



# **Spelthorne Borough Council**

## **Statement of Accounts 2010-2011**

T Collier  
Chief Finance Officer

# Financial Statements and Annual Report

## Contents

	Page No.
Explanatory Foreword .....	2-8
Statement of Responsibilities for the Statement of Accounts.....	9
<u>Core Financial Statements</u>	
Movement in Reserves Statement .....	10-11
Comprehensive Income and Expenditure Statement .....	12
Balance Sheet as at 31 March 2011 .....	13
Statement of Cash Flows .....	14
Statement of Accounting Policies.....	15-28
Notes to the Core Financial Statements .....	29-62
Collection Fund .....	63-64
Annual Governance Statement .....	65-72
Independent Auditors' Report to Spelthorne Borough Council.....	73-75
Glossary of Terms .....	76-85

# **Explanatory Foreword**

**By the Chief Finance Officer**

During 2010-11 the Council had to begin to prepare for the impact of external grant funding cuts flowing from the national public sector deficit reduction. The initial impact was experienced when the Emergency Budget of June 2010 resulted in the national abolition of two specific grants (Local Authority Business Growth Incentive grant and Housing and Planning Delivery grant) which resulted in the loss of £150,000 of grant income anticipated in the 2010-11 budget. The Council also had to respond to the impact of depressed economic activity in 2010-11 which pushed up demand for some Council services such as housing and housing benefits and constrained some of its income streams.

However the Council was successful in reclaiming from HM Revenues and Customs £557,000 backdated VAT refund and interest relating to leisure income. This has been shown as an exceptional item in the Comprehensive Income and Expenditure Statement on page 12. This income has helped limit the use of reserves in 2010-11 helping to strengthen the Council's Balance Sheet.

The Statement of Accounts is presented in accordance with the Code of Accounting Practice on Local Authority Accounting in the United Kingdom 2010/11 as required by the Accounts and Audit Regulations 2011.

The Statement of Accounts for 2010/11 is the first set to be prepared in accordance with International Financial Reporting Standards (IFRS). Adoption of the IFRS based code has resulted in the restatement of various balances and transactions. Consequently some amounts presented in the statements are different from those reported in the Statement of Accounts for 2009/10. The Statement of Accounting Policies on page 15 summarises the main changes in accounting policies arising from the implementation of IFRS.

Its purpose is to give electors, other local taxpayers, members, employees and other interested parties, clear information about the Council's finances – what local services have cost, how the Council pays for them and what the assets and liabilities are at the year end. The objective is to give a "true and fair" view of the financial position and transactions of the Council

The following paragraphs provide a brief explanation of the statements which make up the Statements of Accounts.

The Statement of Accounts' core statements consist of the following:

- Movement in Reserves Statement (page 10 )
- Comprehensive Income and Expenditure statement (page 12)
- Balance Sheet(page 13)
- Statement of Cash Flow (page 14)

The **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus for 2010-11 on the provision of services (£10.6m) shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The surplus/deficit figures are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

The net decrease before transfers to/from earmarked reserves is £0.627m and this is the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves. The net decrease after transfers to/from earmarked reserves is £0.382m.

The **Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations. The segmental reporting note to the Statement enables a comparison of the outturn figures to the format in which budget monitoring figures have been reported to Councillors throughout the year. The total net surplus on the Comprehensive Income and Expenditure Statement of £26.6m reflects the accounting impact of the revaluation of the Council’s assets which resulted in net revaluation gains of £7.4m (net of impairments totalling £2.663m charged to the Revaluation Reserve) and actuarial gains relating to the Council’s pension liabilities of £8.9m.

The **Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (£53.2m) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves (as at 31/03/11 totalling £14.8m) , i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those the Council is not able to use to provide services, known as non-usable reserves (as at 31/03/11 totalling £38.4m). This category includes reserves that hold unrealised gains and losses (for example the revaluation reserves) where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

The **Statement of Cash Flow** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash inflows arising from operating activities (£5.025m) is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. The investing activities represent the extent to which cash outflows have been made for resources intended to contribute to the Council’s future service delivery.

For 2010/11 local authorities have been required to produce their statements of accounts in accordance with International Financial Reporting Standards (IFRS). This has meant the accounting statements have changed compared to previous years and therefore to assist with

prior year comparison the prior year figures have been restated. There are a number of additional notes.

Whilst not a core statement within the Statement of Accounts as a local Council with responsibility for collecting council tax we are required to prepare an annual **Collection Fund Statement (page 62)**: The Local Government Finance Act 1988 requires each charging Council to operate a Collection Fund to account for the Council Tax and Business Rate Income and its distribution to Precepting Authorities (Surrey County Council and Surrey Police Authority) and Central Government.

This Council's levy on the Collection Fund was set at £167.30 per Band D property (a nil percentage increase) after taking account of a transfer of £1.048m from reserves and a transfer of £146,000 into the Collection Fund following lower than expected collection rates for Council Tax during the previous year

### **Capital Expenditure**

Details of the Council's capital spending and the resources used to finance this are shown on **page 53**. The cost of using capital assets is reflected in the revenue accounts by way of depreciation charged to services.

The Local Government Act 2003 introduced a new system of capital finance from 1 April 2004. Under the new system, individual authorities are responsible for deciding their level of affordable borrowing, having regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities*, which has been given legislative backing. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment purposes to do so.

The introduction of the new arrangements allowed for the dismantling of the complex regulations that previously governed local Council capital finance. In contrast, the prudential system is based on principles rather than prescription and the Council is required to annually calculate a series of prudential indicators to ensure that its capital investment plans are prudent and affordable in the longer term.

The Council has taken the view that it will use capital receipts to fund its capital programme, but may in the future consider prudential borrowing for specific capital projects.

The Council prepares a 4 year capital programme on a rolling basis, which is then reviewed each year.

The capital programme is split into two categories, the Housing Investment Programme (HIP) and the other services programme. The HIP consists of renovation and renewal grants made to individuals and tenants of housing associations. This capital expenditure is directed at achieving the Council's housing objectives. The other services capital programme relates to non-housing activities of the Council including information technology, vehicle replacement and repairs/improvements of major assets.

Total gross capital expenditure in 2010-11 was £2.153 million. A breakdown of the schemes making up this spend can be found in note 30 (page 52).

The following statement shows the total gross capital expenditure for the year and how it has been financed.

	£000
<b>Total Capital Expenditure</b>	<b>2,153</b>
Financed by:	
Capital Receipts	1,337
Specific Government Grants	272
Other Grants and Contributions	486
Revenue Reserves	58
<b>Total</b>	<b>2,153</b>

In November 2010 the sale of the Benwell Day Centre site was completed for £350,000. In its place there is now a new day centre facility and 39 extra care dwellings for the elderly.

## Pensions

International Accounting Standard 19 'Employee Benefits' ("IAS19") requires authorities to provide clear information on the impact of the Council's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2011, showing a deficit of £21.8 million for this Council, which represents a £16.7 million reduction relative to 2009-10. This largely reflects:

- The deficit has reduced due to falling long term inflation expectations.
- The deficit has fallen further due to the pension increase change from Retail Prices Index (RPI) to Consumer Prices Index (CPI).
- It must be emphasised that this calculation has been made for the specific requirements of "IAS 19" and should not be used for any other purpose. There was a separate Triennial Revaluation based on the Pension as at 31 March 2010, the result of which kept employer contributions unchanged partly as a result of the factors identified above partly as a result of a very good investment return performance by the Surrey Pension Fund in 2010 and partly as a result of a move to stabilise employer contribution movements.

The liabilities of £21.8m show the underlying commitments that the Council has in the long run to pay retirement benefits. The liability has a substantial impact reducing the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the pension scheme will be made good by contributions over the remaining working life of employees as assessed by the scheme actuary.

Finance is only required to cover discretionary benefits when the pensions are actually paid.

The Government is currently considering changes to public sector pensions which are likely to reduce the future cost to employers of such schemes.

## Borrowing

The Council has not had any long term borrowing for a number of years and as at 31/03/11 had no long term borrowing.

## Provisions

No new provisions were made during 2010/11.

## Revenue Expenditure

An analysis of the Council's total gross revenue income and expenditure identifying major variances from the original budget is shown below.

The Council has always adopted the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy. These accounts comply fully with their current requirements.

### Comparison of 2010/11 Actual Revenue Expenditure to Budget

	Budget 2010-11	Actual Expenditure	Variance Actual to Budget
	£000	£000	£000
Gross Expenditure	55,301	55,854	553
Income - Government Grants	(34,706)	(33,796)	910
Income - other	(7,094)	(8,158)	(1,064)
Exceptional Item	0	(557)	(557)
<b>Net Service Expenditure</b>	<b>13,501</b>	<b>13,343</b>	<b>(158)</b>
Interest on balances	(415)	(420)	(5)
Transfers from reserves	(706)	(245)	461
			0
<b>Budget Requirement</b>	<b>12,380</b>	<b>12,678</b>	<b>298</b>
<b>Financed by:</b>			
Non-service related Grants	0	243	243
Revenue Support Grant	720	720	(0)
Non-domestic rates from national pool	4,959	4,959	0
Precept on Collection Fund	6,701	6,756	55

The above analysis covers revenue expenditure and income only and is not directly comparable with the segmental analysis on page 29 which provides a more detailed breakdown at service expenditure level, for revenue and capital.

## **Financial Strategy Review**

The Council continuously reviews and updates its financial strategy. During 2010-11 the strategy was updated to respond to the grant cuts the Council will experience over the next few years.

The main issues identified in the review and the outline budget process were the following:

- The need to maximise savings and efficiencies. Strategies to deliver this include:
  - Sharing of services with other authorities
  - Seeking procurement savings. For example at the end of 2010-11 the Council let a new insurance contract which will save it approximately £130,000 per annum
  - Rationalising accommodation and letting out office space. During 2010-11 a large part of the third floor of the Council Offices were let out to Surrey Police which will generate an ongoing revenue income
  - Tight vacancy control
  - Seeking restructuring savings
  - Reviewing fees and charges
  - Smarter use of technology
  - Restructuring management and staffing levels
- A continuing need to reduce dependence on reserves – with 2011-12 confirmed as the last year in which the Council would make a net use of specific reserves for revenue purposes.
- The importance of maximising investment income whilst balancing risk.
- The increasing deficits identified over the Outline Budget period.

