account | 52 | | 52 |
| 0 | Major Repairs Reserve | 3,927 | | 3,927 |
| (160,632) | Pensions Reserve | (325,802) | (198) | (326,000) |
| 19,415 | Reserves | 29,625 | | 29,625 |
| 0 | HRA Balance | 799 | | 799 |
| 9,388 | General Fund Balance | 10,179 | | 10,179 |
| 0 | Interest in subsidiary - CAT | 0 | 1,123 | 1,123 |
| 0 | Interest in subsidiary - SSLL | 0 | 37 | 37 |
| 0 | Minority interest in subsidiary - SSLL | 0 | 262 | 262 |
| 1,518 | Authority's Share of Joint Venture - WMS | 0 | 1,224 | 1,224 |
| **463,627** | **Total Equity** | **686,096** | **2,468** | **688,565** |

## Group Cash Flow Statement

| 2008/09 | Revenue Activities | 2009/10 | | |
|---|---|---|---|---|
| | | SC | Adjustments | Group |
| £000 | | £000 | £000 | £000 |
| **(28,042)** | **Net inflow on Revenue Activities** | **(18,962)** | **768** | **(18,194)** |
| | **Dividends from Joint Ventures and Associates** | | | |
| | *Inflows* | | | |
| (974) | Dividends received | 0 | (938) | (938) |
| **(974)** | | **0** | **(938)** | **(938)** |
| | **Servicing of Finance** | | | |
| | *Outflows* | | | |
| 12,541 | Interest paid | 12,926 | | 12,926 |
| 0 | Interest element of finance lease rental payments | 1,783 | | 1,783 |
| | *Inflows* | | | |
| (3,418) | Interest received | (1,599) | | (1,599) |
| 9,123 | | 13,110 | 0 | 13,110 |
| | **Capital Activities** | | | |
| | *Outflows* | | | |
| 46,693 | Purchase of fixed assets & Other Capital cash payments | 62,767 | 22 | 62,789 |
| 0 | Other Capital Cash Payments | 15,953 | | 15,953 |
| | *Inflows* | | | |
| (1,811) | Sale of Fixed Assets | (3,720) | | (3,720) |
| 0 | Long Term Investments matured in year | (14) | | (14) |
| (20,160) | Capital Grants | (44,822) | | (44,822) |
| (1,769) | Other Capital Income | (257) | | (257) |
| (23,740) | | (48,813) | 22 | (48,835) |
| **(3,060)** | **Net Cash Outflow Before Financing** | **24,055** | **(148)** | **23,907** |
| | **Management of Liquid Resources** | | | |
| (126) | Net increase/(decrease) in short term deposits | 28,307 | 0 | 28,307 |
| | **Financing** | | | |
| | *Outflows* | | | |
| 87 | Repayments of amounts borrowed | 4,211 | | 4,211 |
| 0 | Capital Element of PFI Payments | 697 | | 697 |
| | *Inflows* | | | |
| (1) | New Loans Raised | (27,900) | | (27,900) |
| 86 | | (22,992) | 0 | (22,992) |
| **3,020** | **(Increase)/Decrease in Cash** | **29,370** | **(148)** | **29,222** |

## Notes to Group Accounts

### G1. Consolidation of West Mercia Supplies

Figures in respect of West Mercia Supplies have been consolidated using the gross equity method. The amounts included in the Group Income and Expenditure Account are:

| | WMS £000 | SC Share (27%) £000 |
|---|---|---|
| Turnover | (43,642) | (11,609) |
| Cost of Goods Sold and Operating Expenses | 39,993 | 10,638 |
| Gain on Disposal of Fixed Asset | (4) | (1) |
| Interest and Investment Income | (16) | (4) |
| Pensions Interest Cost and Expected Return on Pensions Assets | 230 | 61 |
| **Net Operating Surplus** | **(3,439)** | **(915)** |
| Distribution of Surplus to Member Authorities | 3,526 | 938 |
| **NET DEFICIT FOR THE YEAR** | **87** | **23** |

### G2. Consolidation of Community Asset Trust

The operating income (£503,961) of the North Shropshire Community Asset Trust has been included within Housing Services. There was no expenditure incurred by the company in 2009/10.

### G3. Consolidation of South Shropshire Leisure Ltd

The operating income (£1,856,290) and expenditure (£1,671,276) of South Shropshire Leisure Limited has been included within Cultural, Environmental and Planning Services. The inter-company transactions with Shropshire Council have been excluded from Culture, Environmental and Planning Services (Income/Expenditure £638,884).

### G4. Long Term Investment included in Group Balance Sheet.

| | WMS £000 | SC Share (27%) £000 |
|---|---|---|
| Assets | 18,445 | 4,906 |
| Liabilities | (13,768) | (3,662) |
| **Value of investment** | **4,677** | **1,244** |

# PENSION FUND ACCOUNTS

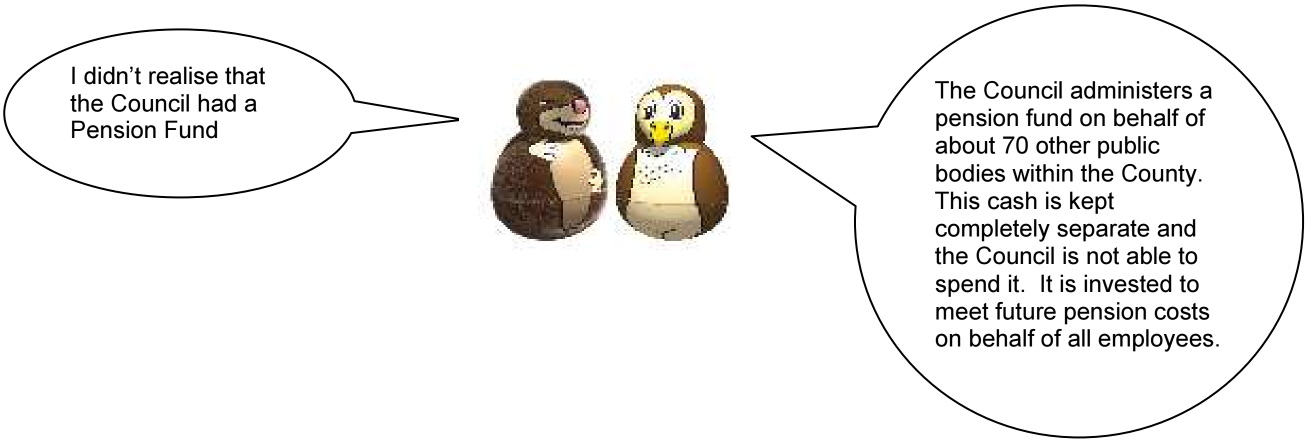
Shropshire Council acts as Administering Authority for the Shropshire County Pension Fund (SCPF). The fund covers the employees of the Council, other than teachers, for whom separate arrangements exist, and other bodies including the Borough of Telford & Wrekin, District Councils, colleges and voluntary organisations. Full details of SCPF's annual accounts, investment performance and governance arrangements are set out in the Shropshire County Pension Fund 2009/10. A summary of the statement of accounts and compliance with Myners' principles is shown below.

