



TEST VALLEY
B O R O U G H C O U N C I L

**STATEMENT OF
ACCOUNTS
2011/12**

CONTENTS

	<u>Pages</u>
Foreword by the Head of Finance	1 – 5
Statement of Responsibilities	6
Independent Auditor's Report	7 – 9
Comprehensive Income & Expenditure Statement	10
Movement In Reserves Statement	11
Balance Sheet	12
Cash Flow Statement	13
Notes to the Financial Statements	14 – 61
Collection Fund	62
Notes to the Collection Fund	63 – 64
Glossary of Terms	65 – 67
<u>Annex to the Financial Statements</u>	
Annual Governance Statement	68 - 77

FOREWORD BY THE HEAD OF FINANCE

There were significant changes to the presentation of the Statement of Accounts in 2010/11 as a result of the implementation of reporting under International Financial Reporting Standards. The presentation of the 2011/12 Statement of Accounts is largely unchanged from those published for 2010/11.

Changes to Accounting Framework

One change that is relevant to local authority accounts for 2011/12 concerns the presentation and disclosure of heritage assets (a requirement of Financial Reporting Standard (FRS) 30). Heritage assets are defined as assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture. Where material to the Council's accounts, these should be analysed as a separate category on the balance sheet.

The Council has identified a number of heritage assets including; civic regalia, public works of art and some larger artefacts such as the Japanese cannon in Romsey War Memorial Park. The total value of these assets is not considered material to the Council's accounts and as such they have not been reclassified and are not disclosed to the extent required by FRS30.

The Statement of Accounts

The accounts comprise the following key statements:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Finance for the production of the Statement of Accounts.
- **The Comprehensive Income & Expenditure Statement** shows all income and expenditure incurred by the Council throughout the year; it includes day-to-day transactions from running the organisation as well gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.
- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.
- **The Balance Sheet** shows the financial position of the Council and discloses the assets and liabilities for all Council Services. At the balance sheet date the net worth of the Council was £134.5M.
- **The Cash Flow Statement** summarises the Council's cash transactions for the year.
- **The Collection Fund** records all income from Council Tax and business rates. Expenditure includes payments to the national business rates' pool, precepts to Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority, local parish/town councils and Test Valley Borough Council's own demand

on the Collection Fund. The Collection Fund is not incorporated within the Comprehensive Income & Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.

The Independent Auditor's Report explains how the Council's auditors, the Audit Commission, plan their audit and the basis on which they provide an opinion on the Council's Statement of Accounts. It also gives the auditor's opinion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources in the year.

The Annual Governance Statement accompanies the Statement of Accounts and explains how the Council ensures 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. It is not covered by the auditor's opinion but is considered by the auditor and reported on by exception in the auditor's report if it is not compliant with proper practice.

Financial Performance

The Council monitors its budgets under two major headings: Revenue and Capital. Revenue spending relates to items consumed in the year and is financed from Council Tax, fees & charges, government grants and other income. Capital spending creates assets with a life of longer than one year and is financed from usable receipts, government grants, contributions and revenue.

General Fund Revenue Activities

The initial forecast of General Fund revenue requirements began soon after the budget for 2010/11 was approved. A significant range of essential savings / improved income opportunities was identified and included in the budget and this is likely to be required again in the medium term.

The detailed budget was approved by Council on 25th February 2011. The net expenditure forecast for 2011/12 agreed at this stage totalled £11.607M. No draws from general reserves were included in the budget.

The revised budget for 2011/12 was approved by Council on 24th February 2012. The net expenditure was maintained at £11.607M, with no draws from general reserves.

The actual outturn for 2011/12 was better than expected, enabling an additional £1.172M to be transferred to earmarked and capital reserves.

A summary of the revised estimate and final outturn for revenue activities is shown in the table below.

	Revised Budget 2011/12	Actual 2011/12	Variance
	£'000	£'000	£'000
Service Expenditure (including Investment Property income and expenditure)	15,834	13,878	1,956
Corporate Items			
Reversal of capital charges including depreciation	(3,861)	(4,044)	183
Investment income and borrowing	(742)	(755)	13
Non-service related grants	(557)	(628)	71
Transfers to Earmarked / Capital reserves	740	1,472	(732)
Additional transfers to reserves arising from surplus in year	39	1,211	(1,172)
Transfer to Pension Reserve	0	473	(473)
Other	154	55	99
GENERAL FUND REQUIREMENTS	11,607	11,662	(55)
Met By			
Business Rates Re-Distribution & Revenue Support Grant	5,681	5,681	0
Council Tax	5,887	5,887	0
Other Collection Fund	39	94	(55)
TOTAL REVENUE RESOURCES	11,607	11,662	(55)

Asset Valuation Programme

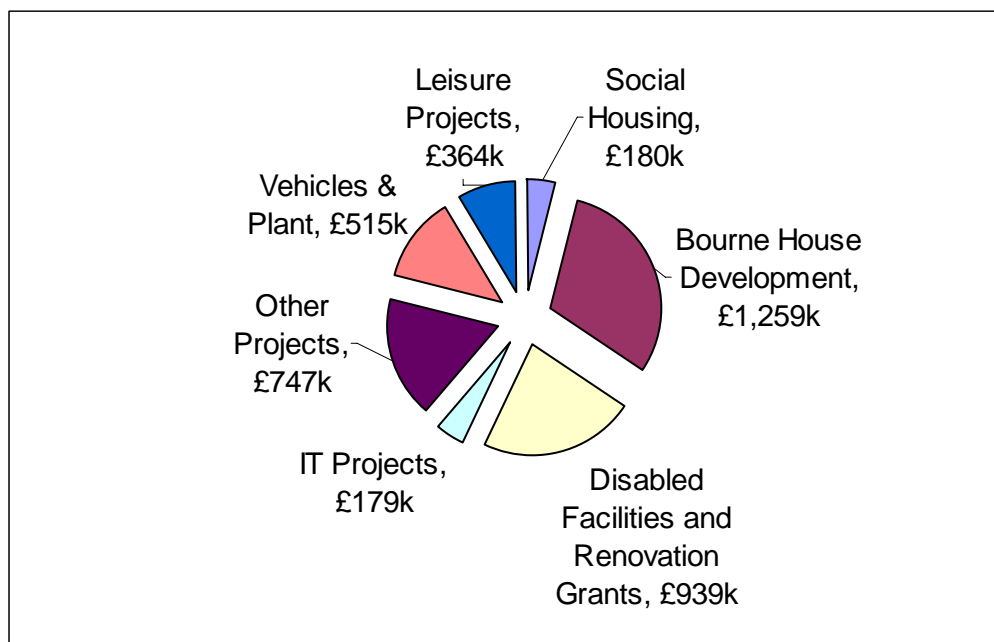
The Council's internal RICS qualified valuer provided a valuation certificate for all of the Council's investment properties and carried out an impairment review on all other non-current assets as at 31st March 2012.

This involved reviewing leases and covenants and knowledge of local property markets to determine an accurate, up-to-date value for inclusion in the accounts.

The net impact of the valuation programme was a reduction in the value of the Council's investment properties of £5.977M.

Capital Activities

Capital spending for the year totalled £4.183M, as summarised below:



The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions. In 2011/12, the majority of funding (54%) came from usable capital receipts (£2.241M) with the remainder (£1.942M) coming from capital grants and contributions from revenue. The balance of financing is expected to be more reliant on capital receipts during 2012-13 as the level of grants available is expected to reduce. The Council is debt free and has no long term borrowing.

Major capital investment is planned over the next two financial years as shown below:

	2012/13	2013/14
	£'000	£'000
Social Housing capital projects	1,930	50
IT Infrastructure development projects	606	0
Disabled facilities and renovation grants	850	936
Asset Management projects	1,515	0
Other capital projects	1,527	363
TOTAL	6,428	1,349

Financial Position at the Year End

General Fund reserves stood at £2M at 1st April 2011. I consider this to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31st March 2012.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £10.673M available for specific revenue purposes and capital reserves of £35.848M available to spend on capital schemes.