The Council reaffirmed its commitment to reduce its dependence on reserves, but recognised that the impact of the global economic downturn on the Council meant that this would take longer to achieve than originally planned. The following areas particularly were identified:



## **Summary**

The next few years will be extremely challenging. The Council has been impacted by the severity of the global economic downturn and then by the public sector deficit reduction programme, which means levels of government grant are being cut. The Council's ability to generate capital receipts is also constrained. This means the Council will be more constrained in future years in its capital programme and that it may need to consider business cases where appropriate for prudential borrowing. As far as the revenue budget is concerned, significant budget deficits are projected over the outline budget period. A balance budget was set for 2011-12 which incorporated £1.7m worth of savings. The Council has reserves but these have been used to support the budget over a number of years and this approach is not sustainable in the medium term, hence the decision to reduce over time the dependence on this source of funding. A number of strategies including partnership working and sharing services with other local authorities; seeking procurement savings; rationalising accommodation and letting out surplus space to other organisations; better use of technology and restructuring are being pursued. By pursuing these strategies we are confident that we can ensure that Spelthorne Borough Council has a sustainable financial future.

Spelthorne has a history of prudence in the way we manage the finances, and we will continue to review all our services to ensure that they are needed and are delivered economically, efficiently and effectively.

The accounts were authorised for issue by Mr T Collier, Chief Finance Officer on 28 September 2011 and events after the Balance Sheet date have been considered up to this date.

## **Further Information**

If you require any further information, please contact Terry Collier, Chief Finance Officer on Tel: 01784 446296 at the Council Offices, Knowle Green Staines, TW18 1XB.

# **Statement of Responsibilities for the Statement of Accounts**

## **The Council's Responsibilities**

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

## **The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice') and International Reporting Standards, is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2011.

In preparing this statement of accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

**T. Collier**

**Mr Terry Collier, CPFA, CA  
Chief Finance Officer**

**Date: 28 September 2011**

**V. Leighton**

**Councillor V. Leighton  
Leader of the Council**

**Date: 28 September 2011**

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (page 12). These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The net Increase (Decrease) before transfers to earmarked reserves line shows the net increase/decrease on the revenue before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### 2009/10

<b>2009/10</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Auapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2009 Restated</b>	<b>1,617</b>	<b>12,093</b>	<b>2,367</b>	<b>470</b>	<b>16,547</b>	<b>29,320</b>	<b>45,867</b>
<b>Movement in Reserves during 2009/10</b>							
Surplus or (deficit) on Provision of Services	(3,634)	0	0	0	<b>(3,634)</b>	0	<b>(3,634)</b>
Other Comprehensive Income and Expenditure	(15,630)	0	0	0	<b>(15,630)</b>	(61)	<b>(15,691)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(19,264)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(19,264)</b>	<b>(61)</b>	<b>(19,325)</b>
Adjustments between accounting basis and funding basis under regulation	18,314	0	(435)	(31)	17,848	(17,848)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(950)</b>	<b>0</b>	<b>(435)</b>	<b>(31)</b>	<b>(1,416)</b>	<b>(17,909)</b>	<b>(19,325)</b>
Transfer to/from Earmarked Reserves	952	(952)	0	0	0	0	0
<b>Increase/Decrease in 2009/10</b>	<b>2</b>	<b>(952)</b>	<b>(435)</b>	<b>(31)</b>	<b>(1,416)</b>	<b>(17,909)</b>	<b>(19,325)</b>
<b>Balance as at 31 March 2010 carried forward Restated</b>	<b>1,619</b>	<b>11,141</b>	<b>1,932</b>	<b>439</b>	<b>15,131</b>	<b>11,411</b>	<b>26,542</b>

**2010/11**

<b>2010/11</b>	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance as at 31 March 2010 carried forward Restated</b>	1,619	11,141	1,932	439	15,131	11,411	26,542
<b>Movement in Reserves during 2010/11</b>							
Surplus or (deficit) on Provision of Services	10,587	0	0	0	10,587	0	10,587
Other Comprehensive Income and Expenditure	16,071	0	0	0	16,071	2	16,073
<b>Total Comprehensive Income and Expenditure</b>	26,658	0	0	0	26,658	2	26,660
Adjustments between accounting basis and funding basis under regulation	(27,285)		104	190	(26,991)	26,991	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	(627)	0	104	190	(333)	26,993	26,660
Transfer to/from Earmarked Reserves	245	(245)	0	0	0	0	0
<b>Increase/Decrease on 2010/11</b>	<b>(382)</b>	<b>(245)</b>	<b>104</b>	<b>190</b>	<b>(333)</b>	<b>26,993</b>	<b>26,660</b>
<b>Balance as at 31 March 2011 carried forward</b>	1,237	10,896	2,036	629	14,798	38,404	53,202

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement on Reserves Statement.

2009/10		2010/11		
Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
2,819	Central Services to the public	10,955	7,556	3,399
9,641	Cultural, environmental, regulatory and planning services	16,499	3,459	13,040
449	Highways and transportation services	2,416	2,076	340
1,213	Housing services	29,015	28,477	538
957	Adult Social care	1,861	815	1,046
1,957	Corporate and democratic core	1,968	69	1,899
14	Non distributed costs	(8,274)	0	(8,274)
(540)	Exceptional Items		557	(557)
<b>16,510</b>	<b>Cost of Services</b>	<b>54,440</b>	<b>43,009</b>	<b>11,431</b>
3	Other operating expenditure	7,508	14,544	(7,036)
237	Financing and investment income and expenditure	835	2,435	(1,600)
(13,116)	Taxation and non-specific grant income	0	13,382	(13,382)
<b>3,634</b>	<b>(Surplus)/Deficit of Provision of Services</b>	<b>62,783</b>	<b>73,370</b>	<b>(10,587)</b>
0	Surplus or deficit on revaluation of Property, Plant and Equipment assets	(7,350)		(7,350)
(56)	Surplus or deficit on revaluation of Available for Sale financial assets	136		136
15,686	Actuarial gains/losses on pension assets/liabilities		8,859	(8,859)
<b>15,630</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>(7,214)</b>	<b>8,859</b>	<b>(16,073)</b>
<b>19,264</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>55,569</b>	<b>82,229</b>	<b>(26,660)</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve may only be used to fund capital expenditure or to repay debt.) The second category of reserves is those that the Council may not use to fund services. This category of reserves includes reserves that hold unrealised gains and losses, (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The unaudited accounts were issued on 30<sup>th</sup> June 2011 and the audited accounts were authorised for issue on 28<sup>th</sup> September 2011.

1 April 2009 Restated £000	31 March 2010 £000		31 March 2011 £000
42,868	42,127	Property, Plant and Equipment (Note 11)	44,045
7,690	7,690	Investment property	1,645
0	0	Intangible Assets	154
8,471	6,385	Long Term Investments	3,122
198	131	Long Term Receivables	14,620
<b>59,227</b>	<b>56,333</b>	<b>Long Term Assets</b>	<b>63,586</b>
12,914	5,114	Short Term Investments	10,123
1,025	350	Assets Held for Sale (Note 16)	0
38	47	Inventories	52
3,280	7,445	Short Term Receivables (Note 14)	4,007
956	733	Cash and Cash Equivalents (Note 15)	2,065
<b>18,213</b>	<b>13,689</b>	<b>Current Assets</b>	<b>16,247</b>
(4,554)	(1,535)	Short Term Borrowing	(35)
(4,640)	(3,371)	Short Term Payables (Note 17)	(4,710)
(96)	0	Provisions (Note 18)	0
<b>(9,290)</b>	<b>(4,906)</b>	<b>Current Liabilities</b>	<b>(4,745)</b>
(22,170)	(38,536)	Other Long Term Liabilities	(21,806)
(113)	(38)	Capital Grants Receipts in Advance	(80)
<b>(22,283)</b>	<b>(38,574)</b>	<b>Long Term Liabilities</b>	<b>(21,886)</b>
<b>45,867</b>	<b>26,542</b>	<b>Net Assets</b>	<b>53,202</b>
16,547	15,131	Usable Reserves (Note 19)	14,798
29,320	11,411	Unusable Reserves (Note 20)	38,404
<b>45,867</b>	<b>26,542</b>	<b>Total Reserves</b>	<b>53,202</b>

## Statement of Cash Flows

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

<b>2009/10 Restated £000</b>		<b>2010/11 £000</b>
(3,634)	Net Surplus/(Deficit) on the Provision of Services	10,587
(3,058)	Adjustments to net surplus/deficit on the Provision of Services from non-cash movements	(5,562)
0	Adjustments for items included in the to net surplus/deficit on the Provision of Services that are investing or financing activities	0
(6,692)	Net cash flows from Operating Activities	5,025
10,188	Investing Activities	(2,194)
(3,019)	Financing Activities	(1,499)
477	Net increase or decrease in cash and cash equivalents	1,332
256	Cash and cash equivalents as at 1 April	733
<b>733</b>	<b>Cash and cash equivalents as at 31 March</b>	<b>2,065</b>

# Statement of Accounting Policies

## 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) and the Best value Accounting Code of Practice 2010/11, (BVACOP), which are both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in these financial statements is principally historical cost, modified by revaluation of certain categories of non-current assets and financial instruments.

## 2. Changes in Accounting Policies

The Statement of Accounts for 2010/11 is the first set to be prepared in accordance with International Financial Reporting Standards (IFRS). Adoption of the IFRS based code has resulted in the restatement of various balances and transactions. Consequently some amounts presented in the statements are different from those reported in the Statement of Accounts for 2009/10.

The significant changes in accounting policies to deliver IFRS compliance are summarised below:

- Accounting for non-current assets – the Code requires local authorities to classify and account for property, plant and equipment in accordance with section 4.1 of the Code. The Code introduces the concept of fair value as a basis of valuation for certain classes of assets, although there are no transition issues because fair value has been interpreted under the property, plant and equipment section of the Code as “an amount that would be paid for the asset in its existing use. This requirement is met by providing the existing use value (EUV) in accordance with UKPS 1.3 of the RCIS Valuation Standards”, which is the same basis of valuation as is used under the SORP. The use of Depreciated Replacement Cost (DRC) for specialist properties where there is no market-based evidence of fair value is the same as under the SORP.
- Component Accounting – The requirement for component accounting as set out in section 4.1 of the Code is applicable from 1 April 2010 and therefore has no impact on transition.
- Accounting for Investment Properties – The Code requires that investment property must be held *solely* to earn rentals or for capital appreciation, or both, if they are to be classified as investment properties. The definition under the SORP was less prescriptive and it was possible for local authorities to classify such assets as investment property when they were being held partially for service or policy reasons. All property previously classified as investment property was reviewed and if it did not meet the Code definition was reclassified as Property, Plant and Equipment.
- Accounting for assets held for sale – the Code requires authorities to account for assets held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, as adapted to fit the public sector. The policy for recognising assets held for sale is set out later within these policies. The Code requires that an asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Assets that are surplus but do not meet the strict definition set out below are held as Surplus Assets. Previously, assets held for sale were held at market value less expected selling costs. The comparative figures for 2009/10 and the opening Balance Sheet as at 1 April 2009 have been restated to comply with the new policy.