## Pension Fund Account for the year ended 31 March 2010

| 2008/09 (Restated) £m | | 2009/10 £m |
|---|---|---|
| | **Income** | |
| | Contributions | |
| 39.164 | Employers | 40.235 |
| 14.910 | Employees | 15.176 |
| 7.666 | Transfers In | 10.000 |
| **61,740** | **Total Income** | **65.411** |
| | **Expenditure** | |
| | Benefits Payable | |
| (30.952) | Pensions | (35.150) |
| (13.175) | Lump Sums | (10.757) |
| (0.065) | Refunds | (0.013) |
| (8.591) | Transfers Out | (8.972) |
| (1.070) | Administrative expenses | (1.070) |
| **(53,853)** | **Total Expenditure** | **(55.962)** |
| | **Returns on Investments** | |
| 23.518 | Investment Income | 20.147 |
| (61.090) | Gain/(loss) on cash and currency hedging | 5.558 |
| (0.524) | Irrecoverable Tax | (0.424) |
| (156.974) | Changes in Market Value | 207.790 |
| (5.912) | Investment management expenses | (7.969) |
| **(200.982)** | **Net Returns on Investments** | **225.102** |
| **909.250** | **Opening net assets of the scheme** | **716.155** |
| **716.155** | **Closing net assets of the scheme** | **950.706** |

## Pension Fund Net Asset Statement as at 31 March 2010

| 31 March 2009 (Restated) £m | | 31 March 2009 £m | % |
|---|---|---|---|
| | **Investment Assets** | | |
| | Fixed Interest Securities | | |
| 28.918 | Public Sector Bonds | 36.787 | 3.87 |
| 79.272 | Corporate Bonds | 95.884 | 10.09 |
| 68.452 | Index Linked Securities | 80.783 | 8.50 |
| 397.438 | Equities | 571.583 | 60.12 |
| 21.991 | Futures | 1.879 | 0.20 |
| | Unit Trusts | | |
| 38.388 | Property | 29.988 | 3.15 |
| 0.020 | Other | 0.019 | 0.00 |
| 75.967 | Hedge Funds | 86.822 | 9.13 |
| 0.200 | Other Investments | 38.975 | 4.10 |
| | Commitment to Derivatives | (0.776) | (0.08) |
| 4.093 | Cash | 6.903 | 0.73 |
| **714.739** | **Net Current Assets & Liabilities** | **948.847** | **99.80** |
| 3.951 | Debtors | 4.093 | 0.43 |
| (2.535) | Creditors | (2.234) | (0.23) |
| **716.155** | **Net Assets at 31 March** | **950.706** | **100%** |




## Myners' Principles

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

**1. Effective Decision Making – Full Compliance**

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

**2. Clear Objectives – Full Compliance**

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

**3. Risk and Liabilities – Full Compliance**

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

**4. Performance Assessment – Partial Compliance**

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

**5. Responsible Ownership – Full Compliance**

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

**6. Transparency and Reporting – Full Compliance**

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

# HOUSING REVENUE ACCOUNT

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

## Housing Revenue Account Income and Expenditure Account

| | 2009/10 | |
|---|---|---|
| | **£000** | **£000** |
| **Income** | | |
| Dwelling rents (gross) | (13,449) | |
| Non-dwelling rents (gross) | (228) | |
| Charges for services and facilities | (706) | |
| Contributions towards expenditure | (12) | |
| | | (14,395) |
| **Expenditure** | | |
| Repairs and maintenance | 4,314 | |
| Supervision and management - General | 1,317 | |
| Supervision and management - Special | 1,291 | |
| Negative Housing Revenue Account subsidy payable | 4,660 | |
| Provision for Bad or Doubtful Debts | 69 | |
| Depreciation of fixed assets – Dwellings | 2,524 | |
| Depreciation of fixed assets – Other | 74 | |
| Impairment | (14,707) | |
| | | (457) |
| **Net Cost of HRA Services as shown on the Income and Expenditure Account** | | **(14,852)** |
| HRA services share of Corporate and Democratic Core | | 91 |
| **Net Cost of HRA Services** | | **(14,761)** |
| Gain or loss on sale of HRA fixed assets | 89 | |
| Interest payable and similar charges | 69 | |
| PWLB Premium Amortised | 0 | |
| Interest and investment income | (27) | |
| Pensions interest cost and expected return on pensions assets | 414 | |
| | | 545 |
| **(Surplus)/Deficit for the year on HRA services** | | **14,215** |

# HOUSING REVENUE ACCOUNT

## Statement of Movement on the Housing Revenue Account Balance

| | 2009/10 £000 |
|---|---|
| Deficit for the year on the HRA Income and Expenditure Account | (14,215) |
| Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year | 13,415 |
| (Increase) or decrease in the Housing Revenue Account Balance | (800) |
| Housing Revenue Account surplus brought forward | 0 |
| Housing Revenue Account surplus carried forward | (800) |

## Note of Reconciling Items for the Statement of Movement of HRA Balance

| | 2009/10 £000 | 2009/10 £000 |
|---|---|---|
| **Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year** | | |
| Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements | 14,719 | |
| Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the SORP and those determined in accordance with statute | 69 | |
| Gain or loss on sale of HRA fixed assets | (89) | |
| HRA share of contributions to or from Pensions Reserve | (520) | |
| | | 14,179 |
| **Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year** | | |
| Capital expenditure funded by the Housing Revenue Account | 817 | |
| Transfer to/from Major Repairs Reserve | (74) | |
| Transfer to/from Housing Repairs Account | (817) | |
| Transfer to the Housing Revenue Account (Local Government Re-Organisation Inherited Balance) | (975) | |
| Payments to SC Pension Fund Employers contributions | 286 | |
| | | (763) |
| **Net additional amount required by statute to be credited to the HRA Balance for the year** | | **13,415** |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. HOUSING STOCK

| | 2009/10 |
|---|---|
| **Total Number of Dwellings at 31st March 2010:** | |
| Houses and Bungalows | 3,280 |
| Flats | 971 |
| | 4,251 |
| **Change in Stock** | |
| Stock at 1st April 2009 | 4,271 |
| Less: Sales – Right to Buy | (2) |
| Sales – Other | (18) |
| Disposal/restructuring | 0 |
| Acquisition | 0 |
| | 4,251 |

### 2. RENT ARREARS

| | 2009/10 £ |
|---|---|
| Due from Current Tenants | 310,388 |
| Due from Former Tenants | 334,239 |
| Total Rent Arrears 31 March 2010 | 644,627 |
| Pre-Payments | (320,981) |
| Net Arrears | 323,646 |

As at 31st March 2010, the total provision set aside for housing rent bad debts is £466,935.

### 3. BALANCE SHEET VALUE OF ASSETS

| | Dwellings | Land | Buildings | Vehicles Plant & Equipment | Infras-tructure | Sub-Total | Non-Operational Investment | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | | |
| Balance b/f 1/4/09 | 217,721 | 1,025 | 979 | 11 | 59 | **219,794** | 1,474 | **221,268** |
| Additions | 1,120 | 0 | 0 | 0 | 0 | **1,120** | 0 | **1,120** |
| Disposals/Write out | (306) | 0 | 0 | 0 | (6) | **(312)** | (349) | **(661)** |
| Reclassifications | 1,015 | (465) | (88) | (11) | 0 | **451** | (451) | **0** |
| Revaluations | 15,097 | 0 | 0 | 0 | 0 | **15,097** | 76 | **15,173** |
| Gross Book Value at 31/03/10 | 234,647 | 561 | 891 | 0 | 53 | **236,151** | 749 | **236,900** |
| **Depreciation & Impairments** | | | | | | | | |
| Balance b/f 1/4/09 | (2,518) | 0 | (83) | 0 | (35) | **(2,636)** | (7) | **(2,642)** |
| Charge for 2009/10 | 12,229 | 0 | (34) | 0 | (3) | **12,191** | (83) | **12,109** |
| Disposals/Write out | 3 | 0 | 0 | 0 | 6 | **9** | 0 | **9** |
| Reclassifications | (43) | 0 | 37 | 0 | 0 | **(7)** | 7 | **0** |
| Revaluations | (15,097) | 0 | 2 | 0 | 0 | **(15,094)** | 83 | **(15,012)** |
| Gross Book Value at 31/03/10 | (5,426) | 0 | (78) | 0 | (32) | **(5,536)** | 0 | **(5,536)** |
| **NBV 31/03/10** | **229,221** | **561** | **813** | **0** | **20** | **230,615** | **749** | **231,364** |
| **NBV 01/04/09** | **215,203** | **1,025** | **896** | **11** | **23** | **217,158** | **1,467** | **218,626** |