Accounting for Defined Benefit Pension Schemes

The Council has adopted the requirements of International Accounting Standard 19 (IAS19) "Employee Benefits", as applicable to defined benefit pension schemes.

The main features of this standard are:

- A recognition in the Balance Sheet of the Council's share of the pension fund's net liability and
- Entries in the Comprehensive Income & Expenditure Statement for the movements in the liability year-on-year to ensure that there is no impact on the General Fund Balance.

Full details of these adjustments can be found in note 15 to the core financial statements.

IAS19 is a complex accounting standard, but is based on a simple principle – that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

This Council's liability at 31st March 2012 was £51.1M, but statutory arrangements for funding this liability are in place and the financial position of the Council remains healthy. The balance of £51.1M is a significant increase from the £39.4M shown in last year's accounts.

The main reason for the increase in the liability is the £10.9M actuarial loss on the Council's share of the fund's assets and liabilities, which is shown in the Other Comprehensive Income and Expenditure section of the Comprehensive Income & Expenditure Statement.

Impact of the current economic climate on the Council and its services

The Council remains committed to delivering high-quality services to all residents and is well positioned to continue to do this despite the current economic climate.

The surplus in 2011/12 has enabled the Council to bolster earmarked reserves to help ensure that the financial challenges that will be faced in coming years can be managed in a controlled manner.

The Council's budget setting process is robust and I expect it to be flexible enough to prevent significant changes to front-line services in the medium term.

Conclusion

For the year under review, the net financial result is pleasing. Due to a continuing drive for efficiency, the Council has been able to perform its services to a high level, and at the same time maintain its reserves at an adequate level to meet all known liabilities. In these circumstances the Council's finances continue to be in a stable and healthy condition, although there will be significant financial challenges in the years to come.

I would like to extend my appreciation to all those that have contributed to the timely production of this year's Statement of Accounts.

W. Fullbrook CPFA
Head of Finance

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2011/12

The Council's Responsibilities

The Council is required to:

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

The Head of Finance's Responsibilities

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

In preparing this Statement of Accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Head of Finance has also:

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

Certification of the Head of Finance

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March, 2012.

Signed

W. Fullbrook, CPFA

Date.....

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Test Valley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 2011/12, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 2012 and of its 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 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my 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 2011, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Kevin Suter

Officer of the Audit Commission

Audit Commission
2nd Floor, Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

September 2012

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2012

This statement shows the accounting cost to the Council in the year on the provision of services. It includes all income and expenditure that affects the Council's net asset position such as gains or losses on investing and financing activities and movements in the value of long term assets and liabilities. Total comprehensive income and expenditure represents the movement on net assets within the Balance Sheet.

The statement includes some costs and income that are not allowed to be charged as income and expenditure to the General Fund (the account used to set the level of Council Tax). This means that to make a comparable presentation of the performance of the Council during the year it is necessary to adjust the surplus or deficit on the Statement to derive the movement on the General Fund. These adjustments are shown in the Movement in Reserves Statement and analysed in note 5.

	2010/11		Net Exp.	2011/12		Net Exp.	Note
	Exp.	Income	2010/11	Exp.	Income	2011/12	
	As re-stated						
Services	£'000	£'000	£'000	£'000	£'000	£'000	
Central Services to the Public	8,023	6,760	1,263	7,998	6,719	1,279	
Cultural & Related	5,371	1,254	4,117	5,931	1,998	3,933	
Environmental & Regulatory	8,290	1,659	6,631	8,326	1,640	6,686	
Planning & Development	6,498	2,647	3,851	6,353	2,562	3,791	
Highways & Transport Services	2,552	2,723	(171)	1,988	2,514	(526)	
Housing Services	29,895	26,603	3,292	29,234	28,426	808	
Corporate & Democratic Core	3,492	63	3,429	3,208	39	3,169	
Non - Distributed Costs	200	0	200	20	0	20	
Exceptional Items Relating to Non - Distributed Costs	(13,380)	0	(13,380)	0	0	0	15
Net Cost of Services	50,941	41,709	9,232	63,058	43,898	19,160	
Other Operating Income and Expenditure							
Loss / (Profit) on disposal of Property, Plant & Equipment	7	424	(417)	647	329	318	21
Parish Precepts	1,064	1,064	0	1,069	1,069	0	
Contribution to the Housing Pool	6	0	6	0	0	0	
Financing and Investment Income and Expenditure							
Investment Income	0	689	(689)	0	772	(772)	32
Interest Payable	18	0	18	17	0	17	
Pension Fund Interest Costs	5,650	0	5,650	5,480	0	5,480	15
Pension Fund Return on Assets	0	3,810	(3,810)	0	4,250	(4,250)	15
Changes in Fair Value of Investment Properties	7,641	0	7,641	5,977	0	5,977	18
Profit on Disposal of Investment Properties	0	44	(44)	0	0	0	21
Net Investment Property Income	245	5,920	(5,675)	404	5,935	(5,531)	18
Net Operating Expenditure	65,572	53,660	11,912	76,652	56,253	20,399	
Taxation and non-specific grant income							
Council Tax Income	0	5,936	(5,936)	0	5,981	(5,981)	7
Non Ringfenced Government Grants	0	7,131	(7,131)	0	6,309	(6,309)	7
Capital Grants and Contributions	0	7	(7)	0	208	(208)	7
(Surplus) / Deficit on the provision of services	65,572	66,734	(1,162)	76,652	68,751	7,901	
Other comprehensive income and expenditure							
Net (gains) / losses on revaluation of Property, Plant & Equipment	0	383	(383)	188	0	188	17
Actuarial (gains) / losses on pension fund assets and liabilities	0	4,520	(4,520)	10,900	0	10,900	15
Total comprehensive (income) / expenditure	65,572	71,637	(6,065)	87,740	68,751	18,989	

For 2011/12 the SerCOP has required the Service line that was disclosed as 'Cultural, Environmental, Regulatory and Planning Services' in the 2010/11 accounts to be broken into three separate areas. As a result, the income and expenditure on services has been re-stated. This does not affect any of the other main statement pages.

When the re-statement was prepared it became apparent that some income and expenditure had been double counted in the 2010/11 accounts. This did not affect the overall cost of services but could affect a year-on-year comparison of gross income and expenditure in the Net Cost of Services.

The exceptional item relating to Non-Distributed Costs is in respect of the change from RPI to CPI in the valuation of pension fund liabilities that came into effect in 2010/11.

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2012

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" and "unusable reserves".

Movements during the year come from the Comprehensive Income & Expenditure Statement. These are then adjusted by the difference between the accounting basis and the funding basis by transfers between the General Fund and the other reserves. This is shown more fully in note 5.

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£'000	£'000	£'000	£'000	£'000	£'000	
Movements during 2010/11							
Balance as at 31st March 2010	2,144	9,412	40,604	52,160	95,246	147,406	
Surplus on the Provision of Services	1,162	0	0	1,162	0	1,162	
Other Comprehensive Income & Expenditure	0	0	0	0	4,903	4,903	
Total Comprehensive Income & Expenditure	1,162	0	0	1,162	4,903	6,065	
Adjustments between accounting basis and funding basis under regulations	(1,208)	0	(2,976)	(4,184)	4,184	0	5
Net increase before transfers to earmarked reserves	(46)	0	(2,976)	(3,022)	9,087	6,065	
Transfers (to) / from earmarked reserves	(98)	98	0	0	0	0	
Increase / (Decrease) in Year	(144)	98	(2,976)	(3,022)	9,087	6,065	
Balance as at 31st March 2011	2,000	9,510	37,628	49,138	104,333	153,471	
Movements during 2011/12							
Surplus on the Provision of Services	(7,901)	0	0	(7,901)	0	(7,901)	
Other Comprehensive Income & Expenditure	0	0	0	0	(11,088)	(11,088)	
Total Comprehensive Income & Expenditure	(7,901)	0	0	(7,901)	(11,088)	(18,989)	
Adjustments between accounting basis and funding basis under regulations	9,064	0	(1,780)	7,284	(7,284)	0	5
Net increase before transfers to earmarked reserves	1,163	0	(1,780)	(617)	(18,372)	(18,989)	
Transfers (to) / from earmarked reserves	(1,163)	1,163	0	0	0	0	
Increase / (Decrease) in Year	(0)	1,163	(1,780)	(617)	(18,372)	(18,989)	
Balance as at 31st March 2012	2,000	10,673	35,848	48,521	85,961	134,482	

BALANCE SHEET AS AT 31 MARCH 2012

The Balance Sheet summarises the position of the Council's assets and liabilities as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 29 and 30.