- Accounting for grants and contributions – the Code requires local authorities to classify and account for grants and contributions in accordance with section 2.3 of the Code and capital grants and contributions must now be recognised through the Comprehensive Income and Expenditure Statement once any associated conditions have been met. The comparative figures for 2009/10 and the opening as at 1 April 2009 have been restated to comply with the new policy.
- Accounting for leases –The code requires that authorities shall account for leases in accordance with IAS 17 and IPSAS 13. All leases have to be classified as either a finance or operating lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. Land and buildings elements of a lease are considered separately for the purposes of lease classification.
- Cash and cash equivalents – the Code requires local authorities to classify cash and cash equivalents in their opening IFRS Balance Sheet as at 1 April 2009 in accordance with IFRS 1. The policy for determining the composition of cash is set out later in this note.

### **3. Accrual of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefit or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a receivable or payable for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

### **4. Cash and Cash Equivalents**

Cash comprises cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. Cash equivalents are short term, highly liquid investments that mature in 7 days or less from the date of acquisition or are repayable without penalty on notice of no more than 7 days. They are readily convertible to known amounts of cash with insignificant risk of change in value. All funds held in money market funds that are repayable on notice, and bank deposits held are accounted for as cash equivalents. Term deposits that mature in more than 7 days from the date of acquisition are not classified as cash equivalents.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## **5. Exceptional Items**

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Account or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

## **6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior year adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change has been made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in the prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **7. Charges to Revenue for Non- current Assets**

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible Non-current Assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. As this Council is debt free the requirement is nil. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **8. Employee Benefits**

### **a) Benefits payable during employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## **b) Termination benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Account when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated in accordance to the relevant accounting standard. In the Movement on Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with the debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

## **c) Post employment benefits**

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

The Local Government Pension Scheme is accounted for as a defined benefit scheme.

- The liabilities of the Surrey Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond (as measured by the yield on the iboxx Sterling Corporates Index, AA over 15 years).
- The assets of the Surrey Pension Fund attributable to the Spelthorne Borough Council are included in the Balance Sheet at their fair value as follows:
  - Quoted securities - current bid price.
  - Unquoted securities - professional estimate.
  - Unlisted securities - current bid price.
  - Property - market value.
- The change in the net pensions liability is analysed into seven components:
  - Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the services for which employees worked.
  - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in previous years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.
  - Interest Cost - the expected increase in the present value of liabilities during the year as they move a year closer to being paid - debited to the Financing Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account.

- Expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return - credited to the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Account.
- Gains/losses on settlements and curtailments - the results of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve.
- Contributions paid to the Surrey Pension Fund - cash paid as employer's contributions to the pension fund in settlement of liabilities.

In relation to post employment benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement on Reserve Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits and credits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### **d) Discretionary benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision of the award and accounted for using the same policies as applied to the Local Government Pension Scheme.

Regular valuations are prepared by the professionally qualified actuary appointed by the Surrey Pension Fund. The Balance Sheet discloses the net liability in relation to retirement benefits and the assessment process used to compile the figures takes account of the most recent actuarial valuation updated to reflect current conditions. Therefore, the figures presented are based on the actuary's latest calculations. The assumptions used by the actuary are in accordance with the Code and are mutually compatible.

### **9. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the authorisation for issue are not reflected in the Statement of Accounts.

## **10. Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For all borrowings the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest; and the interest charged to the Comprehensive Income and Expenditure Statement is the amount due for the year according to the loan agreement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed and determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the assets multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has a number of small loans to voluntary organisations at less than market rates (soft loans).

Where assets are identified as impaired because of the likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Trade receivables are recorded at their nominal amount less an allowance for doubtful debts. The Balance Sheet and the notes to the accounts disclose the amount accordingly.

### **Available-For-Sale Assets**

Available- For -sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. All the Available-For-Sale assets held by the Council have fixed and determinable payments and annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Assets are maintained in the Balance Sheet at fair value and values are based on the following principles:

- Instruments with quoted prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

Changes in the fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on the Revaluation of Available-For-Sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair values fall below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective rate of interest. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayments and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Payable. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants and contributions) or Taxation and Non-Specific Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant or contribution has been received and no conditions remain outstanding at the Balance Sheet date but it has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where a capital grant or contribution has been received and the conditions remain outstanding at the Balance Sheet date, the grant or contribution is held in the Capital Grants Receipts in Advance Account.

## **12. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg. software licences) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to the active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Account. The useful life is deemed to be five years and any gain or loss arising on disposal or abandonment of an intangible asset is posted to the Other Operating expenditure line in the Comprehensive Income and Expenditure Account.

When expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the capital Adjustment Account.

## **13. Inventories**

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Works in progress on works rechargeable to outside bodies or persons are stated at cost price.

## **14. Investment Property**

Investment properties are those that are solely used to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement

and posted to the Capital Adjustment Account and (for any proceeds greater than £10,000) the capital Receipts Reserve.

## **15. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependant on the use of specific assets.

### The Council as Lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased property, plant or equipment. Changes are made on a straight-line basis over the life of the lease, generally meaning that rentals are charged as they become payable (on an accruals basis).

### The Council as Lessor

Where the council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the balance sheet as a disposal and also written off to the comprehensive Income and Expenditure account as part of the gain/loss on disposal.



A gain representing the authority's net investment in the lease is also credited in the comprehensive income and expenditure statement also as part of the gain/loss on disposal (ie netted off against the carrying value of the asset at the time of disposal )matched by a lease(long term debtor) asset in the balance sheet.

Lease rentals are apportioned between a charge for the acquisition of the interest in the property and finance income. When future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor.

Where the Council grants an operating lease over a property the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement for non investment property assets and to the Financing and Investment Income and Expenditure line for the income from leases of investment property.

## **16. Overheads and Support Services**

The cost of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional democratic organisation.
- Non-distributed costs – the cost of discretionary pension benefits awarded to employees retiring early and any impairment losses chargeable on assets held for sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **17. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential with the item will flow to the Council and the cost of the item can be reliably measured. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of assets other than by purchase is deemed to be its fair value.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets - depreciated historical cost.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate for fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

### **Impairment**

Assets are assessed at the year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use.

For intangible asset, plant, vehicles and equipment no depreciation is charged in the year of purchase. It is charged in the year of disposal.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant and equipment - vehicles and plant 20% per annum on the reducing balance and IT and other equipment, straight-line allocation over the estimated useful life of the asset, deemed to be 5 years.

Amortisation of intangible assets

- straight-line allocation over useful economic life, deemed to be 5 years

Where an item of property has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

### **Disposals**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. These assets are available for immediate sale in their present condition and where the sale is highly probable. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that the Council may sell at some point but which do not meet the criteria as set out in this policy, are classified as Surplus Assets Held for Disposal. Assets that are abandoned or scrapped are not reclassified as Assets Held For Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held For Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals in excess of £10,000 are categorised as capital receipts which are credited to the Capital Receipts Reserve and can only be used for new capital investment. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **18. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

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

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities also arise in circumstance where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot reasonably be measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **19. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employment benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **20. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts so that there is no impact on the level of council tax.

### **21 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income. The net amount due to or from HM Revenues and Customs is included in Payable or Receivables in the Balance Sheet.

## Notes to the Core Financial Statements

### 1. Analysis of Major Service Areas Expenditure

The analysis gives a breakdown of significant expenditure and income areas within the Council with comparative figures for 2009/10.

2009/10 Net £,000	Service Area	2010/11 Expenditure £,000	2010/11 Income £,000	2010/11 Net £,000
	<b>CENTRAL SERVICES TO THE PUBLIC</b>			
249	Elections and Electoral registration	346	(13)	333
515	General Grants	491	-	491
(16)	Local Land Charges	135	(212)	(77)
(68)	Council Tax Benefits	5,866	(5,988)	(122)
535	Local Tax Collection	984	(291)	693
283	Communications	321		321
105	Corporate management Team	294	-	294
131	DS Management Team	171	(18)	153
758	Environment	829	(25)	804
327	Other	1,518	(1,009)	509
2,819		10,955	(7,556)	3,399
	<b>CULTURAL ENVIROMENTAL AND PLANNING SERVICES</b>			
1,942	Open Spaces	1,876	(227)	1,649
557	Leisure and Culture	2,120	(405)	1,715
1,285	Planning and Building control	2,103	(683)	1,420
3,059	Refuse and Recycling	3,801	(1,112)	2,689
780	Recreation And Sport	3,227	(138)	3,089
18	Day Centres	187	(19)	168
1,111	Environmental and Public Health	1,257	(234)	1,023
(29)	Cemeteries	113	(282)	(169)
280	Community Safety	422	(132)	290
488	Property Expenses	516	(27)	489
150	Other	877	(200)	677
9,641		16,499	(3,459)	13,040
	<b>HOUSING SERVICES</b>			
(272)	Housing Benefits	27,283	(27,377)	(94)
1,212	Housing	1,500	(993)	507
223	Homelessness	232	(77)	155
50	Private Sector Housing	-	(30)	(30)
1,213		29,015	(28,477)	538
	<b>HIGHWAYS ROADS AND TRANSPORT SERVICES</b>			
64	Parking Services	1,721	(1,973)	(252)
349	Concessionary Fares	623	(103)	520
36	Other	72	-	72
449		2,416	(2,076)	340
	<b>ADULT SOCIAL CARE SERVICES</b>			
247	Community Care Administration	215	(12)	203
530	Day Centres	933	(267)	666
69	Meals on Wheels	249	(185)	64
145	Spelthorne Accessible Transport	258	(79)	179
(34)	Spelthorne Personal Alarm Network	206	(272)	(66)
957		1,861	(815)	1,046
	<b>CORPORATE AND DEMOCRATIC CORE</b>			
1,097	Corporate Management	1,034	(52)	982
371	Committee Services and Corporate Governance	204	(6)	198
489	Democratic Representation and Management	594	(11)	583
1,957		1,968	(69)	1,899
14	Non Distributed Costs and Accumulated Absences Provision	(8,274)	-	(8,274)
(540)	Exceptional Item		(557)	(557)
(526)		(8,274)	(557)	(8,831)
16,510	<b>TOTAL NET COST OF SERVICES</b>	54,440	(43,009)	11,431

## 2. Accounting Standards Issued, Not Adopted

For 2010/11 the only accounting policy change that need to be reported relates to FRS 30 Heritage Assets. The impact of this has been considered and has been assessed as not material.