The Council's Head of Estates has advised that no general impairment should be charged to the 2009/10 accounts. However there was capital expenditure within the year of £306,901 which was considered not to give rise to an increase in the valuation of the Housing Stock and an impairment has been recognised with regard to this, together with an impairment of £82,640 relating to a devaluation of land. In recognition of a general increase in property valuation of 7.1% during the year, an impairment of 10.7% recorded in the 2008/09 accounts has been partly reversed in 2009/10.

There is a difference of £221,534,039 between the tenanted valuation and the District Valuer's Vacant Possession Value of £436,167,415 at 1 April 2009. The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market. The difference represents the economic cost of the Government of providing council housing at less than market rents.

## 4. MAJOR REPAIRS RESERVE

| | 2009/10 £ |
|---|---|
| Balance Brought Forward | 0 |
| Amount transferred from previous District Authorities | 1,503,126 |
| Amount Transferred to the MRR during the Year | 2,598,468 |
| Amount Transferred to HRA during the year - Excess Depreciation | (74,286) |
| Capital Expenditure Financing | (99,774) |
| **Balance Carried Forward** | **3,927,534** |

## 5. CAPITAL EXPENDITURE FINANCING

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

| | 2009/10 £ |
|---|---|
| Reserved Capital Receipts (in lieu of borrowing) | 0 |
| Usable Capital Receipts | 159,758 |
| Revenue Contributions utilised in year | 0 |
| Major Repairs Allowance | 99,774 |
| Government Supported borrowing | 32,000 |
| Government Grants and Contributions | 11,917 |
| Revenue Provision | 817,042 |
| **Total Capital Expenditure on Housing Stock** | **1,120,491** |

## 6. CAPITAL RECEIPTS

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

| | 2009/10 £ |
|---|---|
| Sale of Council Houses under Right to Buy (RTB) | 124,000 |
| RTB Discounts Repaid | 9,040 |
| Other Land & Buildings | 309,500 |

| | |
|---|---|
| Mortgage Receipts | 0 |
| Total Capital Receipts from HRA Asset Disposals | 442,540 |
| Less Capital Receipts subject to Pooling requirement | (99,780) |
| **Net Capital Receipts from HRA Asset Disposals** | **342,760** |

**7. DEFERRED CHARGES**

A charge of £68,851 was made to the HRA in respect of premiums incurred for the premature redemption of debt by Oswestry Borough Council in 2003/04. Charges will continue to apply until 2013/14.

**8. FRS17 RETIREMENT BENEFITS**

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

The adjustment needed to meet the Actuary's assessment of the Current Service Cost to the HRA has resulted in a contribution of £233,707 from the pension reserve for the year. The overall impact of these adjustments is nil to the HRA. Further information is given in note xx to the Income and Expenditure Account.

| | **2009/10**<br>**£** |
|---|---|
| Current Cost of Service | 106,134 |
| Net Return on Assets | 413,577 |
| Movement on Pension Reserve | 519,711 |
| Employers Contribution payable to scheme | (286,004) |
| Contribution to/(from) the Pension Reserve | (233,707) |

**9. HOUSING SUBSIDY**

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

| | **2009/10**<br>**£** |
|---|---|
| Management & Maintenance | 5,735,641 |
| Major Repair Allowance | 2,524,182 |
| Charge for Capital | 464,779 |
| Rental Constrain Allowance | 0 |
| Interest on Receipts | 0 |
| Guideline Rent Income | (13,404,620) |
| **Housing Element (Subtotal)** | **(4,680,018)** |
| Previous Year Adjustment | 19,869 |
| **HRA Subsidy recoupment** | **(4,660,149)** |

## 10. HOUSING REPAIRS ACCOUNT

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

# COLLECTION FUND

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

| | 2009/10 £000 | £000 |
|---|---|---|
| Income: | | |
| Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief) | | (139,216) |
| Transfers from General Fund | | |
| - Council Tax benefits | (19,119) | |
| - Transitional relief | 7 | |
| | | (19,112) |
| Income collectable from business ratepayers | | (69,578) |
| **TOTAL INCOME** | | **227,906** |
| Expenditure: | | |
| Precepts | | |
| - Shropshire Council and Parish and Town Councils | 130,159 | |
| - West Mercia Police | 18,577 | |
| - Shropshire & Wrekin Fire Authority | 8,715 | |
| | | 157,451 |
| Business rate | | |
| - payment to national pool | 68,559 | |
| - costs of collection | 468 | |
| | | 69,027 |
| Bad and doubtful debts/appeals | | |
| - write offs | (97) | |
| - provisions | 754 | |
| | | 657 |
| Contributions | | |
| - Towards previous year's estimated Collection Fund surplus | | 1,085 |
| **TOTAL EXPENDITURE** | | **228,220** |
| **Deficit/(Surplus) for the Year** | | **314** |
| Balance brought forward | | (763) |
| **Balance carried forward** | | **(449)** |

## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2009/10 was as follows:-

| Council Tax Band | Net Dwellings | Ratio | Band D Equivalents |
|---|---|---|---|
| A1 | 68.00 | 5/9 | 37.86 |
| A | 20,226.20 | 6/9 | 13,484.19 |
| B | 29,389.50 | 7/9 | 22,858.55 |
| C | 24,248.75 | 8/9 | 21,554.41 |
| D | 17,285.15 | 9/9 | 17,285.15 |
| E | 12,890.30 | 11/9 | 15,754.80 |
| F | 6,883.90 | 13/9 | 9,943.43 |
| G | 3,867.90 | 15/9 | 6,446.47 |
| H | 250.05 | 18/9 | 500.10 |
| | **115,109.75** | | **107,864.96** |
| Adjustment for MoD Properties (762.10 Band D Equivalents) and Collection Rate (98.5%) | | | 867.34 |
| | | | **106,997.62** |

### 2. NATIONAL NON-DOMESTIC RATES (BUSINESS RATES)

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

At 31st March 2010, the total non-domestic rateable value for all business premises in Shropshire was £195,627,529. The multiplier set by Government to calculate rate bills in 2009/10 was 48.1p for small businesses and 48.5p for all other businesses.

### 3. COLLECTION FUND SURPLUSES AND DEFICITS

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

**SHROPSHIRE COUNCIL**
**ANNUAL GOVERNANCE STATEMENT**
**2009/10**

## Standards of Governance

1. The Council expects all of its members, officers and contractors to adhere to the highest standards of public service with particular reference to the formally adopted Codes of Conduct, the Constitution and policies of the Council as well as the applicable statutory requirements. The Authority has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.

## Scope of Responsibility

2. Shropshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Shropshire Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3. In discharging this overall responsibility, the Council (members and officers) are responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions, which includes arrangements for the management of risk.