	2010/11		2011/12		Note
	£'000	£'000	£'000	£'000	
Land & Buildings	58,158		57,094		17
Vehicles, Plant & Equipment	1,858		2,189		17
Community Assets	3,047		3,092		17
Infrastructure Assets	622		640		17
Property, Plant & Equipment (PPE)		63,685		63,015	
Investment Properties		78,802		72,823	18
Intangible Assets		930		828	19
Long-Term Non-Property Investments	5,003		0		32
Long-Term Debtors	18		18		24
Long-Term Assets		5,021		18	
Cash and Cash Equivalents	8,320		1,889		23
Short-Term Investments	37,209		50,490		32
Inventories	160		171		
Debtors	9,220		7,396		25
Less: Bad Debt Allowance	(1,260)		(1,400)		25
Current Assets		53,649		58,546	
Creditors	8,755		9,494		26
Provisions	300		0		28
Current Liabilities		(9,055)		(9,494)	
Total Assets less Current Liabilities		193,032		185,736	
Creditors due after more than one year	121		154		16
Liability to Pension Fund	39,440		51,100		15
		(39,561)		(51,254)	
Total Assets Less Liabilities		153,471		134,482	
Usable Reserves					
General Fund Balance	2,000		2,000		29
Revenue and Earmarked Reserves	9,510		10,673		29
Capital Receipts Reserve	37,628		35,848		29
Total Usable Reserves		49,138		48,521	
Unusable Reserves					
Revaluation Reserve	19,972		19,203		30
Capital Adjustment Account	123,922		117,886		30
Deferred Credits	8		8		30
Collection Fund Adjustment Account	119		174		30
Accumulated Absences Account	(248)		(210)		30
Pension Fund Reserve	(39,440)		(51,100)		15, 30
Total Unusable Reserves		104,333		85,961	
Total Equity		153,471		134,482	

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2012

This statement summarises the movements in the Council's cash transactions. It shows the volume of financial activity that takes place between the Council and its stakeholders.

The Cash Flow Statement is different to the other statements because it is on a cash basis and some of the figures may not agree with other figures in the accounts which are all on an accruals basis (i.e. based on amounts payable and receivable rather than actually paid or received).

The bottom section of the statement shows a reconciliation of the movement in Cash and Cash Equivalents in the year to the figures shown in the Balance Sheet.

	2010/11		2011/12		Note
	£'000	£'000	£'000	£'000	
Revenue Activities					
Net surplus on the provision of services		1,162		(7,901)	
Adjustments for non-cash transactions					
Depreciation of PPE / Amortisation of intangibles	1,672		1,814		17,19
Revaluation Losses on Investment Properties	7,641		5,977		18
Fixed Asset Impairment	0		1,049		17
Pension Fund Transfers	(11,540)		760		15
Other non-cash items	211		(1)		
		(2,016)		9,599	
Adjustments in respect of Investing Activities		(1,139)		(645)	
Adjustments for items on an accruals basis					
Increase in Debtors	(992)		(1,017)		
Increase in Inventories	(18)		(11)		
Increase in Creditors	2,283		473		
		1,273		(555)	
Net Cash (Inflow) / Outflow from Operating Activities		(720)		498	
Investing Activities					
Net increase in non-property investments	(14,555)		(8,278)		
Interest Received	1,320		532		
Interest Paid	(18)		(17)		
Purchase of Assets	(1,827)		(2,745)		
Sale of Assets	725		625		
Other Capital Cash Received	335		632		
Net Investing Activity Cashflow		(14,020)		(9,251)	
Financing Activities					
Cash payments to reduce outstanding finance	(82)		(113)		
Other income / (payments) for financing activities	(389)		2,435		
		(471)		2,322	
Net Decrease in Cash and Cash Equivalents		(15,211)		(6,431)	
Cash and Cash Equivalents at the start of the reporting period		23,531		8,320	
Cash and Cash Equivalents at the end of the reporting period		8,320		1,889	

NOTES TO THE CORE FINANCIAL STATEMENTS

INDEX

1. Accounting Policies
2. Accounting Standards that have been issued but have not yet been adopted
3. Critical Judgements in Applying Accounting Policies
4. Assumptions made about the future and other major sources of estimation uncertainty
5. Adjustments between accounting basis and funding basis under regulation
6. Amounts reported for resource allocation decisions
7. Taxation and Non-Specific Grant Income
8. Special Expenses
9. External Audit Costs
10. Agency Services
11. Pooled Budgets
12. Members' Allowances
13. Officers' Remuneration
14. Termination Benefits
15. Defined Benefit Pension Scheme
16. Leases
17. Property, Plant & Equipment
18. Investment Properties
19. Intangible Assets
20. Heritage Assets
21. Profit / Loss on Disposal of Assets
22. Capital Expenditure and Financing
23. Cash and Cash Equivalents
24. Analysis of Debtors due after more than one year
25. Analysis of Debtors
26. Analysis of Creditors
27. Trust Funds
28. Provisions
29. Usable Reserves
30. Unusable Reserves
31. Net Assets Employed
32. Financial Instruments
33. Nature and Extent of Risks Arising from Financial Instruments
34. Related Party Transactions
35. Group Accounts
36. Contingent Assets
37. Contingent Liabilities
38. Events after the Balance Sheet Date
39. Date Accounts Authorised for Issue

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

This note sets out the accounting policies followed in compiling the Council's accounts. The aim of the note is to explain the basis of the figures in the accounts and to disclose policies that are significant and relevant to the Council.

I. **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2011) in accordance with proper accounting practices.

These practices primarily comprise; the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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

II. **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 period 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 is 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 prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

III. **Accruals of Income & Expenditure**

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

- Fees, charges and rents due from customers and income from the provision of services are accounted for as income at the date the Council provides the relevant goods or services; i.e. when it is probable that the economic benefits 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 provided are recorded as expenditure when the services are received rather than when payments are made.

- Works are charged as expenditure when they are completed, before which they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Small amounts outstanding at the year end are treated on a payments basis. In total, these do not have a material effect on the year's accounts. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

IV. Cash and Cash Equivalents

Cash is represented by cash in hand.

Cash equivalents are deposits with financial institutions payable without penalty or notice, maturing in not more than one day and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement the 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.

V. 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.

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

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 where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount cannot be measured reliably.

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.

VI. Reserves

The Council sets aside specific and general amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to 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 and retirement benefits and do not represent usable resources to the Council. Transactions with these reserves are explained in the relevant notes below.

VII. 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 / contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant / 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 / contribution are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants / contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When conditions are satisfied, the grant / contribution is credited to the relevant Service line or Taxation and Non-Specific Grant income in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant 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 finance capital expenditure.

VIII. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve 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 service to the Council.

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on a sample of services) earned by employees but not taken before the year end which employees can carry forward into the next financial year. 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 that the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the net cost of services in the Comprehensive Income & Expenditure Statement.

Post Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation.

Full details of the valuation method are shown in note 15 to the core financial statements.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners. The negative balance that arises on the Pension 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.

The Council has limited powers to award discretionary benefits in the event of early retirements. Any liabilities estimated to arise as a result of any such decision are accrued in the year the decision was made and are accounted for using the same policies as are applied to the rest of the pension scheme.