## 3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out on pages 15 to 28, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

There is a high degree of uncertainty about future levels of funding for local government.

However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

## 4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of	The effect on the net pension's liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.

	consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	
Arrears	At 31 March 2011, the Council had a balance of sundry Receivables for £4.007m. A review of significant balances suggested that a provision for impairment of doubtful debts of £82,000 was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £82,000 to be set aside as an allowance.

## 5. Material Items of Income and Expense

In November 2010 the sale of the Benwell Day Centre site in Sunbury was completed for £350,000.

There has been a change in the way of calculating pension estimates, with the use of the Consumer prices index (CPI) replacing the retail prices index (RPI) and this has resulted in a credit of £8,274,000 relating to the authority's past service costs.

## 6. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.



2009/10	General Fund Balance £000	Capital Grant Unapplied £000	Capital Receipts £000	Movement in Unusable Reserves £000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
Charges for depreciation and impairment of non-current assets	1,894			(1,894)
Revenue expenditure funded from capital under statute	751			(751)
Other adjustments	(117)			117
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	31	(31)		0
Application of grants to capital financing transferred to the Adjustment Account	(381)			381
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(196)		872	(676)
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,307)	1,307
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :</b>				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	3			(3)
Revenue Contribution to capital finance	(61)			61
<b>Adjustment primarily involving the Deferred Capital Receipts Reserve</b>				0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				0
<b>Adjustment primarily involving the Pension Reserve:</b>				0
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	16,366			(16,366)
<b>Adjustment primarily involving the Collection Fund Adjustment Account:</b>				0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	24			(24)
<b>Total Adjustments</b>	<b>18,314</b>	<b>(31)</b>	<b>(435)</b>	<b>(17,848)</b>

2010/11	General Fund Balance £000	Capital Grant Unapplied £000	Capital Receipts £000	Movement in Unusable Reserves £000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
Charges for depreciation and impairment of non-current assets	6,044			(6,044)
Removal of finance lease asset disposal value	7,500			(7,500)
Movement in the market value of investment properties	(1,465)			1,465
Net revaluation gains relating to non-investment properties	(7,350)			7,350
Revenue expenditure funded from capital under statute	1,420			(1,420)
Capital expenditure charged against the General Fund				0
Other adjustments	(261)			261
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				0
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement		243		(243)
Application of grants to capital financing transferred to the Adjustment Account	(704)	433		271
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,089)		1,439	(350)
Use of the Capital Receipts Reserve to finance new capital expenditure		(486)	(1,337)	1,823
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement :</b>				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	8		(7)	(1)
Revenue Contribution to capital finance	(58)			58
<b>Adjustment primarily involving the Deferred Capital Receipts Reserve</b>				0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			9	(9)
Removal of finance lease debtor amount	(14,544)			14,544
<b>Adjustment primarily involving the Pension Reserve:</b>				0
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement	(16,730)			16,730
<b>Adjustment primarily involving the Collection Fund Adjustment Account:</b>				0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(56)			56
<b>Total Adjustments</b>	<b>(27,285)</b>	<b>190</b>	<b>104</b>	<b>26,991</b>

## 7. Transfers to and from Reserves

This note sets out the amounts set aside from the General Fund and balances in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet General Fund expenditure in 2010/11.

Reserve Description	Balance as at 1/4/09	Transfers Out 2009/10	Transfers In 2009/10	Balance as at 31/3/10	Transfers Out 2010/11	Transfers In 2010/11	Balance as at 31/3/11
	£000	£000	£000	£000	£000	£000	£000
General Fund	1,617		2	1,619	(382)		1,237
Earmarked Reserves:							
Capital Fund	593	(150)		443			443
Interest Equalisation	593			593	(100)		493
New Schemes Fund	2,169	(315)		1,854	(250)		1,604
Housing Initiatives	7,626	(15)		7,611			7,611
Business Improvement	537	(302)		235	(117)	168	286
Miscellaneous Reserves	21	(5)		16	(7)		9
Risk Management	10			10	(10)		0
Insurance	133	(15)		118	(68)		50
Planning Delivery Grant	150			150	(100)		50
Revenue Carry Forwards	150	(150)		0		239	239
Bridge Street	111			111			111
	12,093	(952)	0	11,141	(652)	407	10,896
<b>TOTAL</b>	<b>13,710</b>	<b>(952)</b>	<b>2</b>	<b>12,760</b>	<b>(1,034)</b>	<b>407</b>	<b>12,133</b>

## 8. Other Operating Expenditure

2009/10 £000		2010/11 £000
0	Finance Lease - Emlsleigh Centre	(7,044)
3	Payments to the Government Housing Receipts Pool	8
<b>3</b>	<b>Total Other Operating Expenditure</b>	<b>(7,036)</b>

## 9. Financing and Investment Income and Expenditure

£000		£000
1	Interest payable and similar charges	1
1,652	Pension interest cost and expected return on pension assets	835
0	Finance Lease Income	(560)
(864)	Interest receivable and similar income	(421)
(553)	Income and expenditure in relation to investment properties and changes in their fair value	(1,455)
236		(1,600)

## 10. Taxation and Non Specific Grant Income

2009/10 £000		2010/11 £000
6,675	Council tax income	6,757
4,591	Non domestic rates	4,959
1,331	Non-ringfenced government grants	963
519	Capital grants and contributions	704
13,116		13,383

## 11. Property, Plant and Equipment

Movement on Balances in 2010/11:

<b>2010/11</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total Property, Plant and Equipment £000</b>
<b>Cost or valuation</b>				
At 1 April 2010	44,534	4,178	434	49,146
Additions	78	501	0	579
Revaluation increases/(decreases) recognised in the Revaluation Reserve	7,182	0	0	7,182
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(8,884)	0	0	(8,884)
De-recognition - disposals			0	0
De-recognition - other				0
Assets reclassified (to)/from Held for Sale				0
Other movements in cost or valuation				0
<b>At 31 March 2011</b>	<b>42,910</b>	<b>4,679</b>	<b>434</b>	<b>48,023</b>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2010	5,494	1,525	0	7,019
Depreciation Charge	1,374	649	0	2,023
Depreciation written out to the Revaluation Reserve	(2,832)	0	0	(2,832)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	430	0	430
De-recognition - disposals	0	0	0	0
De-recognition - other	0	0	0	0
Other movements in depreciation and impairment	(2,662)	0	0	(2,662)
<b>At 31 March 2011</b>	<b>1,374</b>	<b>2,604</b>	<b>0</b>	<b>3,978</b>
<b>Net Book Value</b>				
<b>at 31 March 2011</b>	<b>41,536</b>	<b>2,075</b>	<b>434</b>	<b>44,045</b>
<b>at 31 March 2010</b>	<b>39,040</b>	<b>2,653</b>	<b>434</b>	<b>42,127</b>

Comparative Movement on Balances in 2009/10:

<b>2009/10</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total Property, Plant and Equipment £000</b>
<b>Cost or valuation</b>				
At 1 April 2009	44,401	3,159	434	47,994
Additions	133	1,019		1,152
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0
De-recognition - disposals	0	0	0	0
De-recognition - other	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0
Other movements in cost or valuation	0	0	0	0
<b>At 31 March 2010 restated</b>	<b>44,534</b>	<b>4,178</b>	<b>434</b>	<b>49,146</b>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2009	4,142	984	0	5,126
Depreciation Charge	1,352	541	0	1,893
Depreciation written out to the Revaluation Reserve	0	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0
De-recognition - disposals	0	0	0	0
De-recognition - other	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0
<b>At 31 March 2010 restated</b>	<b>5,494</b>	<b>1,525</b>	<b>0</b>	<b>7,019</b>
<b>Net Book Value</b>				
<b>at 31 March 2010 restated</b>	<b>39,040</b>	<b>2,653</b>	<b>434</b>	<b>42,127</b>
<b>at 31 March 2009</b>	<b>40,259</b>	<b>2,175</b>	<b>434</b>	<b>42,868</b>

## **Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Intangible Assets	5 Years
Other land and Buildings	30 – 50 years
Vehicles	20% of the carrying amount
Plant and Equipment	5 years

## **Capital Commitments**

The Council had no major capital commitments at 31 March 2011.

## **Effect of Changes in Estimates**

In 2010/11, the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

## **Revaluations**

The Council is required to revalue its Property, Plant and Equipment at least once every five years and a full revaluation of all land and property assets was carried out during 2010/11. The valuation was carried out by Campsie in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is a second-hand market or latest prices adjusted for the condition of the asset.

## **12. Intangible Assets**

Intangible asset include purchased software licenses. Expenditure on these is capitalised and amortised on a straight line basis over a period of five years. No items of software are individually materially to the accounts.

It is the Council's policy not to charge depreciation in the year of purchase and therefore, no depreciation has been charged on intangible assets in 2010/11.





- Estimated ranges of interest rates at 31<sup>st</sup> March 2011 of 0.50% to 2.05% for loans and receivables based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature within the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1,535	1,535	Financial Liabilities	35	35
0	0	Long-Term Creditors	0	0

The fair value of liabilities is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date.

31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
5,114	5,114	Loans and Receivables	10,123	10,123
131	131	Long-Term Debtors	14,620	14,620

The fair value of the assets is lower than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date.

Available-For-Sale assets are carried in the Balance Sheet at fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term Receivables and Payable are carried at cast as this is a fair approximation of their value.

#### 14. Receivables

31 March 2010 £000			31 March 2011 £000	
4,947			Central Government bodies	1,409
2,701		Other entities and individuals	2,873	
(203)		less Provision for Bad Debts	(275)	
<b>7,445</b>		<b>Total</b>	<b>4,007</b>	

## 15. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up as follows:

2009/10 £000		2010/11 £000
5	Cash held by the Council	5
304	Bank Current Accounts	290
424	Short term deposits with banks & building societies	1,770
<b>733</b>	<b>Total Cash and Cash Equivalents</b>	<b>2,065</b>

## 16. Assets Held For Sale

2009/10 £000		2010/11 £000
1,025	Balance outstanding at 1 April	350
(675)	Assets sold	(350)
<b>350</b>	<b>Balance outstanding at 31 March</b>	<b>0</b>

## 17. Payables

31 March 2010 £000		31 March 2011 £000
241	Central Government bodies	75
3,130	Other entities and individuals	4,635
<b>3,371</b>	<b>Total</b>	<b>4,710</b>

## 18. Provisions

No provisions were made during the year.