4. The Council continues to review its arrangements against best practice and implement changes to improve overall governance arrangements.

## The Purpose of the Governance Framework

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

6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of Shropshire Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage these risks efficiently, effectively and economically.

7. The governance framework accords with proper practice and has been in place at Shropshire Council for the year ended 31st March 2010 up to the date of approval of the Annual Report and Statement of Accounts.

## The Governance Framework

8. The Governance Framework within Shropshire Council encompasses all systems, processes and procedures covering a wide range of services to the public. The Council's Constitution provides the framework for its decision making processes and sets out the detailed procedures, protocols and codes by which members and officers operate to achieve the Council's objectives. **Appendix A** identifies the process which leads to the preparation of the Annual Governance Statement being signed off and published with the Statement of Accounts.

9. Under the Constitution the Leader and Cabinet form the decision-making Executive. Their decisions must be in line with the Council's objectives and are subject to examination by a number of overview and scrutiny committees.

10. The Council Management Team (CMT) is responsible for overseeing and monitoring the control environment. These officers are assigned with the ownership of risks and should routinely monitor and review the related controls as an integrated part of the risk management process. This key management responsibility is supported by the designated roles of the three statutory officers; the Head of Paid Service (Chief Executive), the Chief Financial Officer (Director of Resources) and the Monitoring Officer (Assistant Chief Executive, Legal and Democratic Services), plus Internal and External Audit and other external review agencies (e.g. Ofsted, Care Quality Commission etc).

11. The key elements of the governance framework within Shropshire Council can be sub-divided into the following key areas, as detailed below:

**Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

12. The Shropshire Council Corporate Plan 2009/13 was approved by Shropshire Council in July 2009. The annual review process commenced in autumn 2009 to reflect the emerging priorities from Shropshire's Community Strategy and the budget consultation process. Shropshire Council's Transitional Corporate Plan 2010-2013 was approved by Council in February 2010. The Plan closely mirrors the Community Strategy for Shropshire. The aims relate to:
    - Enterprise and Growth, with strong market towns and rebalanced rural settlements;
    - Responding to climate change and enhancing our natural and built environment;
    - Healthy, safe and confident people and communities.

    Within each of the aims there are identified further priorities for improvement. The plan clearly sets out the targets for 2010/11-2012/13. The Corporate Plan has strong links to other plans within Shropshire Council and in the Shropshire community as a whole. A revised Corporate Plan in line with the Council's emerging Transformation Programme will go to Council in July 2010.

13. Quarterly performance reports are forwarded to CMT, Cabinet and the Corporate Performance Management Group on progress against key objectives and targets. Quarterly performance reports from the corporate performance management system, Performance Plus, are available within 3-4 weeks of the end of each quarter.

14. The Council recognises the importance of communicating its vision and uses a number of channels to this effect.

    - We send out a magazine called 'Your Shropshire' every three months to every household.
    - Our website www.shropshire.gov.uk (receiving approximately one million unique visitors a year) can help you find out about our services, many of which you can apply for online.

- We can publish a range of leaflets to tell you about our services, produce annual service plans and monitor their performance.
- We provide performance information for local areas.

**Reviewing the authority's vision and its implications for the authority's governance arrangements**

15. The commitments in Shropshire Council's Transitional Corporate Plan are set in a robust performance framework. The Local Code of Corporate Governance is reviewed annually and reported to Audit Committee.

16. The Corporate Performance Management Framework was reviewed and updated for 2009/10, a copy of the framework is attached at **Appendix B** and includes:
    - The corporate planning process;
    - Regular performance reports on service plans that go to Directorate Management Teams, portfolio holders and Scrutiny;
    - Corporate performance reports that go to Corporate Performance Management Group, Council Management Team, Cabinet, and Council;
    - Monitoring of the Local Area Agreement.

17. There is an established Risk Management framework in place supported by a Risk Management Group led by the Director of Resources with representatives from all Directorates and other key service areas who have a key role in raising the profile of risk management across all areas of service.

18. The Council has a Risk Management Strategy in place which has been fully reviewed in light of the new Shropshire Council's vision and plans. The strategy sets out roles and responsibilities, and the procedures for managing risks within the Council. This is signed and endorsed by the Leader of the Council and the Chief Executive.

19. The Leader of the Council is the Member Risk Champion and regular meetings are held to discuss risk management issues and activities.

20. The strategic risks for Shropshire Council have been identified and incorporated into a risk register and action plans have been put in place to ensure the risks are mitigated as far as possible to ensure minimal impact on delivering the Council's objectives.

21. Information governance is a strategic risk for the Council. The Director of Resources is the Senior Information Risk Owner (SIRO) and the Information Governance Group considers and reviews risk assessments on the use of personal information on an ongoing basis. Risk assessments are updated to reflect system and service changes.

**Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

22. The Council carries out the national 'Place Survey' annually asking a proportion of residents what they think about where they live and the services they receive, annual budget consultation is carried out around the county for residents and we have a robust complaints process in place.

23. In Shropshire, the results of the survey showed that 87.5 per cent of respondents said they were satisfied with their local area as a place to live. This compares to the national average of 80 per cent. Results also showed that Shropshire is above national average for all other indicators published.

24. Our Citizens Panel takes part in surveys and is involved in detailed focus groups looking at specific projects.

25. Regular performance and risk management reports are produced informing the Council's Management Team, Cabinet, the Corporate Performance Management Group and Risk Management Group on progress.

26. Council receive annual Portfolio Holder Statements including areas of achievement and areas for improvement. An outcome assessment is completed against the corporate aims as part of the Annual Performance Monitoring Report to Council each year.

27. A number of initiatives in relation to procurement activities have delivered significant savings through tendering, improved practices and innovation. Examples include e-auctions (delivered savings of £910,000 over the next five years), corporate framework contracts, flexible procurement of energy, continued active support and links with the Regional Improvement and Efficiency Partnership and collaboration procurement with other Local Authorities.

28. The Council continues to benchmark its services to assist in identifying areas for review and to ensure that as many performance indicators as possible are in the top quartile. Services used include:
    - Price Waterhouse Coopers (PWC) national county council initiative.
    - Society of County Treasurers (SCT).
    - Association for Public Service Excellence (APSE).
    - Chartered Institute of Public Finance Accountants (CIPFA).

29. Shropshire Council's estimated savings in 2009/10 of £8,999,000 combined with the actual savings achieved in 2008/09 of £8,328,974, identifies potential cumulative savings of £17,327,974 against a target under the Comprehensive Spending Review 2007 (CSR07) of £25,310,000 for the three years 2008/09 to 2010/11. The identification of cash releasing efficiencies to fund front line service delivery is an integral part of the Council's budgetary process.

30. The move to a Unitary Council for Shropshire achieved future targets for service improvement and delivered efficiency gains in excess of £7.18 million (included in the overall CSR07 efficiency savings) from support service areas, as identified in the "Unitary" business case.

31. Overall for 2008/09 the Audit Commission assessed Shropshire Council as performing well in arrangements for Managing Finance, Governing the Business and Managing Resources. The Council is the only one of the five 'continuing county councils' following local government reorganisation to be assessed as performing well and, on a simple arithmetic basis, one of the top ten performing single tier and county councils in England.

32. The Audit Commission issued an unqualified opinion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the Use of Resources judgement.

**Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

33. Shropshire Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. More detailed procedures and codes of practice are provided in rules and protocols at the end of the Constitution.