IX. 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 when 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 date of authorisation for issue are not reflected in the Statement of Accounts.

X. VAT

Income and expenditure excludes any amounts related to VAT to the extent that it is recoverable from HM Revenue & Customs.

XI. Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply of the service in accordance with the costing principles of CIPFA's Service Reporting Code of Practice 2011/12 (SerCOP) 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 benefits awarded to employees retiring early.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income & Expenditure Statement as part of the net cost of services.

XII. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits will flow to the Council.

Intangible assets are measured initially at cost. The balance is amortised over the useful life of the asset to the relevant service line in the Comprehensive Income & Expenditure Statement to reflect the pattern of consumption of benefits.

Amortisation is not permitted to have an impact on the General Fund Balance. Amortisation charges are reversed out of the General Fund balance by way of a transfer to the Capital Adjustment Account.

XIII. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains / losses on disposal.

Rentals received in respect of leases on investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation and disposal gains / losses are not permitted to have an impact on the General Fund balance. The gains / 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 sale proceeds) the Capital Receipts Reserve.

XIV. 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 administrative purposes on a continuing basis 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 associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged as an expense when it is incurred.

A de minimus level of £10,000 is applied to capital expenditure. Any expenditure on land, equipment or other chattels below this amount is not recorded as an asset.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant income line of the Comprehensive Income & Expenditure Statement. Where gains are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – 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) in an arm’s length transaction.

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 of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis 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 valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & 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 in 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 & Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 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 each 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 of the asset, 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 of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in 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 & Expenditure Statement.

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

Disposals and Non-Current Assets Held for Sale

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 reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value, less costs to sell. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure line in the Comprehensive Income & 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 & Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the 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.

Depreciation

Depreciation is provided for on all 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 (i.e. assets under construction).

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

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1M and
- The component is at least 20% of the carrying value of the asset and
- The change in depreciation after componentisation is greater than £10,000 per annum.

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

XV. Heritage Assets

This is a new Accounting Policy , the requirements of which are contained in FRS30.

Heritage assets are assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 20.

XVI. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding 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 losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, revaluation or amortisation. Depreciation, impairment losses, revaluation and amortisation are therefore replaced in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement.

XVII. 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 & Expenditure Statement in the year. Where the Council has determined to meet the cost of these charges from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

XVIII. 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 (the asset) 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' elements 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 dependent on the use of specific assets.

Criteria for determining whether a lease is finance or operating in nature

A number of factors are considered in determining whether a lease should be classified as finance or operating. Three of these are over-riding, the remainder are considered holistically to assess the nature of a lease.

Leases of land will be considered operating leases unless the land will be permanently impaired as a result of the lease (e.g. the land is used for mining).

Where it is almost certain that the lessee will retain the asset in perpetuity, (e.g. where the Council leases wheeled bins) the lease will be classified as a finance lease.

Where the Council leases a building to a tenant, the building element of the lease will be considered to be operating in nature if the lessee is required to return the building in a repaired condition at the end of the lease.

Factors that indicate a lease might be a finance lease include:

- Where the net present value of lease payments is more than 80% of the asset's purchase price.
- Where the lease period is longer than 75% of the asset's useful life.
- Where there are options to extend the primary lease at rates substantially lower than market rents.
- Where ownership transfers to the lessor at the end of the lease or there are options to buy the asset at the end of the lease term on favourable conditions which are reasonably certain to be taken up.
- Terms included in the lease which penalise the lessee more than the lessor in the event that the lessee cancels the lease.

Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at 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. Initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – 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 & Expenditure Statement).

Assets recognised under finance leases are 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, 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.

Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. Charges are made on a straight line basis over the life of the lease,

even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Council as Lessor – Finance Leases

There are no leases that qualify as finance leases where the Council is the lessor.

Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

XIX. Financial Instruments

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of a liability, multiplied by the effective interest rate for the instrument.

In most cases the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year.

Financial Assets

Financial Assets are divided into two categories; Loans & Receivables and Available for Sale assets. The Council has no Available for Sale Financial Assets.

Loans and receivables (e.g. cash investments) are initially measured at their fair value and carried at their amortised cost. Annual credits to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

XX. Inventories and Long-Term Contracts

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the year.

2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to identify any Accounting Standards that have been issued but have yet to be adopted. There is one such standard which relates to Financial Instruments.

The adoption of amendments to IFRS 7 'Financial Instruments: Disclosures' by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the financial statements are:

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property; Property, Plant and Equipment; or Heritage Assets. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets whereas if full market rent is being charged this would indicate that the asset is an Investment Property. Assets held solely for their historical / cultural value are shown as Heritage Assets. The classification determines the valuation method to be used.

Lease classifications – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken "in the round" and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

Contractual arrangements – the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

Future funding for local government - 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.

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty concerning future and past events, some of which are outside of the Council's control.

Doubtful debts allowances – the Council has made judgements about the level of doubtful debts that it needs to provide for. These judgments are based on historical experience of debtor defaults adjusted for the current economic climate.

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 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for buildings would increase by £35,000 for every year that useful lives had to be reduced.
Bad Debt Allowance	The Council has made allowances for doubtful debts of £1.400M in 2011/12 (2010/11 £1.260M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £70,000 (2010/11 £63,000).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	The effect of the net pension liability on changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in pension liability of £8.46M. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pension liability had increased by £970,000 due to estimates being corrected as a result of experience and increased by £8.28M attributable to the updating of assumptions.

5. Adjustments between accounting basis and funding basis under regulation

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.

Transactions in 2010/11

	General Fund Balance	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account					
Depreciation of non-current assets	1,591	0	1,591	(1,591)	17
Amortisation of intangible assets	81	0	81	(81)	19
Movement in the market value of investment property	7,641	0	7,641	(7,641)	18
(Profit) / loss on disposal of non-current assets	(461)	0	(461)	461	21
Revenue expenditure funded from capital under statute	3,036	(3,036)	0	0	22
Adjustments primarily involving the Capital Receipts Reserve					
Proceeds from disposal of non-current assets	0	696	696	(696)	
Financing of new capital expenditure	(1,447)	(554)	(2,001)	2,001	22
Contributions to national capital receipts pool	6	0	6	(6)	
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits charged to the CI&ES	(9,620)	0	(9,620)	9,620	15
Employer's contribution to pension fund / directly to pensioners	(1,920)	0	(1,920)	1,920	15
Adjustments primarily involving the Collection Fund Adjustment Account					
Amount by which Council Tax income credited to the CI&ES is different from Council Tax income calculated for the year in accordance with statutory requirements.	(80)	0	(80)	80	30
Adjustments primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(34)	0	(34)	34	30
Insertion of items not shown in the Comprehensive Income & Expenditure Statement					
Voluntary provision for repayment of finance leases	0	(82)	(82)	82	
Other adjustments	(1)	0	(1)	1	
	(1,208)	(2,976)	(4,184)	4,184	

Transactions in 2011/12

	General Fund Balance	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account					
Depreciation of non-current assets	1,712	0	1,712	(1,712)	17
Amortisation of intangible assets	102	0	102	(102)	19
Impairment of non-current assets	1,049	0	1,049	(1,049)	17
Movement in the market value of investment property	5,977	0	5,977	(5,977)	18
(Profit) / loss on disposal of non-current assets	318	0	318	(318)	21
Revenue expenditure funded from capital under statute	616	(616)	0	0	22
Adjustments primarily involving the Capital Receipts Reserve					
Proceeds from disposal of non-current assets	0	405	405	(405)	
Financing of new capital expenditure	(1,375)	(1,458)	(2,833)	2,833	22
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits charged to the CI&ES	2,680	0	2,680	(2,680)	15
Employer's contribution to pension fund / directly to pensioners	(1,920)	0	(1,920)	1,920	15
Adjustments primarily involving the Collection Fund Adjustment Account					
Amount by which Council Tax income credited to the CI&ES is different from Council Tax income calculated for the year in accordance with statutory requirements.	(55)	0	(55)	55	30
Adjustments primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(38)	0	(38)	38	30
Insertion of items not shown in the Comprehensive Income & Expenditure Statement					
Voluntary provision for repayment of finance leases	0	(113)	(113)	113	
Other adjustments	(2)	2	0	0	
	9,064	(1,780)	7,284	(7,284)	

6. Amounts reported for resource allocation decisions

The purpose of this note is to reconcile the financial information reported internally to that reported in the Comprehensive Income & Expenditure Statement.