## 19. Usable Reserves

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement on page 11.

## 20. Unusable Reserves

31 March 2010 £000		31 March 2011 £000
7,186	Revaluation Reserve	13,926
201	Available For Sale Reserve	65
42,809	Capital Adjustment Account	31,876
9	Deferred Capital Receipts Reserve	14,544
(38,536)	Pensions Reserve	(21,806)
(72)	Collection Fund Adjustment Account	(16)
(186)	Accumulated Absences Account	(185)
<b>11,411</b>	<b>Total Unusable Reserves</b>	<b>38,404</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment assets. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

The Reserve contains only the revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10 £000		2010/11 £000
7,794	<b>Balance at 1 April</b>	7,186
0	Upward revaluation of assets	10,014
0	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,663)
(608)	Difference between fair value depreciation and historic cost depreciation	(611)
0	Amount written off to the Capital Adjustment Account	0
<b>7,186</b>	<b>Balance at 31 March</b>	<b>13,926</b>

### Available-For-Sale Financial Instruments Reserve

The Available-For-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted prices. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2009/10 £000		2010/11 £000
145	<b>Balance at 1 April</b>	201
56	Upward revaluation of investments	-
-	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(136)
<b>201</b>	<b>Balance at 31 March</b>	<b>65</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling posting from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains the accumulated gains and losses on investment properties and also contains revaluation gains accumulated on property, plant and equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 6 (Adjustments between Accounting Basis and Funding Basis under Regulations) provides details of the source of all transactions posted to the account, apart from those involving the Revaluation Reserve.

2009/10 £000		2010/11 £000
43,772	<b>Balance at 1 April</b>	42,809
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
0	Transferred from Government Grants Deferred Account	130
(1,894)	Charges for depreciation and impairment of non-current assets	(6,044)
0	Finance lease asset Disposal	(7,500)
0	Other depreciation adjustments	23
0	Revaluation losses on property, plant and equipment	0
(752)	Revenue expenditure funded from capital under statute	(1,420)
(675)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(350)
609	Adjusting amounts written out of the Revaluation Reserve	610
41,060	Net written out amount of the cost of non-current assets consumed in the year	28,258
	<b>Capital financing applied in the year:</b>	
1,308	Use of the Capital Receipts Reserve to finance new capital expenditure	1,337
283	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	272
98	Application of grants to capital financing from the Capital Grants Unapplied Account	486
60	Capital expenditure charged against the General Fund balance	58
1,749		2,153
0	Movement in the value of Investment Properties	1,465
42,809	<b>Balance at 31 March</b>	31,876

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £000		2010/11 £000
(22,170)	<b>Balance at 1 April</b>	(38,536)
(15,686)	Actuarial gains and losses on pension assets and liabilities	8,859
(2,629)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,740
1,949	Employer's pension contributions and direct payments to pensioners payable in the year	2,131
<b>(38,536)</b>	<b>Balance at 31 March</b>	<b>(21,806)</b>

### Deferred Capital Receipts Reserve

The Deferred capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009/10 £000		2010/11 £000
12	<b>Balance at 1 April</b>	9
(3)	Transfer to the Capital Receipts Reserve upon receipt of cash	(9)
	Finance Lease Debtor	14,544
<b>9</b>	<b>Balance at 31 March</b>	<b>14,544</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £000		2010/11 £000
48	<b>Balance at 1 April</b>	72
24	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(56)
<b>72</b>	<b>Balance at 31 March</b>	<b>16</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/10 £000		2010/11 £000
0	<b>Balance at 1 April</b>	186
186	Amounts accrued at the end of the current year	0
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1)
<b>186</b>	<b>Balance at 31 March</b>	<b>185</b>

## 21. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
(3,634)	<b>Net surplus/(deficit) from Operating Activities</b>	10,587
	Adjusted for non cash items:	
1,870	Depreciation and Impairments	6,044
	Gains on investment properties	(1,465)
680	Transfers to/from Reserves	(7,871)
	Recalssification of finance lease	(7,044)
(5,676)	Movement in debtors/creditors	4,751
68	Othe financing	23
<b>(6,692)</b>	<b>Net Cash Flows from Operating Activities</b>	<b>5,025</b>

## 22. Statement of Cash Flows – Investing Activities

2009/10 £000		2010/11 £000
	<b>Balance at 1 April</b>	
1,142	Purchase of property, plant and equipment	669
122,718	Purchase of short-term and long-term investments	168,707
1	Other payments for investing activities	0
(675)	Proceeds from the sale of property, plant and equipment and investment properties	(359)
(132,932)	Proceeds from short-term and long-term investments	(166,709)
(442)	Other receipts from investing activities	(114)
<b>(10,188)</b>	<b>Net cash flows from investing activities</b>	<b>2,194</b>

## 23. Statement of Cash Flows – Financing Activities

2009/10 £000		2010/11 £000
	<b>Balance at 1 April</b>	
19,901	Cash receipts from short and long-term borrowing	3,301
0	Other receipts from financing activites	0
	Cash payments for the reduction of the outstanding liabilities relating to finance leases	0
(22,920)	Repayments of short and long-term borrowing	(4,800)
0	Other payments from financing activities	0
<b>(3,019)</b>	<b>Net cash flows from financing activities</b>	<b>(1,499)</b>

## 24. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather than current service cost of accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to Cabinet portfolios.

The income and expenditure of the Council's portfolios recorded in the budget reports for the year is as follows;

2009/10									
Cabinet Portfolios Income and Expenditure	Communications	Comm Safety	Finance	Environment	Health	Planning	Economic	Young People	Total
	£000	£000	£000	£000	£000	£000	£000	£000	
Fees, charges & other service income	(76)	(503)	(666)	(522)	(694)	(824)	(1,947)	(618)	(5,850)
Government grants			(164)	(34)	(254)	(32,484)	(51)	0	(32,987)
<b>Total Income</b>	(76)	(503)	(830)	(556)	(948)	(33,308)	(1,998)	(618)	(38,837)
Employee expenses	416	497	3,031	2,533	1,435	2,365	836	398	11,511
Other service expenses	570	1,544	1,605	2,238	1,237	32,983	1,585	2,578	44,340
Support service recharges	204	(719)	(1,966)	490	601	(111)	582	769	(150)
<b>Total Expenditure</b>	1,190	1,322	2,670	5,261	3,273	35,237	3,003	3,745	55,701
Net Expenditure	1,114	819	1,840	4,705	2,325	1,929	1,005	3,127	16,864



2010/11									
Cabinet portfolios Income and Expenditure	Communications	Comm Safety	Finance	Environment	Health	Planning	Economic	Young People	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(74)	(557)	(308)	(1,146)	(884)	(1,941)	(2,796)	(1,013)	(8,719)
Government grants	0	0	(138)	(8)	(115)	(34,022)	(11)	0	(34,294)
<b>Total Income</b>	<b>(74)</b>	<b>(557)</b>	<b>(446)</b>	<b>(1,154)</b>	<b>(999)</b>	<b>(35,963)</b>	<b>(2,807)</b>	<b>(1,013)</b>	<b>(43,013)</b>
Employee expenses	457	542	(5,103)	2,353	1,452	2,481	834	368	3,384
Other service expenses	535	1,665	1,244	2,663	2,344	35,136	2,181	5,343	51,111
Support service recharges	238	(721)	(2,142)	719	754	(497)	810	786	(53)
<b>Total Expenditure</b>	<b>1,230</b>	<b>1,486</b>	<b>(6,001)</b>	<b>5,735</b>	<b>4,550</b>	<b>37,120</b>	<b>3,825</b>	<b>6,497</b>	<b>54,442</b>
Net Expenditure	1,156	929	(6,447)	4,581	3,551	1,157	1,018	5,484	11,429

### Reconciliation of Cabinet portfolios Income and Expenditure to Cost of Service in the Comprehensive Income and Expenditure Statement

This reconciliation show how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2009/10		2010/11
£000		£000
16,864	Net expenditure in the Cabinet portfolio analysis	11,429
0	Finance lease debtor Income	560
186	Accumulated absences provision	(2)
0	Exceptional item - Right to buy interest	(161)
(540)	Exceptional item - VAT reimbursement	(395)
16,510	Cost of Services in Comprehensive Income and Expenditure Statement	11,431

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Cabinet portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Service included in the Comprehensive Income and Expenditure Statement.

2009/10		2010/11
£,000		£,000
16,864	Net Expenditure in the Cabinet Portfolio analysis	11,429
186	Accumulated absences provision	(2)
0	Exceptional Item - Right to buy interest	(161)
(540)	Exceptional Item - Vat reimbursement	(395)
0	Net investment in finance lease	(14,544)
0	Removal of Fixed asset relating to the finance lease	7,500
3	Payments to the Government housing pool	8
1,652	Net Pension Interest cost	835
(863)	Investment Interest Income	(420)
(552)	Income, Expenditure and change in fair value of investment properties	(1,455)
(519)	Recognised capital grants and contributions	(703)
(6,675)	Council tax	(6,757)
(4,591)	National non -domestic rates	(4,959)
(1,060)	Revenue support grant	(720)
(271)	Non service related government grants	(243)
<b>3,634</b>	<b>(Surplus)/Deficit of Provision of Services</b>	<b>(10,587)</b>

## 25. Members Allowances

The Council paid the following amounts to members of the Council during the year:

2009/10 £000		2010/11 £000
208	Allowances	206
6	Expenses	5
<b>214</b>	<b>Total</b>	<b>211</b>

## 26. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

<b>Title</b>	<b>Taxable Salary</b>	<b>Bonuses / Expenses</b>	<b>Compensation for loss of office</b>	<b>Benefits in Kind</b>	<b>Total (excl employers pension contributions )</b>	<b>Employers pension contributions</b>	<b>Total incl Employers pension contributions</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive	111,813	0	0	0	111,813	17,907	129,720
Deputy Chief Executive	88,682	36	0	0	88,718	14,350	103,068
Assistant Chief Executive	71,788	0	0	0	71,788	11,373	83,161
Assistant Chief Executive	65,503	0	0	5,918	71,421	11,120	82,541
Assistant Chief Executive	36,596	44	0	3,085	39,725	11,373	51,098
Head of Corporate Governance	67,160	0	0	0	67,160	10,470	77,630

The Council's other employees receiving more than the £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band (inc Salary and Benefits)	Number	
	2009/10	2010/11
150000 - 154999	1	
145000 - 149999		
140000 - 144999		
135000 - 139999		
130000 - 134999		
125000 - 129999		
120000 - 124999		
115000 - 119999		
110000 - 114999	1	1
105000 - 109999		
100000 - 104999		
95000 - 99999		
90000 - 94999		
85000 - 89999	1	1
80000 - 84999	1	
75000 - 79999	1	
70000 - 74999	1	2
65000 - 69999	5	2
60000 - 64999		1
55000 - 59999	4	6
50000 - 54999	5	5
	20	18

## 27. External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, Certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

2009/10 £000		2010/11 £000
74	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	111
9	Fees payable to KPMG in respect of statutory inspections	(8)
21	Fees payable to KPMG for the certification of grant claims and returns for the year	22
	Fees payable in respect of other services provided by other auditors during the year	1
104	Total	126

The fees for other services payable in both 2009/10 and 2010/11 related to specialist advice on successful claims against HM Revenue & Customs for the refund of VAT.