34. Within the Constitution, Article 13 sets out the responsibilities and procedures for decision making. These are designed to ensure that all decisions will be made in accordance with the following principles:

- Proportionality (i.e. the action must be proportionate to the desired outcome).
- Due consultation and the taking of professional advice from officers.
- Respect for human rights.
- A presumption in favour of openness.
- Clarity of aims and desired outcomes.
- Consideration of alternative options.
- Recording reasons for the decision, including details of any alternative options considered and rejected and
- That in relation to decisions of the Cabinet that these are lawful and consistent with the powers delegated by the Council.

35. The Cabinet is the Council's key decision making body and makes decisions within the policy framework approved by Full Council. It is made up of the Leader, and up to nine councillors. Major decisions are published in the Executives' Forward Plan and are discussed with council officers at a meeting of the Cabinet which will normally be open for the public to attend, except where personal or confidential matters are being discussed. The Cabinet must make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

36. There are five Scrutiny Committees that support the work of the Cabinet and the Council as a whole. They allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Cabinet and the Council as a whole on its policies, budget and service delivery. Scrutiny Committees also monitor the decisions of the Cabinet. They can 'call-in' a decision which enables them to consider whether the decision is appropriate and may recommend that the Cabinet reconsider the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy.

**Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

37. Codes of Conduct for both Members and Staff are contained within the Constitution.

38. The Standards Committee monitors and reviews the operation of the Codes and Protocols to ensure that the aims and principles of the Constitution are given full effect.

39. All officers have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided for officers as necessary and appropriate induction sessions are arranged for all new staff.

40. Monitoring of compliance is delivered by relevant key officers, including the Section 151 Officer (Director of Resources) and the Monitoring Officer (Assistant Chief Executive, Legal and Democratic Services).

**Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

41. Financial Rules, Contract Rules, Policies and Procedures, Codes of Conduct, Financial Manuals and Guidance are all in place and available to staff in paper and electronic formats. All were reviewed in preparation of the new Unitary authority. Codes and protocols forming part of the Constitution are reviewed on a regular basis or in the light of significant change.

42. The Monitoring Officer (Assistant Chief Executive Legal and Democratic Services) is responsible for making recommendations for ways in which the Constitution can be

amended or improved. Changes to the Constitution must be approved by full Council, subject to the Assistant Chief Executive, Legal and Democratic Services making routine revisions and replacing references to any repealed or amended legislation, or secondary legislation with current references.

43. In addition to the above, in order to allow the Council to make the many decisions that are required on a daily basis, responsibilities for certain decisions are delegated to Senior Officers which are identified in Section 8 of the Constitution "Delegations to Officers".

**Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement in the Role of the Chief Financial Officer in Local Government (2010)**

44. The financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Systems operating within Shropshire Council are based upon a framework of regular management information and financial reporting to councillors and officers. The financial management system includes:
    - A strong culture amongst our Service Managers and Directorate Management Teams of being responsible for financial management. Our managers work very hard to get the best service for their clients from the available resources.
    - A detailed medium term financial planning process.
    - Identification of high risk budgets for more detailed monitoring.
    - Detailed capital appraisal process which feeds into a five year capital strategy.
    - Monthly financial monitoring reports to managers indicating projected financial performance against budgets.
    - Quarterly revenue budget monitoring reports to Cabinet and Strategic Overview and Scrutiny Committee.
    - Capital monitoring: quarterly capital monitoring reports to Cabinet and Strategic Overview and Scrutiny Committee.
    - Officer delegated decisions in accordance with approved delegations, codes and policies (e.g. Treasury Management).
    - Highly effective Internal Audit.
    - Effective working relationships with the Audit Commission.

45. The system of internal financial control is subject to regular review by both the Council's Internal and External Auditors who adhere to professional standards.

**Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities**

46. The Council has in place an effective Audit Committee who is seen as a key part of providing assurance on the Council's overall system of internal control and corporate governance arrangements. They undertake the core functions of an audit committee as identified in CIPFA's Audit Committee – Practical Guide for Local Authorities and have a full work programme. They monitor the work of both internal and external audit and receive a range of other reports for scrutiny. An ongoing training programme has been put in place for all Audit Committee members to ensure they have the appropriate skills and knowledge to scrutinise and challenge the reports they receive. They also consider the annual report on the review of the effectiveness of the Council's system of Internal Audit.

**Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

47. The Assistant Chief Executive, Legal and Democratic Services and her team have a key role in ensuring compliance with the Constitution and issuing advice and guidance on new legal developments and compliance with current legislation. The Unit is Lexcel

accredited and has Legal Officers who specialise in specific areas of Council activity e.g. Education, Social Care and Health, etc.

48. Officers in Legal and Democratic Services have a key role to play in helping to ensure that the principles enshrined in the Constitution (sustainable decision-making, robust scrutiny, the rules of natural justice, standards of conduct, efficiency, transparency and high standards of corporate governance) are delivered in practice through the Council's administrative process.

49. The Director of Resources also has a responsibility to highlight any proposal, decision or course of action which will involve any lawful expenditure. The External Auditors also carry out an external audit of the Council's accounts.

**Whistle Blowing and for receiving and investigating complaints from the public**

50. Whistle Blowing arrangements are in place and any irregularities identified will be investigated by Internal Audit or the appropriate officers within the Service Directorates. Leaflets on 'Speaking Up About Wrongdoing' which incorporates whistle blowing have been re-distributed to staff members, contractors and partners in January 2010. Human Resources carry out regular briefing sessions for staff on Harassment and Bullying, Speaking Up About Wrongdoing and Code of Conduct. A reminder to all staff about the process for speaking up about wrong doing was provided on the Intranet in January 2010.

51. Standards Committee are responsible for the monitoring and overview of the Speaking Up About Wrongdoing Policy and receive an annual report.

**Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

52. Members undergo individual development reviews which are member led. A six monthly rolling programme of seminars tailored to meet their development reviews is put on for members who are also supported in their attendance at external conferences. Topics of specialist interest have included safeguarding for both children and young people recognising the corporate parent responsibility and vulnerable adults.

53. Senior officers' development priorities are identified via the Council's appraisal system. Additionally during the past eighteen months top team development projects have been developed and delivered. Future development plans will focus around four key areas: membership and leadership development; essential skills development; transformational development and career development.

54. In relation to specific generic training, such as to ensure risk management is embedded throughout the Council, monthly general awareness training sessions are held which are open to all staff. In relation to information governance all staff handling personal data are undergoing an internet training package.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

55. Twenty eight Local Joint Committees (LJC's) were set up following the inauguration of the new Council in June 2009. Each local committee meets quarterly and is made up of Shropshire Councillors and town and parish councillors, all with an equal vote. The committees work with local people and organisations, involving them in decision making and holding public service providers to account. The committees strengthen the role of the existing town and parish councils and improve the quality of parish delivery and help to promote parish planning.

56. Each local committee has a delegated budget calculated on a per head of population together with a sparsity factor to acknowledge the rurality of the county. Financial procedures are in place with local decisions on priorities determined by the Committee Members.

57. The Citizens' Panel was established by the Shropshire Partnership in February 2008, the panel currently consists of approximately 1,700 local people from all areas of Shropshire who take part in consultations on an ad hoc basis.