The analysis of income and expenditure on the face of the Comprehensive Income & Expenditure Statement (page 10) 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 by Services. The most significant differences between these reports are:

- Income earned from the Council's property portfolio is shown as a service income in the Estates & Economic Development Service when reporting to Cabinet; however it is shown separately in the Comprehensive Income & Expenditure Statement as part of Financing and Investment Income & Expenditure.
- The past-service pension cost adjustment in 2010/11 was excluded from internal reports but was shown in the Net Cost of Services in the Comprehensive Income & Expenditure Statement. There were no past service costs to analyse in 2011/12.

The tables below reconcile the revenue outturn report to be presented to Cabinet on 10th July 2012 to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

Year ended 31st March 2011	Comm. & Leisure	Environ-mental Service	Estates & Economic Dev't	Housing, & Env. Health	Planning & Building	Planning Policy & Transport	Revenues & Benefits	Corporate & Support Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	1,526	2,036	8,680	1,543	1,395	3,530	691	7,329	26,730
Government Grants	28	0	6	489	0	294	31,816	34	32,667
Total Income	1,554	2,036	8,686	2,032	1,395	3,824	32,507	7,363	59,397
Employee Expenses	914	3,443	1,102	1,906	1,565	1,351	1,279	4,396	15,956
Other Operating Expenses	1,883	2,403	2,487	1,390	370	2,504	31,881	2,396	45,314
Support Service Recharges	760	554	751	1,585	999	642	361	4,213	9,865
Capital Charges to Revenue	812	367	256	3,443	0	89	0	171	5,138
Total Expenditure	4,369	6,767	4,596	8,324	2,934	4,586	33,521	11,176	76,273
Net Cost of Services	2,815	4,731	(4,090)	6,292	1,539	762	1,014	3,813	16,876

Year ended 31st March 2012	Comm. & Leisure	Environ-mental Service	Estates & Economic Dev't	Housing, & Env. Health	Planning & Building	Planning Policy & Transport	Revenues & Benefits	Corporate & Support Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	1,421	2,119	8,505	1,340	1,372	3,387	2,128	5,607	25,879
Government Grants	0	0	0	580	0	0	33,318	0	33,898
Total Income	1,421	2,119	8,505	1,920	1,372	3,387	35,446	5,607	59,777
Employee Expenses	1,287	3,371	1,076	1,559	1,587	1,336	1,881	3,393	15,490
Other Operating Expenses	2,520	2,361	2,336	551	401	1,203	33,651	2,248	45,271
Support Service Recharges	678	538	696	1,432	977	556	594	3,380	8,851
Impairment Costs	0	0	443	(32)	0	638	0	0	1,049
Capital Charges to Revenue	856	467	276	1,157	0	47	50	140	2,993
Total Expenditure	5,341	6,737	4,827	4,667	2,965	3,780	36,176	9,161	73,654
Net Cost of Services	3,920	4,618	(3,678)	2,747	1,593	393	730	3,554	13,877

The following table reconciles the net cost of services identified above to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

	2010/11 £'000	2011/12 £'000
Cost of Services in Expenditure Analysis	16,876	13,877
Amounts not reported to management	(13,341)	(248)
Amounts reported to management but not included in the CI&ES.	5,697	5,531
Cost of Services in the CI&ES	9,232	19,160

The two analysis lines above are analysed in more detail below.

Reconciliation to Subjective Analysis - 2010/11	Service Analysis £'000	Not Reported to Management £'000	Not Included in CI&ES £'000	Net Cost of Services £'000	Corporate and Financing Amounts £'000	Total £'000
Fees, Charges and Other Service Income	26,730	206	(5,920)	21,016	5,920	26,936
Interest and Investment Income	0	0	0	0	689	689
Return on Pension Fund Assets	0	0	0	0	3,810	3,810
Changes in Fair Value of Investment Properties	0	0	0	0	(7,641)	(7,641)
Income from Council Tax	0	0	0	0	5,936	5,936
Government Grants	32,667	0	(28)	32,639	7,138	39,777
Total Income	59,397	206	(5,948)	53,655	15,852	69,507
Employee Expenses	15,956	(13,414)	0	2,542	0	2,542
Other Operating Expenses	45,314	279	(251)	45,342	251	45,593
Support Service Recharges	9,865	0	0	9,865	0	9,865
Capital Charges to Revenue	5,138	0	0	5,138	0	5,138
Interest Payable	0	0	0	0	18	18
Pension Fund Interest Costs	0	0	0	0	5,650	5,650
(Gain) / loss on disposal of assets	0	0	0	0	(461)	(461)
Total Operating Expenses	76,273	(13,135)	(251)	62,887	5,458	68,345
(Surplus) / Deficit on the Provision of Services	16,876	(13,341)	5,697	9,232	(10,394)	(1,162)

Reconciliation to Subjective Analysis - 2011/12	Service Analysis	Not Reported to Management	Not Included in CI&ES	Net Cost of Services	Corporate and Financing Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	25,879	210	(5,931)	20,158	5,931	26,089
Interest and Investment Income	0			0	772	772
Return on Pension Fund Assets	0			0	4,250	4,250
Changes in Fair Value of Investment Properties	0			0	(5,977)	(5,977)
Income from Council Tax	0			0	5,981	5,981
Government Grants	33,898			33,898	6,517	40,415
Total Income	59,777	210	(5,931)	54,056	17,474	71,530
Employee Expenses	15,490	(38)	(25)	15,427	25	15,452
Other Operating Expenses	45,271		(270)	45,001	270	45,271
Support Service Recharges	8,851		(105)	8,746	105	8,851
Impairment Costs	1,049			1,049	0	1,049
Capital Charges to Revenue	2,993			2,993	0	2,993
Interest Payable	0			0	17	17
Pension Fund Interest Costs	0			0	5,480	5,480
(Gain) / loss on disposal of assets	0			0	318	318
Total Operating Expenses	73,654	(38)	(400)	73,216	6,215	79,431
(Surplus) / Deficit on the Provision of Services	13,877	(248)	5,531	19,160	(11,259)	7,901

7. Taxation and Non-Specific Grant Income

The Council received revenue grants from various Government departments in the year. These are summarised in the table below.

Taxation / Non-Ringfenced Grants	Awarding Body	2010/11 £'000	2011/12 £'000
Council Tax Income	Council Taxpayers	5,936	5,981
Revenue Support Grant	Dep't for Communities & Local Government	902	1,341
Business Rates Re-Distribution	Dep't for Communities & Local Government	6,208	4,340
New Homes' Bonus	Dep't for Communities & Local Government	0	480
Council Tax Freeze Grant	Dep't for Communities & Local Government	0	148
Local Public Services Agreement Reward Grant	Dep't for Communities & Local Government	21	0
		13,067	12,290

Capital Grants and Contributions		2010/11	2011/12
		£'000	£'000
Local Public Services Agreement Reward Grant	Dep't for Communities & Local Government	7	0
Contributions under s106 agreements	Developers	0	208
		7	208

Specific Grants included in the Net Cost of Services		2010/11	2011/12
	Awarding Body	£'000	£'000
Housing & Council Tax Benefit Subsidy	Dep't for Work & Pensions	30,934	32,448
Housing & Council Tax Administration Grant	Dep't for Work & Pensions	621	592
Benefits' Caseload Grant	Dep't for Work & Pensions	74	60
Discretionary Housing Payments	Dep't for Work & Pensions	26	31
Housing Benefit Transition Grant	Dep't for Work & Pensions	0	8
Business Rates Collection	Dep't for Communities & Local Government	179	179
New Burdens for Business Rate Relief	Dep't for Communities & Local Government	9	0
Housing Needs - Homelessness	Dep't for Communities & Local Government	64	118
Economic Development	Dep't for Communities & Local Government	6	0
Concessionary Travel Grant	Dep't for Transport	255	0
Climate Change Grant	Dep't for Communities & Local Government	23	0
Habitats' Assessment Grant	Dep't for Communities & Local Government	16	0
Local Land Charges Grant	Dep't for Communities & Local Government	34	0
Disabled Facilities Grant	Dep't for Communities & Local Government	424	462
		32,665	33,898

8. Special Expenses

Income from the special Council Tax Levy which applies in the Andover Town Council area was £317,100 in 2011/12 (£332,700 – 2010/11). The reduction is a result of the transfer of responsibility for allotments to Andover Town Council.