## 28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11:

### Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 28 on reporting for resources allocation decisions.

2009/10 £000		2010/11 £000
	<b>Taxation and Non Specific Grant Income</b>	
4,591	National Non Domestic Rate (NNDR)	4,959
1,060	Revenue Support Grant (RSG)	720
519	Other Revenue Grants	243
<b>6,170</b>	<b>Total</b>	<b>5,922</b>
	<b>Credited to Services</b>	
32,271	Housing Benefits	33,358
147	National Non Domestic Rates	135
569	Other grants	303
<b>32,987</b>	<b>Total</b>	<b>33,796</b>
	<b>Capital Grants Receipts in Advance</b>	
250	Specific Capital grant (SCG)	272
100	Other grants	311
169	Contributions	120
<b>519</b>	<b>Total</b>	<b>703</b>

## 29. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, providing a significant amount of funding in the form of grants and it prescribes the terms of many of the transactions the Council has with other parties (eg. housing benefits). Details of balances with government departments are set out in notes 14 and 17 and details of cash received from government grants are set out in note 28 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2010/11 there were no material related party transactions between the Council and Council members. Any declarations of interest are properly recorded in the Register of member's Interests, which is open to public inspection. Senior officers also have the ability to influence the Council and during 2010/11 there were no related party transactions between the Council and senior officers.

### 30. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2009/10	CAPITAL EXPENDITURE AND FINANCING	2010/11
	<b>Housing</b>	
586	Improvement Grants	636
15	Grants to Housing Associations	100
601		736
	<b>Leisure</b>	
268	Parks and Recreation Grounds	228
-	Bowls Club Management	78
268		306
	<b>Community care</b>	
9	Community Alarm Systems	20
-	Day Centres	9
9		29
	<b>Highways and Transportation</b>	
22	Car Parks	22
-	Verge Maintenance Vehicles	63
22		85
	<b>Environmental Services</b>	
240	Refuse Collection & Recycling	84
143	Environmental Initiatives	138
383		222
	<b>Other</b>	
-	Town Centre Improvement Projects	508
5	Loans/Grants to Voluntary Organisations	-
505	Computer Developments	222
111	Feasibility Studies and Capital Salaries	45
621		775
<b>1,904</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>2,153</b>
	<b>Summary of Financing</b>	
1,308	Capital Receipts	1,337
348	Specific Government Grants	272
188	Other Grants and Contributions	486
60	Revenue Reserves	58
<b>1,904</b>	<b>TOTAL CAPITAL FINANCING</b>	<b>2,153</b>

2009/10 £000	CAPITAL FINANCING REQUIREMENT	2010/11 £000
0	<b>Opening Capital Financing Requirement</b>	0
	Capital investment	
1,152	Property, Plant and Equipment	733
0	Investment Properties	0
0	Intangible Assets	0
752	Revenue Expenditure Funded from Capital under Statute	1,420
	<b>Sources of Finance</b>	
(1,308)	Capital Receipts	(1,337)
(536)	Government Grants and Contributions	(758)
(60)	Sums set aside from Revenue	(58)
0	Direct Revenue Contributions	0
	<b>Closing Capital Financing Requirement</b>	
<b>0</b>	<b>Explanation of movements in the year</b>	<b>0</b>

### 31. Leases

#### Council as lessee

Operating Leases

Expenditure on operating leases in 2010/11 was £916,683 (2009/10 £813,887)

Expenditure on an arrangement within the grounds maintenance contract which has been classified as an operating lease was valued at £1,295,157 in 2010/11 and £1,267,203 in 09/10. The disclosed payments also include payments for non – lease elements within the grounds maintenance arrangement.

The future minimum lease payments due under non-cancellable leases in future years are:

31-Mar-10 £000		31-Mar-11 £000
323	Not later than one year	565
72	Later than one year and not later than five years	39
38	Later than five years	92
433		696

#### Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of the community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide to suitable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are;

31-Mar-10 £000		31-Mar-11 £000
39	Not later than one year	163
152	Later than one year and not later than five years	34
49	Later and five years	128
240		325

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rents reviews. In 2009-10 £0 contingent rents were receivable by the Council (2010/11 £0).

### Council as Lessor

#### Finance Leases

31-Mar-10 £000		31-Mar-11 £000
14,544	Finance lease debtor (net present value of minimum lease payments):	14,544
123,776	Unearned finance income	123,216
3,830	Unguaranteed residual value of property	3,830
142,150	Gross investments in the lease	141,590

Gross Investment in the Lease 31-Mar-10 £000	Gross Investment in the Lease 31-Mar-11 £000		Minimum Lease Payments 31-Mar-10 £000	Minimum Lease Payments 31-Mar-11 £000
560	560	Not later than one year	560	560
2,240	2,240	Later than one year and not later than five years	2,240	2,240
139,350	138,790	Later than five years	135,520	134,960
142,150	141,590		138,320	137,760

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.



## **32. Impairment Losses**

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 11 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

The total amount in respect of impairment losses was £430k in 2010/11 all related to IT equipment.

## **33. Defined Benefit Pension Schemes**

### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered locally by Surrey County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

### **Transactions Relating to Post-Employment Benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2009/10 £000		2010/11 £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	Cost of Services:	
901	Current service costs	1,569
	Past service costs	(8,287)
76	Settlements and Curtailments	143
	Financing and Investment Income and Expenditure	
4,170	Interest cost	4,739
(2,518)	Expected return on scheme assets	(3,904)
2,629	Total Post Employment Charged to the Surplus or Deficit on the Provision of Services	(5,740)
	Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	
(15,686)	Actuarial gains and losses	8,859
(13,057)	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	3,119
	<b>Movement in Reserves Statement</b>	
(2,629)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	5,740
1,949	Actual amount charged against the General Fund Balance for pensions in the year:	2,131
(13,737)	Employers' contributions payable to the scheme	10,990

### Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of the present value of the scheme liabilities (defined benefit obligation):

2009/10 £000	Funded Liabilities: Local Government Pension Scheme (LGPS)	2010/11 £000
<b>61,359</b>	<b>Opening Balance at 1 April</b>	<b>93,230</b>
901	Current Service Cost	1,569
4,170	Interest Cost	4,739
510	Contributions by scheme participants	490
29,583	Actuarial gains and losses	(11,257)
(3,152)	Benefits paid	(3,293)
0	Past service costs	(8,287)
(217)	Entity combinations	(216)
76	Curtailments	143
<b>93,230</b>	<b>Closing Balance at 31 March</b>	<b>77,118</b>

Reconciliation of the fair value of the scheme plan assets:

2009/10 £000		2010/11 £000
<b>39,189</b>	<b>Opening Balance at 1 April</b>	<b>54,694</b>
2,518	Expected rate of return	3,904
13,897	Actuarial gains and losses	(2,398)
1,732	Employers contributions	1,915
510	Contributions by scheme participants	490
(3,152)	Benefits paid	(3,293)
<b>54,694</b>	<b>Closing Balance at 31 March</b>	<b>55,312</b>

The expected return on the scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £4,849,000 (2009/10: £16,414,000).

### Scheme History

Present value of liabilities in the Local Government Pension	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Fair value of assets in the scheme	55,813	52,192	39,189	54,694	55,312
Surplus/(Deficit) in the scheme	(16,405)	(10,994)	(22,170)	(38,536)	(21,806)
<b>Total</b>	<b>39,408</b>	<b>41,198</b>	<b>17,019</b>	<b>16,158</b>	<b>33,506</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £21,806,000 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy and the deficit will be made good by increased contributions over the remaining working life of employees (i.e. before payments become due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £1,615,000.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that are payable in future years dependant on assumptions about mortality rates, salary levels etc. The fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been:

2009/10		2010/11
	<b>Long-term expected rate of return on assets in the scheme:</b>	
%		%
7.80	Equity Investments	7.50
5.00	Bonds	4.90
5.80	Property	5.50
4.80	Cash	4.60
Years	<b>Mortality assumptions:</b>	Years
	Longevity at 65 for current pensioners:	
22.70	Men	21.90
26.10	Women	24.00
	Longevity at 65 for future pensioners:	
24.80	Men	23.90
28.30	Women	25.90
%	<b>Other assumptions:</b>	%
3.80	Rate of inflation	2.80
5.30	Rate of increase in salaries	5.10
3.80	Rate of increase in pensions	2.80
5.50	Rate of discounting scheme liabilities	5.50
	Take-up of option to convert annual pension to retirement lump sum	
25.00		25.00

The Local Government Pensions Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2010 £000		31 March 2011 £000
75	Equity investments	76
17	Debt instruments	16
8	Other assets	8
100		100

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Differences between the expected and actual return on assets	(1)	(7,066)	(16,020)	13,897	(2,398)
Experience gains and losses on liabilities	374	3,197	22	(172)	(4,793)

### **34. Contingent Liabilities**

No specific provision has been made for the following in the accounts:

- Mortgage guarantees on shared ownership properties which will only occur if the mortgagees default on payment and any charge to the Council will be accounted for at that time.
- Prior to 1992 the Council's insurance was provided by MMI which went into administration. MMI are currently involved in legal actions with other parties in respect of asbestos claims and if the courts find against MMI there is a possibility that this would trigger a call down on local authorities. This could potentially expose the Council to outstanding claims of £596,000. However, MMI maintain that their Balance Sheet is sufficiently robust for them to anticipate a solvent run down.
- Potential barrister costs of £40k for defending a court case in respect of buildings within the parks which were occupied by former Council parks staff that transferred when the grounds maintenance contract was outsourced in 1996.
- Car loan repayments of £7k have not been received from a now ex-employee of the Council and the case is being processed through the Legal Services Section.