58. The Consultation Portal, hosted by the Shropshire Partnership, is an online database listing all past, current and planned consultation activities the Council and its partners are involved in. The portal provides summary information about each consultation and provides contact details and a link to the relevant document or website so that members of the public can find out more if they wish to. The portal can be accessed through the Shropshire Partnership's website www.shropshirepartnership.org.uk

59. In addition to the above there are a number of other ways in which the Council seeks views and consults with various groups such as:

- Speaking Out Group: A group of 15-20 young people aged 11 to 18 giving young people a voice in the work of Shropshire Council.
- Forums: such as the Shropshire Partnerships Equalities Forum.
- Taking Part: A group of adults with learning disabilities, supported by advocates that gives adults with learning disabilities the opportunity to influence service provision and development.
- Youth Parliament: Local Democracy Week is held in October which encourages young people throughout the county to stand for election as a Member of Youth Parliament (MYP). Elections are held annually in January. Voting takes place in schools, colleges and community venues. All young people aged 13-19 are entitled to vote.
  The role of the MYP is to represent the views of young people in Shropshire. Each January young people vote on their top issues, the two most popular issues then form the basis for the MYP manifesto for the year. The MYPs also choose a regional issue to support. In addition they represent young people on a range of groups, such as the Leadership Board, scrutiny panels, attend meetings with lead officers and attend monthly meetings with the Young People's Speaking Out Group.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements**.

60. The Council's governance arrangements in respect of partnerships and other group working are identified within the Constitution, Financial Rules and Corporate Performance Management Framework.

61. The Council's work in partnership and with other groups utilises aspects of the governance framework already in place, such as performance, risk and financial management processes.

62. The Voluntary Sector Compact is a set of shared principles and guidelines for effective partnership working between Shropshire Council and the Voluntary and Community Sector (VCS). The current Compact was adopted by the Council in November 2009. A Compact Implementation Group leads Compact work for the County and links to a Compact Champions Network, and sub groups focusing on disputes and resolution, training and communications and funding and commissioning. Shropshire Compact has recently been voted best Unitary Resourced Compact by the national body, Compact Voice.

63. Shropshire Voluntary and Community Sector Assembly is now well established as the voice of the VCS in Shropshire. The Assembly has over 300 members and is formed of a Board and 14 forums of interest: groups of organisations with a common interest (for example heritage, disability, health and social care, arts, housing etc.) The Assembly undertakes regular communication activity to involve its members in events, tender opportunities, consultations and to promote funding opportunities.

**Review of Effectiveness**

64. Shropshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance arrangements including the system of Internal Control. The review of the effectiveness of the governance arrangements is informed by the Corporate Directors and senior managers within the authority who have responsibility for the development and the maintenance of the internal control environment. All Corporate Directors have confirmed that, to their knowledge, internal control systems and governance arrangements are operating adequately in their areas and/or steps are being taken to address known areas of weakness; the work of Internal Audit and Risk Management; Findings and comments made by the External Auditors, other review agencies and inspectorates and the Head of Paid Service (Chief Executive), Chief Financial Officer (the Director of Resources) and the Monitoring Officer (the Assistant Chief Executive Legal and Democratic Services).

65. The Cabinet monitors the effectiveness of the internal control system via the consideration of regular performance and financial information reports from senior management. Cabinet members receive regular feedback from senior officers within their portfolios on the progress of objectives and the management of risks linked to these objectives. Each portfolio holder produces an annual report to Council on the performance in their area.

66. Scrutiny Committees have a role in the review of policies and their outcomes, development of new policies, and in the performance of services. Scrutiny chairs produce an annual report on the work of their panels.

67. The Internal Audit Service continually works with managers in assessing the control environment and enhancing controls where necessary. There is in place a four year risk based strategic internal audit plan which examines all key financial and managerial systems, endorsed by the Audit Committee. Internal Audit's objectives include:

- Independently reviewing and appraising systems of control throughout the Authority.
- Recommending improvements in systems procedures, controls, and productivity in achieving the corporate aims and objectives.
- Working in partnership with our External Auditors ensuring effective audit cover and optimising available audit resources.
- Working within the Authority's Counter Fraud and Anti Corruption Strategy and undertaking fraud and irregularity investigations as necessary.

***Significant Governance Issues***

68. We have been advised on the implications of the result of the review of the effectiveness of the governance framework and whilst generally satisfied with the effectiveness of the Council's corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the Council has identified the following issues for attention in the coming year to ensure continuous improvement of the systems in place.

- The delivery of the Transformation Programme to ensure that we build on the success of the delivery of the new Shropshire Council, with focus on ensuring that we work together and demonstrate our capability of making major change happen successfully; that we continue to change to respond to the new challenges that we face; that we know best how we can improve the services we offer; that we offer our staff a "new deal" and that we are committed in keeping staff up to date on what is happening. The management of risk will be a key part to ensuring the continued delivery of high quality services.

- International Financial Reporting Standards (IFRS): to continue with our programme of work, to ensure that the Council meets the deadlines for producing accounts that are compliant with the International Financial Reporting Standards.

---------------------------------------- Leader

---------------------------------------------------- Chief Executive

---------------------------------------------------- Director of Resources

## Governance Framework – Key Documents/Functions

- Partnership Community Strategy
- Local Area Agreement
- Constitution
- Corporate Plan
- Performance Plan
- Service Planning Framework
- Portfolio Holder Statements
- Business Transformation Projects
- Community Engagement Strategy
- Communication Strategy
- ICT Strategy
- Human Resources Strategy
- Dignity and Respect Policy
- Performance Management Framework
- Schedule of Council Meetings
- Core Values
- Council Procedure Rules
- Record of Decisions
- Partnership Guidance
- Code of Conduct for Members
- Members Induction and Training Programme
- Code of Conduct for Employees
- Officer and Member Protocols
- Register of Interests
- Confidential Reporting Policy
- Code of Corporate Governance
- Risk Management Strategy
- Risk Registers and Control Frameworks
- Counter-Fraud and Anti Corruption Strategy
- Whistle Blowing Policy
- Capital Appraisal Process
- Information Governance Policy
- Procurement Strategy
- Contract Rules
- Financial Rules
- Medium Term Financial Plan/Budgets
- Treasury Management Framework
- Annual Statement of Accounts
- Scheme of Delegation
- Delegations to Officers
- Complaints Process
- Voluntary Sector Compact
- Social Inclusion Strategy
- Equalities and Diversity Policy and Action Plan
- Business Continuity Plan
- Health and Safety Policy

## Annual Governance Statement

Signed by the Leader of the Council, Chief Executive and Director of Resources and published with the Statement of Accounts