9. External Audit Costs

In 2011/12 Test Valley Borough Council incurred the following fees in relation to external audit and inspection:-

Class of Work	2010/11	2011/12
	£'000	£'000
External Audit Fees	122	116
IFRS Rebate	(7)	0
District Council Rebate	0	(9)
Certification of Grants Claim and Returns	29	29
	144	136

10. Agency Services

The Council operates a Highways Agency service on behalf of Hampshire County Council. The following table shows the amounts paid in the year, which were recovered in full from Hampshire County Council.

	2010/11	2011/12
	£'000	£'000
Highways Agency		
Road Maintenance	135	140
Management and Support	201	200
Total Agency Reimbursement	336	340

11. Pooled Budgets

Under section 75 of the NHS Act 2006, the Council is party to an arrangement including Hampshire County Council and Hampshire Primary Care Trust. The partnership supports local organisations and agencies tackling key priorities for Health Improvement and Social Inclusion (HISI) across the Test Valley and Hampshire PCT areas.

There were no transactions in 2010/11 or 2011/12. The closing balance on the account at 31 March 2012 was £6,867 (2010/11 £6,867).

12. Members' Allowances

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

	2010/11	2011/12
	£'000	£'000
Allowances	409	409
Expenses	18	15
Total Members' Allowances	427	424

13. Officers' Remuneration

The number of employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £5,000 in 2011/12 was:-

Remuneration Band	2010/11 Number of Employees	2011/12 Number of Employees
£50,000 - £54,999	6	9
£55,000 - £59,999	2	1
£60,000 - £64,999	5	7
£65,000 - £69,999	4	4
£70,000 - £79,999	0	0
£80,000 - £84,999	1	0
£85,000 - £89,999	0	1
£90,000 - £94,999	1	0
£95,000 - £99,999	0	1
£100,000 - 124,999	0	0
£125,000 - £129,999	1	0
£130,000 - £134,999	0	1

The following table sets out the remuneration of senior officers in the year. A senior officer is described as 'a person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, whether solely or collectively with other persons.' For the purposes of these accounts, Test Valley Borough Council has determined that senior officers are those included in the Officers' Management Team.

The Council pays contributions to the pension fund on a fixed percentage of salary. In 2011/12 this percentage was 13.1% (2010/11 – 19.1%) and this is the percentage that is required to be disclosed. The main reason for the reduction in the contribution rate in 2011/12 is a result of a change in the manner that contributions are paid to the fund. In 2010/11 all contributions were based on a fixed percentage of pensionable pay; from 2011/12 this is split into a fixed sum of £610,000 and a reduced percentage contribution.

The 'Total Remuneration excluding pension contributions' of the officers below is included in the pay bandings in the above table.

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive - Note 1	119	124	6	7	125	131	22	16	147	147
Corporate Director	85	89	6	6	91	95	16	12	107	107
Corporate Director	77	81	5	4	82	85	15	11	97	96
Head of Administration	61	61	5	5	66	66	12	8	78	74
Head of Community & Leisure	55	58	4	4	59	62	11	8	70	70
Head of Environmental Services	58	60	4	4	62	64	11	8	73	72
Head of Estates - Note 2	59	62	4	4	63	66	11	8	74	74
Head of Finance - Note 3	61	61	5	3	66	64	12	8	78	72
Head of Housing & Environmental Health	61	61	5	5	66	66	12	9	78	75
Head of IT - Note 4	61	63	4	3	65	66	12	8	77	74
Head of Legal & Democratic	61	61	4	4	65	65	12	8	77	73
Head of Policy & Organisational Development - Note 5	58	46	0	0	58	46	11	1	69	47
Head of Planning & Building	61	61	4	4	65	65	12	8	77	73
Head of Planning Policy & Transport	58	61	4	4	62	65	12	8	74	73

Note 1 – The total remuneration of the Chief Executive includes both a salary for work carried out as Head of Paid Service for the Council and also fees payable as the Local Returning Officer for elections held in the year. Payments as returning officer in 2011/12 were £16,873 (2010/11 £11,913).

Note 2 – The Head of Estates received a bonus of £1,000 in the year.

Note 3 – The Head of Finance received a bonus of £500 in the year.

Note 4 – The Head of IT received two bonuses of £1,000 in the year. The Council entered a shared Head of IT agreement with Winchester City Council in the

year and received £39,400 as a contribution towards the employment costs of the postholder.

Note 5 – The post of Head of Policy & Organisational Development was made redundant in April 2011. The amounts paid in termination benefits are shown in Note 14.

Note 6 – The Council shares a Head of Revenues with Winchester City Council. The Council's contribution towards this post in 2011/12 was £35,900 (2010/11 £40,000) which covers salary and associated employer costs including pension contributions.

The number of exit packages and total cost per band are set out in the table below. In both 2011/12 and 2010/11 all exit packages were in respect of compulsory redundancies.

Exit Package Band	Number of Redundancies		Total Cost of Exit Packages by Band	
	2010/11	2011/12	2010/11	2011/12
			£'000	£'000
£0 - £20,000	2	5	10	37
£20,001 - £40,000	0	3	0	93
Total	2	8	10	130

14. Termination Benefits

The Council terminated the contracts of a number of employees in 2011/12, incurring redundancy costs of £129,700 (2010/11 £10,400) and compulsory pension contributions of £nil (2010/11 £nil).

For 2011/12, £34,600 (2010/11 £nil) of the above costs related to senior officers detailed in the note above.

15. Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers, the Council contributes 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 and this needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by Hampshire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and its employees pay contributions into a fund, calculated at a level estimated to balance the pensions' liabilities with investment assets.

In previous years, the Council awarded discretionary post retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, meaning that no assets exist to meet the ongoing liabilities.

The Council contributes to the Pension Fund at a common rate applicable to a group of employees which is set having regard to the assets and liabilities of the group as a whole. In 2011/12 the rate was 13.1% plus a fixed sum contribution of £610,000 (2010/11 19.1%, no fixed sum contribution).

The accounts recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually

paid as pensions. However, the charge made against the Council Tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement.

The following transactions have been included in the Comprehensive Income & Expenditure Statement and Movement in Reserves Statement during the year:

	2010/11	2011/12
	£'000	£'000
<u>Comprehensive Income & Expenditure Statement</u>		
Cost of Services		
Current Service Costs	1,920	1,650
Unfunded Benefits Paid Out	(200)	(200)
Past Service Costs	(13,180)	0
Financing & Investment Income & Expenditure		
Interest Cost	5,650	5,480
Expected Return on Scheme Assets	(3,810)	(4,250)
Total amount included in the Surplus on Provision of Services	(9,620)	2,680
Other Comprehensive Income & Expenditure		
Actuarial Gains / (Losses)	4,520	(10,900)
Total amount charged to the Comprehensive Income & Expenditure Statement	(5,100)	(8,220)
<u>Movement In Reserves Statement</u>		
Reversal of net charges made to the Surplus or deficit on the Provision of Services in accordance with the Code	9,620	(2,680)
Actual employer's contributions payable	1,920	1,920
Total Amount included in the Movement in Reserves Statement (note 5)	11,540	(760)

It is forecast that pension contributions payable by the employer in 2012/13 in respect of regular contributions will amount to £1.98M and in respect of unfunded benefits will amount to £210,000.