### **35. Contingent Assets**

Under the Fleming case legislation the Council is currently awaiting confirmation from HM Revenue and Customs in respect of a claim submitted for refund of VAT relating to bulky waste collection. The claim is for up to £50,000 but with statutory interest could be up to £100,000. In addition, a claim has been submitted in respect of trade refuse collection but there is a significantly lower probability of this being paid.

### **36. Nature and Extent of Risks Arising From Financial Instruments**

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and sets treasury limits and prudential indicators to assist in the management of risk. The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have the funds available to meet its financial commitments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates etc.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies and procedures to minimise risk are set out in the annual Treasury Management Strategy Statement and Annual Investment Strategy approved by the Council. These policies cover principles for overall risk management, as well as covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

#### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch Credit Ratings Service. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the Council are as detailed below:

- The Council also uses the creditworthiness service provided by Sector to assist its selection of suitable counter-parties. This service aims to assess the credit quality of counter-parties and investment instruments by reference to major rating agencies including Fitch, Moody's and Standard and Poor's. This information is also supplemented by credit default swaps data which provides a market indication of the perceived credit risk for individual institutions. This information may give investors advance warning of credit rating downgrades.
- All credit ratings are generally monitored weekly. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. Downgraded counter-parties are immediately withdrawn from future use. Investments that no longer meet the Council's minimum criteria are reported to the Chief Finance Officer although where these investments are fixed term deposits, no effective action can be taken until the deposits mature.
- The Council will not solely rely on the Sector service but it will also make use of other sources of generally available information when considering counter-party credit risk. These may include the use of the quality financial press, market data (including credit default swaps, share price, annual reports, statements to the market etc), information on government support for banks and the credit ratings of that government support.
- The Council will only invest in approved counterparties within the UK or approved counter-parties from countries with a minimum sovereign rating of AA- from Fitch Ratings or the equivalent Moody's or Standard and Poor's rating.

No formal assessments are generally carried out in respect of individual customers. However, in the event of a significant commitment financial checks would be carried out to minimise the Council's exposure to loss and default.

The Council's maximum exposure to credit risk in relation to investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at 31 March 2011 that this was likely to happen.

The Council does not generally allow credit for customers but the following table shows an analysis of balances that are due past their payment date.

<b>31 March 2010</b> <b>£000</b>		<b>31 March 2011</b> <b>£000</b>
424	Less than three months	386
28	Three to six months	22
32	Six months to one year	30
77	More than one year	72
<b>561</b>		<b>510</b>

## **Liquidity Risk**

The Council has comprehensive cash flow management procedures to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowing from the money markets and there is no significant risk that it will be unable to raise finance to meet its commitments. Borrowing facilities are used for day to day cash flow requirements and all loans are currently less than one year duration. All trade and other payables are due to be paid in less than one year.

## **Market Risk**

The Council is exposed principally to risk in terms of its exposure to interest rate movements on its borrowing and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies in place for managing such risk.

A proportion of investments are held at fixed rates with a longer maturity profile to provide an element of stability of returns and reduce the impact of fluctuating interest rates. An external advisor, currently Sector Treasury Services, has been retained to provide analysis of market movements and to assist in investment decisions based on their knowledge of current market conditions and interest rate forecasting. Investments are usually for fixed terms, locking into higher rates where possible to reduce volatility of returns.

The Council currently has no variable rate investments except in respect of bank call accounts which are utilised for short term cash flow monies. These are kept under regular review to ensure the account terms and conditions and the interest rate payable remain competitive.

Although the Council currently has no long term borrowings, there are a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into setting the annual budget and which is used to update the budget regularly during the year. This allows for any adverse changes to be accommodated. According to this assessment strategy, at 31<sup>st</sup> March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be that an additional £191k interest would have been received.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The Council has no long term borrowing and short term borrowing is only used for cash flow management. Therefore there was no significant impact on interest payable.

## **Price Risk**

The Council's current investments include AAA rated euro-sterling bonds and there is an element of price risk because there is an active market for these instruments. The Council does not invest in equity shares and is consequently not exposed to losses arising from movements in the price of shares.

## **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

## **37. Events after the Balance Sheet Date.**

There are no post balance sheet events.

## Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing Council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2009/10 £000		2010/11 £000
	<b>Income</b>	
52,468	Income from Council Tax	53,976
	Transfers from the General Fund:	
5,559	Council Tax Benefits	5,867
58,027		59,843
41,892	Income collectable from Business ratepayers	38,165
	Contributions:	
179	Towards previous year estimated Collecton Fund Deficit	597
<b>100,098</b>	<b>Total Income</b>	<b>98,605</b>
	<b>Expenditure</b>	
58,252	Precepts and demands from County and Police	59,863
	Business Rate:	
41,163	Payment to the National Pool	37,689
147	Costs of Collection	135
	Impairment of debts/appeals:	
876	Write off of uncollectable amounts	621
(141)	Allowance for impairment	(182)
<b>100,297</b>	<b>Total Expenditure</b>	<b>98,126</b>
(426)	<b>Balance brought forward 1st April 2010</b>	(625)
(199)	<b>Movement in Fund</b>	479
<b>(625)</b>	<b>Balance carried forward 31st March 2011</b>	<b>(146)</b>

### Breakdown of the balance on the Collection Fund:

2009/10 £000		2010/11 £000
(469)	Surrey County Council	(110)
(84)	Surrey Police	(20)
(72)	Spelthorne Borough Council	(16)
<b>(625)</b>		<b>(146)</b>



### Council Tax

To calculate the total yield from the council tax it is necessary to convert the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) to an equivalent number of band D dwellings. The calculation for 2010/11 is as follows:

Valuation Band	Number of Chargeable Dwellings	Ratio	Equivalent Band D dwellings	Estimated Yield at £1,482.20	£
A	314	6/9	209	309,780	
B	1311	7/9	1020	1,511,844	
C	7043	8/9	6260	9,278,572	
D	12666	1	12666	18,773,545	
E	8878	11/9	10851	16,083,352	
F	4136	13/9	5974	8,854,663	
G	1883	15/9	3138	4,651,144	
H	90	18/9	180	266,796	
<b>Total</b>	<b>36321</b>		<b>40298</b>	<b>59,729,696</b>	
Allowance for losses on collection and appeals			90	133,398	
<b>Council Tax base and expected yield</b>			<b>40388</b>	<b>59,863,094</b>	

### Non-Domestic Rates

The Council collects non-domestic rates on behalf of the Government which are based on local rateable values multiplied by a national non-domestic rate multiplier. The total collected is paid into a central NNDR pool managed by central Government, which pays authorities their share of the pool based on a standard amount per head of the local adult population.

The non-domestic rateable value as at 31 March 2011 was £101,461,170 and the multiplier for 2010/11 was £0.414.

### Precepts and Demands on the Collection Fund

2009/10 £'000	Precepts and Demands	2010/11 £'000
43,746	Surrey County Council	45,088
7,787	Surrey Police	8,018
6,719	Spelthorne BC	6,757
<b>58,252</b>		<b>59,863</b>

### Distribution of Surplus

2009/10 £'000	Distribution of Deficit	2010/11 £'000
(135)	Surrey County Council	(458)
(24)	Surrey Police	(83)
(20)	Spelthorne BC	(56)
<b>(179)</b>		<b>(597)</b>

# **ANNUAL GOVERNANCE STATEMENT**

## **Scope of responsibility**

Spelthorne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, this includes arrangements for the management of risk.

The Council 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. A copy of the code is on our website at [www.spelthorne.gov.uk](http://www.spelthorne.gov.uk) or can be obtained from The Council Offices, Knowle Green, Staines TW18 1XB. This statement explains how the Council 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 2011 in relation to the publication of an annual governance statement.

## **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives of appropriate, cost effective services.

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 the achievement of the authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

## **The Governance Framework**

The key elements of the systems and processes that comprise the authority's governance arrangements are summarised below:

### **Identifying and communicating our vision and outcomes for citizens and service users**

- The Council publishes on an annual basis its Corporate Plan. The Council's current Corporate Plan 2008-11 is published on the website [http://www.spelthorne.gov.uk/your\\_council-corporateplan](http://www.spelthorne.gov.uk/your_council-corporateplan) ). The Corporate Plan and

priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year

- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

#### Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. The Council reviewed and updated in 2010 a new set of Corporate priority themes. Progress towards the achievement of the objectives will be monitored through the performance management system and by the Performance Management and Review Committee. Following the May 2011 election, the new Cabinet are in the process of reviewing the Council's priorities.
- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners

#### Established clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation

- Communication and Consultation strategies are in place, together with an Equality and Diversity Strategy helping to ensure that all groups in our community have a voice, can be heard and are suitably consulted.
- The Council (undertakes when appropriate consultation exercises and uses focus groups and a wide variety of other methods to obtain feedback from the community.

#### 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

- Spelthorne Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Council operates Executive arrangements with a Leader and Cabinet (from 2011-12 it is operating the Strong Leader model whilst retaining a Cabinet) who recommend the major policies and strategies to the Council. The Cabinet is also responsible for most of the non-regulatory functions of the Council. The Executive is made up of the Leader and eight other cabinet members, who are all appointed by the Council. Major decisions which affect significant proportions of the community are published in advance in the Cabinet's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.
- There is one scrutiny committee Overview and Scrutiny Committee which reviews decisions and actions taken by the Cabinet and other Council functions. A "call-in" procedure allows scrutiny to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The scrutiny committee also reviews, monitors and scrutinises the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. Within its community leadership functions, the scrutiny powers have been exercised by the Council in relation

to the work of other partner organisations which affect the whole of the Spelthorne Community.

- The Council has agreed a Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework for Corporate Governance and in doing so has adopted the highest possible standards for the governance of the authority.

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

The standards of conduct and personal behaviour expected of members and officers of Spelthorne Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

- Member Code of Conduct and Standards Committee
- A performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- An Anti Fraud and Corruption policy
- Member/officer protocols

#### Whistle-blowing and receiving and investigating complaints from the public

- Confidential reporting arrangements are in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.
- The Council handles complaints effectively. Following on the work of the Code of Corporate Governance Task Group, the Council reviewed its corporate complaints process during 2008-09 to ensure that it can respond to the ever increasing expectations of the public for excellent public and customer service. Improvement recommendations were implemented. Following the bedding down of the new Customer Services structure officers will review and update the customer complaints processes.

#### 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

- The Council regularly reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks. In the last four years both Financial Regulations and Contract Standing Orders have been revised in light of changing circumstances. Refresher Training on application of the contract standing orders has been provided to officers.

#### Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- Spelthorne Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and

procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.

- Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation. Reminders are provided for staff on key policies which protect them and the public, for example the whistle-blowing policy and the Money Laundering Regulations.
- The Council has a designated Monitoring Officer who is the Head of Corporate Governance who is responsible for ensuring compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and the Chief Finance Officer, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

#### Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

- The Council has performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Overview and Scrutiny Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.

#### Financial Management

- The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution, which includes the financial regulations. The Council has a designated officer who fulfils the role of the Section 151 Officer in accordance to the Local Government Act 1972. The Council has in place a medium term financial strategy.
- Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.
- Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council.

In particular, the process in 2010/11 included:

- The setting of the outline budget framework and the detailed annual budget;
- Monitoring of actual income and expenditure against the annual budget;

- Setting of financial and performance targets, including the prudential code and associated indicators;
- Monthly reporting of the Council's financial position to corporate Management Team and quarterly to the Cabinet and the Overview and Scrutiny Committee;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.

#### Effectiveness of Internal Audit

- The Council maintains a internal audit section, which operates to the standards set out in the “Code of Practice for Internal Audit in Local Government in the UK
- The Council has an objective and professional relationship with External Audit and statutory inspectors. as evidenced in the Annual Audit Letter
- A review of the effectiveness of internal audit is undertaken annually and considered by the Audit Committee.

#### A Governance (Audit) Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

- The Council has an Audit Committee which is responsible for considering the effectiveness of the Council's system of internal control. This Committee performs the core functions as set out in CIPFA guidance. Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

#### Performance and Risk Management

- The Council has performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.
- The Chief Finance Officer is currently the authority's risk champion. Audit Services support the risk management process through the risk based audit approach and by assisting services in the review of annual risk assessments. Risk management is built into the Council's corporate project methodology.
- The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- A resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

#### Incorporating good governance arrangements in respect of partnerships and other group working

- The Council incorporates 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 reflects these in the authority's overall governance arrangements. The Head of Corporate Governance is currently reviewing the governance of partnerships.

#### The ethical conduct of members and officers of this Council

- The Council has under the Constitution established a Standards Committee and a Members Code of Conduct.

### **Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Services' annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The former Performance Management and Review Committee set up a Code of Corporate Governance Task Group (the Task Group) which reviewed during 2007-08 the Council's governance arrangements and assessed them against the six CIPFA/SOLACE core principles underpinning the then new Code of Corporate Governance framework issued by CIPFA/SOLACE. The six principles are:

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

An officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources completed during 2007-08 a detailed assessment of the Council's position against the criteria set out in the eight objectives underpinning the Code of Governance framework. This officer group reviewed and updated the assessment during 2010-11, including reviewing the previous work of the Task Group. The eight objectives are:

- Establish principal statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage principal risks

- Obtain assurances on effectiveness of key controls
- Evaluate assurances and identify gaps in control/assurances
- Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance
- Produce the Annual Governance Statement
- Report to Audit Committee

The review included reviewing the constitution, procedures and obtaining confirmation of arrangements from key officers to ensure that there was sufficient and relevant evidence to provide assurance that there are appropriate controls in place.

The officers' review of arrangements against the six principles included considering the arrangements in place for:

- The authority
- The Cabinet
- The audit committee and scrutiny committees
- The standards committee
- Internal audit
- Other explicit review/assurance mechanisms.

The matrices used to review the arrangements were circulated to members of the Audit Committee.

### **Significant governance issues**

The overall opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2010-11 which is summarised separately in the Annual Audit report to the Audit Committee.

Any shortcomings identified with a significant level of risk attached have been reported to the Audit Committee and have been transferred into the Council's Corporate Risk Register for quarterly monitoring. The following issues are outstanding at 31 March 2011:

1. Management will need to continue to monitor the implications of the government's plans to reform the benefit systems, particularly on the demand for housing in Spelthorne and uncertainties for the housing benefit staff.
2. Improvements in project management arrangements, particularly co-ordination and monitoring of the programme of key projects, should continue.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need



for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

The issues reported in last year's Annual Governance Statement with respect to review the Council Corporate Risk Register and partnership work have been addressed by management but will be kept under review

**V. Leighton**

.....  
Cllr Vivienne Leighton  
Leader of the Council

**R. Tambini**

.....  
Roberto Tambini  
Chief Executive

## **Independent auditor's report to the members of Spelthorne Borough Council**

We have audited the financial statements of Spelthorne Borough Council for the year ended 31 March 2011 on pages 10 to 64. The financial statements have been prepared under applicable law and the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, set out on page 9, the Chief Finance Officer is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Chief Finance Officer; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority's expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the governance statement set out on pages 65 to 72 the governance statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11(3) of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

## **Conclusion on Spelthorne Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Basis of conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Spelthorne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

We certify that we have completed the audit of the financial statements of Spelthorne Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

## **A. Sayers**

**Andrew J Sayers**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square  
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28 September 2011

# GLOSSARY OF TERMS

## ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- (i) recognising,
- (ii) selecting measurement bases for, and
- (iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the accounts it is to be presented.

## ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- (b) the actuarial assumptions have changed.

## BEST VALUE

A Government initiative introduced in 1998 in a series of pilot projects and now supported by legislation from 1999, which is aimed at measuring the economy, efficiency and effectiveness of all local Council services.

## BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

## BUDGET

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

## CAPITAL CHARGES

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

## CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.

## CAPITAL ADJUSTMENT ACCOUNT

An account that reflects the extent to which fixed assets have been financed from revenue contributions or capital receipts, and the provision for the repayment of external loans. This account replaced the Capital Financing Account from 1<sup>st</sup> April 2007.

## CAPITAL RECEIPTS

The proceeds from the sale of (or reduction in our interest in) capital assets such as land, buildings and equipment.

## COLLECTION FUND

An account maintained by a district council recording the amounts collected in council tax.

## COMMUNITY ASSETS

The council also owns assets classified as community assets. This includes land in cemeteries and parks which is held for community use in perpetuity, has no determinable useful life and may have restrictions on disposal. These assets are generally valued at historic cost and are not shown in the Balance Sheet as the historic cost is de-minimus.

## COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)

This assesses how well the Council delivers services and how well the Council is run, as this will affect how services are delivered in the future.

## CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## CONTINGENCY

A situation, which exists at the Balance Sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## CONTINGENT LIABILITIES

A potential liability that is uncertain because it depends on the outcome of a future event.

## CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of

these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

#### COUNCIL TAX

A local tax levied by local authorities on its citizens.

#### PAYABLE

An individual or body to which the Council owes money at the Balance Sheet date.

#### CURRENT ASSET

An asset that is realisable or disposable within less than one year without disruption to services.

#### CURRENT LIABILITY

A liability that is due to be settled within one year.

#### CURRENT SERVICE COST (PENSIONS)

The increase in present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

#### CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and
- (b) termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

#### RECEIVABLE

An individual or body that owes money to the Council at the Balance Sheet date.

#### REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute represent spending which may properly be capitalised, but where no tangible fixed asset is created e.g. improvement grants and social housing grants.

## DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions (fixed as an amount or as a percentage of pay) and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current prior periods.

## DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time, obsolescence or other changes.

## DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 2006.

## DOUBTFUL DEBT

A debt that the Council is unlikely to recover. A provision is made in the accounts for doubtful debts each year based on how long debts have been outstanding.

## EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## EXPERIENCE GAINS/LOSSES

These are a type of actuarial gain/loss within the valuation of the pension fund. See actuarial gains/losses.

## FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## FINANCIAL REPORTING STANDARD (FRS)

Accounting standards governing the treatment and reporting of income and expenditure in an organisation's accounts.



## FIXED ASSETS

Tangible assets that benefit the local Council and the services it provides for a period of more than one year.

## GENERAL FUND

The division of the Council's accounts covering services paid for by the precept on the Collection Fund (Council Tax).

## GOING CONCERN

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

## GOVERNMENT GRANTS

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.

## IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount in the Balance Sheet .

## INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure that is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

## INVESTMENTS

A long-term investment that is intended to be held for use on a continuing basis in the activities of the Council.

## INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential.

## LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

## LONG-TERM ASSET

A fixed asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

## LONG-TERM BORROWING

A loan repayable in more than one year from the Balance Sheet date.

## LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

## LONG-TERM RECEIVABLE

An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

## NATIONAL NON-DOMESTIC RATE

Business rate levied on Companies, firms etc.

## NET ASSETS

The amount by which assets exceed liabilities (same as net worth).

## NET BOOK VALUE

The amount at which fixed assets are included in the Balance Sheet , i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

## NET CURRENT LIABILITIES

The amount by which current liabilities exceed current assets.

## NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

## NET EXPENDITURE

Total expenditure for a service less directly related income.

## NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

## NET WORTH

The amount by which assets exceed liabilities (same as net assets).

## NON-DISTRIBUTED COSTS

Overheads for which no direct user benefits and which are therefore not apportioned to services.

## NON-OPERATIONAL ASSETS

Fixed assets held by a local Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

## OPERATING LEASES

A lease other than a finance lease.

## OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

## PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

## PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases; and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

## PROVISIONS

An estimated figure within the accounts for liabilities that are known to exist, but that cannot be measured accurately.

## RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

## RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## REMUNERATION

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

## RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and

do not take account of expected future price changes.

## RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employer's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

## REVALUATION RESERVE

Unrealised gains and losses on revaluation of fixed assets.

## REVENUE EXPENDITURE/INCOME

The cost or income associated with the day-to-day running of the services and financing costs.

## REVENUE SUPPORT GRANT

Government financial support that does not have to be spent on a particular service. It is based on the Government's assessment of the Council's spending need, its receipt from national business rates, and its ability to generate income from the council tax.

## SCHEME LIABILITIES

The liabilities of a defined scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

## SETTLEMENT

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
  - (b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits;
- and
- (c) the transfer of scheme assets/liabilities relating to a group of employees leaving the scheme.

## STATEMENT OF STANDARD ACCOUNTING PRACTICES (SSAP)

Accounting practices recommended by the major accounting bodies. The application of

SSAP's to local authorities is reflected in Statements of Recommended Practice (SORP).

## STOCKS

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

- (a) goods or other assets purchased for resale;
- (b) consumable stores;

## STRAIGHT-LINE BASIS

Dividing a sum equally between several years.

## USEFUL LIFE

The period over which the local Council will derive benefits from the use of a fixed asset.

## VESTED RIGHTS

In relation to a defined benefit scheme, these are:

- (a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- (b) for deferred pensioners, their preserved benefits;
- (c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.