Independent review and approval by Audit Committee who examine draft AGS

Authority and Directorate Policies, Business Plan and Risk Registers

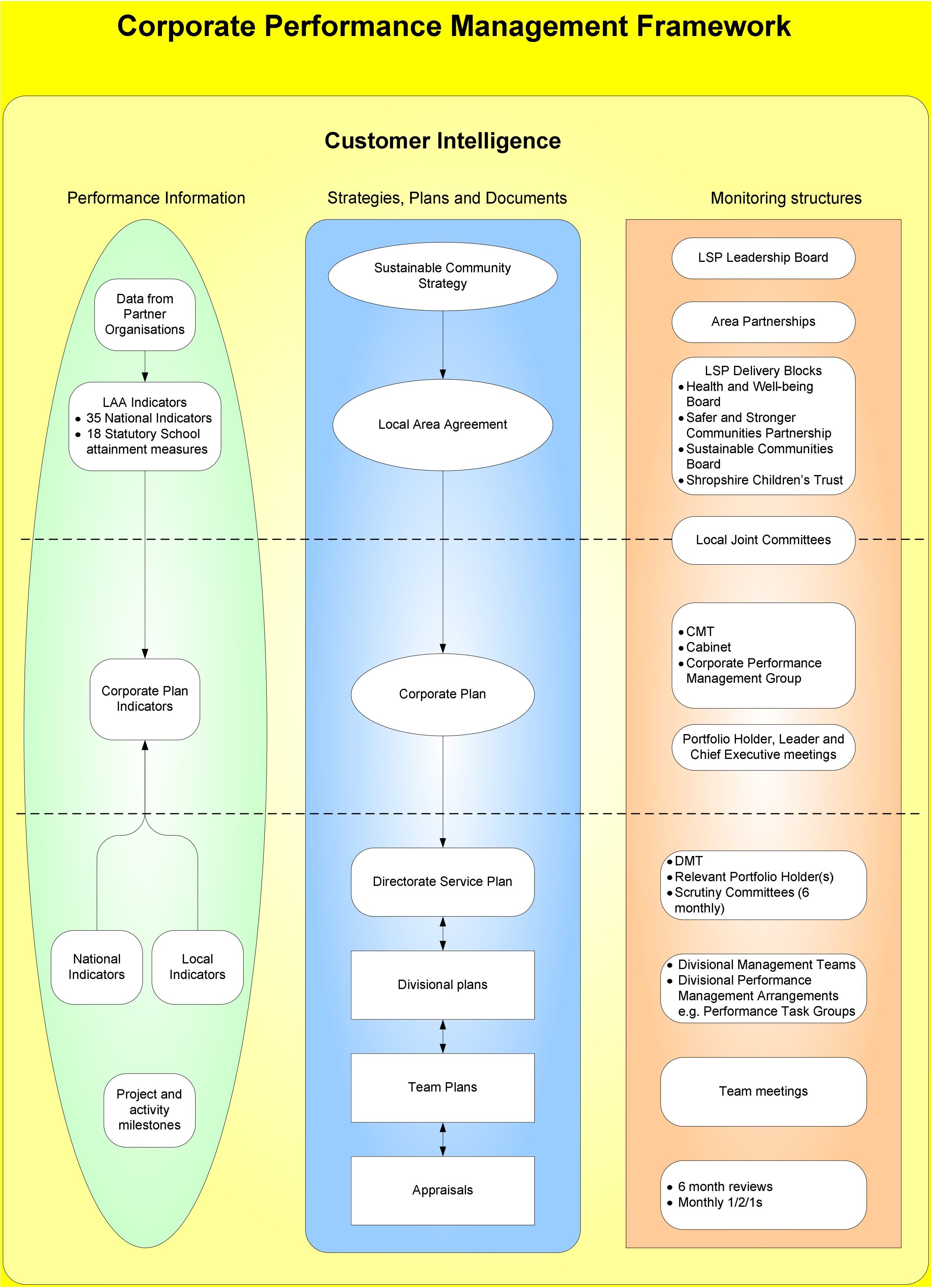
Council Management Team with responsibility for drafting AGS after evaluating assurances and supporting evidence

Review of the Effectiveness of the system of Internal Audit

| Performance Management & Data Quality | Risk Management | Information Governance | Legal and Regulatory Assurance | Members' Assurance | Assurances by Directors/ Service Heads | Other Sources of Assurance (including third-party) | Financial Management | Internal Audit | External Audit |
|---|---|---|---|---|---|---|---|---|---|
| • Embedded system<br>• Operates throughout the organisation<br>• Internal and external reviews<br>• Action orientated<br>• National/Local KPIs<br>• Periodic progress reports<br>• Corporate Performance Management Group<br>• Data Quality Strategy | • Risk Management Strategy<br>• Embedded in planning processes and project/partnership methodologies<br>• Effectiveness evaluated<br>• Outcomes reported to Committee<br>• Training Programme | • Corporate Information Governance Policy<br>• Training Programme<br>• Outcomes reported to Committee | • Monitoring Officer's reports<br>• Sections of Committee Reports<br>• Legal Advice | • Standards Committee<br>• Scrutiny Function | • Annual Management Assurance Statements<br>• Periodic Reports | • Reports by Inspectors<br>• Service Review reports<br>• Fraud Reports and Investigations<br>• Ombudsman reports<br>• Post Implementation reviews of projects<br>• Investors in People Accreditation | • Medium Term Financial Plan<br>• Revenue Budget and Capital programme<br>• Revenue and Capital Monitoring reports<br>• Treasury Management<br>• Schools Accredited under FMSIS Standard<br>• Statement of Accounts<br>• Compliance with Codes of Accounting Practice<br>• Statutory returns<br>• Grant Claims | • Operates under approved Strategy and Terms of Reference<br>• Approved risk based plans<br>• Periodic and annual reports to Audit Committee, including Head of Audit's opinion<br>• CIPFA Code compliance assessment<br>• External Audit Review | • Annual Plan<br>• Annual Governance Report<br>• Annual Audit and Inspection Letter<br>• Audit Opinion and VFM conclusion<br>• Comprehensive Area Assessment<br>• Use of Resources assessment<br>• Ad hoc reports |

ONGOING ASSURANCE ON ADEQUACY AND EFFECTIVENESS OF CONTROLS OVER KEY RISKS

**APPENDIX B**


Corporate Performance Management Framework
Customer Intelligence
Performance Information
Strategies, Plans and Documents
Monitoring structures
Data from Partner Organisations
LAA Indicators
• 35 National Indicators
• 18 Statutory School attainment measures
Corporate Plan Indicators
National Indicators
Local Indicators
Project and activity milestones
Sustainable Community Strategy
Local Area Agreement
Corporate Plan
Directorate Service Plan
Divisional plans
Team Plans
Appraisals
LSP Leadership Board
Area Partnerships
LSP Delivery Blocks
• Health and Well-being Board
• Safer and Stronger Communities Partnership
• Sustainable Communities Board
• Shropshire Children's Trust
Local Joint Committees
• CMT
• Cabinet
• Corporate Performance Management Group
Portfolio Holder, Leader and Chief Executive meetings
• DMT
• Relevant Portfolio Holder(s)
• Scrutiny Committees (6 monthly)
• Divisional Management Teams
• Divisional Performance Management Arrangements e.g. Performance Task Groups
Team meetings
• 6 month reviews
• Monthly 1/2/1s

# GLOSSARY

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

# GLOSSARY

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

# GLOSSARY

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

# GLOSSARY

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

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

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

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

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

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

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

# ACCOUNTING FOR THE QUALITY IN COMMUNITY SERVICES PRIVATE FINANCE INITIATIVE

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

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

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

A number of accounting issues need to be addressed in relation to the QICS PFI for the Council's 2009/10 Statement of Accounts. The following paragraphs provide an explanation as to how the Council will record the QICS PFI arrangement, in financial terms, going forward.

## 12.1 The Accounting View - IFRIC 12 Service Concession Arrangements Accounting Treatment

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

Appendix E states:

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

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

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

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

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

The Council has determined, therefore, that Appendix E (Accounting for PFI Transactions and Similar Contracts) of the 2009 SORP applies to the QICS PFI project. The project is, therefore, “on balance sheet” for the Council’s purposes.

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

**12.2 Recognising Assets and Liabilities**

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

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

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

At the same time as any new assets or enhancements are recognised on the Council’s balance sheet a related liability to the operator to pay for that value will also recognised.