In addition to the gains and losses shown above, actuarial gains and losses have been shown in the Comprehensive Income & Expenditure Statement as shown in the table below.

	2010/11	2011/12
	£'000	£'000
Total Actuarial Gains / (Losses)	4,520	(10,900)
Cumulative losses recognised in the Comprehensive Income & Expenditure Statement	(25,200)	(36,100)

Assets & Liabilities in relation to retirement benefits

The tables below show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end.

Liabilities	2010/11	2011/12
	£'000	£'000
Opening present value of liabilities	113,540	100,370
Current Service Cost	1,920	1,650
Interest Cost	5,650	5,480
Contributions by Participants	710	700
Actuarial (gain) / loss on liabilities	(4,310)	9,530
Net benefits paid out (including unfunded liabilities)	(3,960)	(3,700)
Past Service Cost	(13,180)	0
Closing present value of liabilities	100,370	114,030

Liabilities at 31 March 2012 included funded liabilities of £110.58M and unfunded liabilities of £3.45M (2010/11 - £97.17M funded and £3.20M unfunded).

Assets	2010/11	2011/12
	£'000	£'000
Opening present value of assets	58,040	60,930
Expected return on assets	3,810	4,250
Actuarial gain / (loss) on assets	210	(1,370)
Contributions by the employer	1,920	1,920
Contributions by Participants	710	700
Net benefits paid out	(3,760)	(3,500)
Closing present value of assets	60,930	62,930

The expected return on 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 assets in the year is shown in the following table.

Assets	2010/11	2011/12
	£'000	£'000
Expected return on assets	3,810	4,250
Actuarial gains / (losses) on assets	210	(1,370)
Actual return on assets	4,020	2,880

	2007/08	2008/09	2009/10	2010/11	2011/12
	£'000	£'000	£'000	£'000	£'000
Differences between the expected and actual return on assets	(2,170)	(15,110)	12,020	210	(1,370)
		-34.2%	20.7%	0.3%	-2.2%
Experience gains / (losses) on liabilities	(550)	(540)	1,360	2,090	(970)
		-0.5%	1.1%	2.1%	-0.9%

No percentage figures were prepared in respect of 2007/08 as percentage figures were not required to be disclosed until after that year.

Scheme History

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2012 and the preceding four years are as follows.

	2007/08	2008/09	2009/10	2010/11	2011/12
	£'000	£'000	£'000	£'000	£'000
Value of Funded Liabilities	76,770	80,360	109,890	97,170	110,580
Value of Unfunded Liabilities	3,070	3,200	3,650	3,200	3,450
Value of Assets	(56,060)	(44,200)	(58,040)	(60,930)	(62,930)
Net Deficit	23,780	39,360	55,500	39,440	51,100

The liabilities show the underlying commitments that the Council has to pay in the long term towards retirement benefits. The total liability 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 the financial position of the Council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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 will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.. The Fund's liabilities have been assessed by an independent firm of actuaries, based on the latest full valuation of the scheme carried out as at 31 March 2010.

The principal assumptions used by the actuary were:

	2010/11	2011/12
Discount rate for scheme liabilities	5.5%	4.7%
Rate of Inflation - RPI	3.7%	3.5%
Rate of Inflation - CPI	2.8%	2.5%
Rate of increase in salaries	5.2%	5.0%
Rate of increase in pensions in payment	2.8%	2.5%
Rate of increase in pensions in deferment	2.8%	2.5%
Long-term expected rates of return on:		
Equities	8.4%	8.1%
Government Bonds	4.4%	3.1%
Corporate Bonds	5.1%	3.7%
Property	7.9%	7.6%
Cash	1.5%	1.8%
Other Assets	8.4%	8.1%
Average long-term expected rate of return	7.1%	6.4%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	23.8	23.9
Women	24.8	24.9

It is assumed that each member will exchange 25% of the maximum value permitted of their pre 1st April 2010 pension rights on retirement for an additional lump sum (2010/11 25%) and 75% of the maximum value permitted of their post 31st March 2010 pension entitlements for an additional lump sum (2010/11 75% of the maximum amount permitted of their future pension rights on retirement for an additional lump sum).

The proportions of total assets held in each asset type, shown below, reflect the proportions held by the Fund as a whole at 31st March 2012.

	2010/11	2011/12
	%	%
Equities	63.4%	55.1%
Bonds	25.0%	28.5%
Property	7.3%	7.7%
Other	4.3%	8.7%
Total	100.0%	100.0%

16. Leases

Finance Leases

The Council has acquired a number of items of plant and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant & Equipment in the Balance Sheet at the following net book values.

	2010/11	2011/12
	£'000	£'000
Vehicles, Plant & Equipment	201	256

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the purchase of the asset and an interest cost payable while the liability remains outstanding. The minimum lease payments are made up of the following amounts.

	2010/11	2011/12
	£'000	£'000
Present value of lease payments		
Less than one year	80	102
One to five years	121	154
Finance Costs payable in future years	35	23
Minimum Lease Payments	236	279

Operating Leases

The Council has acquired certain vehicles and items of plant and equipment under operating leases. The future minimum lease payments due under these lease contracts are shown in the following table.

	2010/11	2011/12
	£'000	£'000
Leases expiring in less than one year	331	174
Leases expiring between one to five years	298	133
Total lease rentals payable	629	307

In 2011/12 total rental payments amounted to £439,000 (2010/11 £458,000). All rental payments in the year were minimum lease payments (i.e. no contingent rents were payable) and have mainly been charged to the Cultural and Related (£181,000) and Environmental and Regulatory (£226,000) lines in the Comprehensive Income & Expenditure Statement.

The Council leases out land and property under operating leases for a number of purposes. These include generation of income from investment properties and for the provision of recreational facilities.

The future minimum lease rentals receivable under non-cancellable leases in future years are shown in the table below.

	2010/11	2011/12
	£'000	£'000
Receivable within one year	5,126	5,079
Receivable within one to five years	19,687	19,521
Receivable after five years	382,920	379,565
Total minimum lease rentals receivable	407,733	404,165

The minimum lease payments receivable do not include rents that are contingent on performance or based on a percentage of turnover.

In 2011/12 the Council recognised income from contingent rents of £932,000 (2010/11 £1.098M)

17. Property, Plant & Equipment (PPE)

Property, plant and equipment assets of the Council are shown at; cost less depreciation, depreciated replacement cost or market value.

These are assets which are held and occupied / used for the delivery of services for which the Council is responsible. This includes offices, parks & open spaces, car parks and vehicles.

The following table shows the movement in balances of items of property, plant and equipment in the year. The vast majority of these items are owned outright by the Council; however, in the Net Book Value of vehicles, plant and equipment at 31st March 2012, £256,000 relates to assets purchased by the Council under finance leases (31st March 2011 - £201,000).