***12.2.1. The Accounting Treatment of Upfront Contributions***

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

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

***12.2.2. The Accounting Treatment of Existing Assets***

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

Under the contract the operator has been provided with a non-exclusive licence to occupy the land on which the properties are situated until the date on which the PFI contract terminates. This means that the land element of the sites was not donated into the PFI transaction and so remain assets of the Council. The 2005/06 and subsequent Statement of Accounts have reflected the fact that the land remains in the Council’s asset register. This approach is also consistent with Appendix E of the 2009 SORP.

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

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

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

***12.2.4. The Accounting Treatment of Assets Constructed Under the Contract***

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

In accordance with Appendix E, therefore, these buildings have been recognised at their market value (£20,402,050), as determined by Council valuations as at April 2006, on the Council's balance sheet in 2006/07. The buildings have subsequently been depreciated and also re-valued by the Council as at April 2009 in accordance with the Council's policies.

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

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

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

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

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

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

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

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

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

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

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

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

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

**12.4 Capital Accounting**

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

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

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

**12.5 Minimum Revenue Provision**

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

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

The new arrangements require a fundamentally different approach. Where assets are recognised up front, then a capital financing requirement is triggered much earlier. Schemes will qualify to be credit arrangements under section7 of the Local Government Act 2003 - where arrangements where the recognition of fixed assets is matched by a liability repayable in more than 12 months. The capital financing requirement (CFR) will rise when fixed assets are recognised, bringing schemes within the scope of minimum revenue provision (MRP).

Appendix E of the 2009 SORP states:

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

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

**12.6 The Treatment of the PFI Annuity Grant from Central Government**

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

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

**12.7 Disclosure Requirements**

The Quality in Community Services (QICS) PFI represents a long term revenue contract and as such must be disclosed in the notes to the Income & Expenditure Account. A statement of accounting policy in relation to the Waste Services PFI project is included in the Statement of Accounting Policies section (Note 24) and specific disclosures are set out in the Notes to the Core Financial Statements section (Note 14). Specific disclosures include actual payments made to the contractor and the level of income received from Central Government, the value of assets under the contract held at each balance sheet date and an analysis of the movement in the values, the value of liabilities resulting from the contract at each balance sheet date and an analysis of the movement in the values and details of payment due to be made under the contract (separated into repayments of liability, interest and service charges)

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

In addition to the above disclosures, the Council has produced a note of the prior period adjustments arising as a result of the change in accounting requirements for PFI and similar contracts under Appendix E of the 2009 SORP. This note is included in the Notes to the Core Financial Statements section (Note 14).

**12.8 Contract Variations**

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

# ACCOUNTING FOR THE WASTE SERVICES PRIVATE FINANCE INITIATIVE

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

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

There are two separable elements to the contract:

- a collection and recycling element
- waste treatment services

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

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

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

The Statement of Recommended Practice (SORP) 2009 for the closure of the Council's 2009/10 accounts redefines the requirements for accounting for PFI and similar contracts. These requirements are contained in Appendix E (Accounting for PFI Transactions and Similar Contracts) of the SORP 2009 and requires these contracts to be accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual (FReM) as this will assist in the transition to IFRS for 2010/11. IFRIC 12 is the interpretation of IFRS that applied to operators of PFI and similar contracts, and is expected to form part of UK GAAP in due course. The 2009 SORP is consistent with the accounting treatment required of other public sector bodies in the UK set out in the FReM and approved by the Financial Reporting Advisory Board.
A number of accounting issues need to be addressed in relation to the Waste Services PFI for the Council's 2009/10 Statement of Accounts.
The following paragraphs provide an explanation as to how the Council will record the Waste Services PFI arrangement, in financial terms, going forward.

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

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

Appendix E states:

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

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

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

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

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

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

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

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

### 13.2. Recognising Assets & Liabilities

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

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

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

At the same time as any new assets or enhancements are recognised on the Council's balance sheet a related liability to the operator to pay for that value will also recognised.

***13.2.1. The Accounting Treatment of Existing Assets***

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

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

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

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

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

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

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

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

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

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

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

The new assets to be constructed under the contract (Bridgnorth IWMF, IVC and ERF) are not scheduled to be available for use until after 2009/10 and, therefore, will not be recognised on the Council's balance sheet until they are actually made available for use. Under the terms of the contract, the former Shropshire County Council has made a total of £2.51m of milestone payments to Veolia to fund the development of the Oswestry IWMF during 2007/08 and 2008/09. During development this has been recorded in the Council's asset register as an asset under construction. Construction of this facility was completed during 2009/10 and once made available for use was recorded on the Council's asset register as an operational asset.

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

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

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

**13.3 Accounting for the Liability**

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

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

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

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

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

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

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

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

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

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

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

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

**13.4. Capital Accounting**

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

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

**13.5. Minimum Revenue Provision**

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

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

The new arrangements require a fundamentally different approach. Where assets are recognised up front, then a capital financing requirement is triggered much earlier. Schemes will qualify to be credit arrangements under section7 of the Local Government Act 2003 - where arrangements where the recognition of fixed assets is matched by a liability repayable in more than 12 months. The capital financing requirement (CFR) will rise when fixed assets are recognised, bringing schemes within the scope of minimum revenue provision (MRP).

Appendix E of the 2009 SORP states:

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

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

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

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

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

**13.7. Waste PFI Reserves**

There are a number of reserve balances for the Waste Services PFI contract. There is a Waste Services PFI Reserve of £16,453,000.

There are two elements to the £16,453,000 Waste Services PFI Reserve: a £11,145,000 PFI Smoothing Reserve and a £5,308,000 General Reserve. The Smoothing Reserve reflects the budgeted contributions in the early years of the Waste Services PFI contract that will be used to smooth the step up in the unitary charge once additional facilities come on line. The Smoothing Reserve will ensure that the Council does not pay for services in advance of receiving them. £700,000 of the General Reserve has been funded by the proceeds from the sale of the former district councils' trade waste business. The 2009/10 Business Plan anticipates the Smoothing Reserve earning interest at 5% per annum. The earmarked Waste Services PFI General Reserve arises from Waste Services underspends and an unused contingency budget. Waste Services underspends have increased substantially during 2009/10 due to prepayments (£3,908,000) made for assets planned but not yet delivered under the Waste Services PFI contract.

The Waste Services PFI contract assumes that the Council will directly fund the acquisition of a site for an Integrated Waste Management Facility to service the Bridgnorth area and also a site for an In Vessel Composter Facility. It also assumes that the Council will directly fund the cost of the new Integrated Waste Management Facility that will be built to serve the Oswestry area. Some of these capital items will be funded from revenue contributions to balances held within the Revenue Commitments for Future Capital Expenditure.

**13.8. Disclosure Requirements**

The Waste Services PFI represents a long term revenue contract and as such must be disclosed in the notes to the Income & Expenditure Account. A statement of accounting policy in relation to the Waste Services PFI project is included in the Statement of Accounting Policies section (Note 24) and specific disclosures are set out in the Notes to the Core Financial Statements section (Note 14). Specific disclosures include actual payments made to the contractor and the level of income received from Central Government, the value of assets under the contract held at each balance sheet date and an analysis of the movement in the values, the value of liabilities resulting from the contract at each balance sheet date and an analysis of the movement in the values and details of payment due to be made under the contract (separated into repayments of liability, interest and service charges)

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

In addition to the above disclosures, the Council has produced a note of the prior period adjustments arising as a result of the change in accounting requirements for PFI and similar contracts under Appendix E of the 2009 SORP. This note is included in the Notes to the Core Financial Statements section (Note 14).

**13.9. Contract Variations**

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