	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Total
	£'000	£'000	£'000	£'000	£'000
Cost / Valuation					
Historic Cost b/f	41,350	3,536	684	3,902	49,472
Revaluation Increases shown in the Revaluation Reserve b/f	20,187	11	0	0	20,198
Revaluation Decreases shown in the CI&ES b/f	(2,319)	(507)	0	(738)	(3,564)
Additions	1,580	907	44	81	2,612
Revaluations	(188)	0	0	0	(188)
Reclassifications	391	0	0	0	391
Disposals - Historic Cost	(374)	0	0	0	(374)
Disposals - Revalued Amounts	(350)	0	0	0	(350)
Reverse depreciation on disposals	0	(13)	0	0	(13)
Impairments in year	(1,049)	0	0	0	(1,049)
Cost / Valuation at 31st March 2012	59,228	3,934	728	3,245	67,135
Depreciation					
Historic Cost Depreciation b/f	(830)	(1,181)	(62)	(117)	(2,190)
Depreciation on Revaluations b/f	(230)	(1)	0	0	(231)
Charge in year - Historic Cost	(844)	(575)	(26)	(36)	(1,481)
Charge in year - Revalued Amounts	(230)	(1)	0	0	(231)
Reverse depreciation on disposals	0	13	0	0	13
Depreciation at 31st March 2012	(2,134)	(1,745)	(88)	(153)	(4,120)
Net Book Value at 31st March 2012	57,094	2,189	640	3,092	63,015
Net Book Value at 31st March 2011	58,158	1,858	622	3,047	63,685

The impairments shown above are due to changes in the market value of assets as a result of current market conditions or as a result of changes to lease conditions which have altered an asset's carrying value. No assets were materially impaired as a result of structural damage.

Comparative Information for 2010/11

	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost / Valuation						
Historic Cost b/f	40,261	3,313	626	3,953	7	48,160
Revaluation Increases shown in the Revaluation Reserve b/f	19,916	11	0	0	0	19,927
Revaluation Decreases shown in the CI&ES b/f	(2,319)	(528)	0	(738)	0	(3,585)
Additions	1,089	293	58	59	0	1,499
Revaluations	383	0	0	0	0	383
Reclassifications	0	0	0	(110)	0	(110)
Disposals - Historic Cost	0	(49)	0	0	(7)	(56)
Disposals - Revalued Amounts	(112)	0	0	0	0	(112)
Impairments in year	0	0	0	0	0	0
Cost / Valuation at 31st March 2011	59,218	3,040	684	3,164	0	66,106
Depreciation						
Historic Cost Depreciation b/f	0	(706)	(39)	(85)	0	(830)
Depreciation on Revaluations b/f	0	0	0	0	0	0
Charge in year - Historic Cost	(830)	(475)	(23)	(32)	0	(1,360)
Charge in year - Revalued Amounts	(230)	(1)	0	0	0	(231)
Depreciation at 31st March 2011	(1,060)	(1,182)	(62)	(117)	0	(2,421)
Net Book Value at 31st March 2011	58,158	1,858	622	3,047	0	63,685
Net Book Value at 31st March 2010	57,858	2,090	587	3,130	7	63,672

Depreciation is charged based on the following assumed useful economic lives

- Land – Not depreciated
- Buildings – 10 to 60 years
- Vehicles – 3 to 7 years
- Plant & Equipment – 3 to 10 years
- Infrastructure Assets – 10 to 30 years

The following table shows, for each class of PPE asset, the value of assets based on their respective methods of valuation. Where assets are carried at revalued amounts, the value is shown based on the year of the most recent revaluation.

	Cost	Depreciated Cost	Revalued in 2009/10	Revalued in 2010/11	Revalued in 2011/12	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	0	0	54,774	300	2,020	57,094
Vehicles, Plant & Equipment	146	1,140	903	0	0	2,189
Infrastructure	49	591	0	0	0	640
Community	2,626	466	0	0	0	3,092
Total PPE Assets	2,821	2,197	55,677	300	2,020	63,015

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2011/12 were carried out by the Council's internal RICS registered valuer.

The majority of information for PPE valuations comes from assessing active markets for similar properties. However, there is still some need for estimation as no two properties can be treated the same. The Council's RICS registered valuer will make assumptions on certain areas including the asset's useful remaining life and degree of specialism in calculating the asset's value for the accounts.

At the 31st March 2012 contractual commitments on existing capital schemes totalled £349,000 (2010/11 £256,000). The largest single commitment was for £185,000 in respect of the introduction of high-speed broadband in rural areas.

18. Investment Properties

There are no restrictions on the Council's ability to realise the value inherent in its investment property or in the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Valuations of Investment Property have been carried out by the Council's internal RICS registered valuer. Valuations are primarily based on market evidence of similar properties at the Balance Sheet date.

The following table summarises the movement in the fair value of investment properties in the year.

	2010/11	2011/12
	£'000	£'000
Balance at start of year	85,991	78,802
Expenditure on existing property	409	389
Net changes in fair value of property	(7,641)	(5,977)
Disposals	(68)	0
Reclassifications	111	(391)
Balance at end of year	78,802	72,823

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement.

	2010/11	2011/12
	£'000	£'000
Rental income from Investment Property	5,920	5,935
Investment Property direct costs	(245)	(404)
Net Investment Property income	5,675	5,531

19. Intangible Assets

Intangible Assets represent the value of development costs and software licences for computer programmes used and the Council's right to hold markets in Andover Town Centre.

Market rights are not amortised as they are considered to have a life longer than 50 years; however an annual impairment review is carried out on this asset to ensure the carrying value is prudent.

Software licences are amortised over their estimated useful economic life on a straight line basis.

	Software Licences	Market Rights	Total
	£'000	£'000	£'000
Cost or Valuation			
Depreciated Historic Cost b/f	665	414	1,079
Cost / Valuation at 31st March 2012	665	414	1,079
Amortisation			
Amortisation of Historic Cost b/f	(149)	0	(149)
Charge for the year	(102)	0	(102)
Amortisation at 31st March 2012	(251)	0	(251)
Net Book Value as at 31st March 2012	414	414	828
Net Book Value as at 31st March 2011	516	414	930

Comparative information for 2010/11

	Software Licences	Market Rights	Total
	£'000	£'000	£'000
Cost or Valuation			
Depreciated Historic Cost b/f	572	414	986
Additions	93	0	93
Cost / Valuation at 31st March 2011	665	414	1,079
Amortisation			
Amortisation of Historic Cost b/f	(68)	0	(68)
Charge for the year	(81)	0	(81)
Amortisation at 31st March 2011	(149)	0	(149)
Net Book Value as at 31st March 2011	516	414	930
Net Book Value as at 31st March 2010	504	414	918

20. Heritage Assets

The Council holds a number of heritage assets. Some of these are carried at historical cost and others are not included on the Balance Sheet. The total estimated value of Heritage Assets at the balance sheet date is shown in the table below split according to their treatment in the Balance Sheet.

	Carrying Value	Fair Value
	£'000	£'000
Included in Community Assets	83	258
Not included in the Balance Sheet	0	190
Total	83	448

The most significant Heritage Asset owned by the Council are the silver maces which form part of the Council's civic insignia. Other Heritage Assets include the war memorials in Andover and Romsey, a Japanese cannon in Romsey War Memorial Park and various pieces of public art.

FRS30 (Heritage Assets) requires that, where material, Heritage Assets be shown at valuation as a separate category of non-current asset on the Balance Sheet. The total estimated value of Heritage Assets is not material; therefore the Council has elected not to re-state the accounts to the extent required by the Standard.

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.

21. Profit / Loss on Disposal of Assets

During the year, the Council made a net loss on the disposal of fixed assets of £318,000 (2010/11 profit of £461,000). An analysis of this loss is shown in the table below.

	2010/11	2011/12
	£'000	£'000
Right To Buy Contributions	424	105
Loss on disposal of property, plant & equipment	(7)	(423)
Profit on disposal of investment property	44	0
Total Profit / (Loss) on Disposal of Assets	461	(318)

22. Capital Expenditure and Financing

The amount of Capital Expenditure to be financed in 2011/12 amounted to £4.183M. Of this total, £3.001M related to new assets and £1.182M was in respect of revenue expenditure funded from capital.

	2010/11	2011/12
	£'000	£'000
Opening Capital Financing Requirement	(655)	(660)
Capital Expenditure		
Property, Plant & Equipment	1,499	2,612
Investment Property	409	389
Intangible Assets	93	0
Revenue Expenditure Funded from Capital Under Statute	3,460	1,182
Sources of Finance		
Capital Receipts	(3,165)	(2,241)
Government Grants and Other Contributions	(431)	(774)
Contributions from Revenue / Reserves	(1,865)	(1,168)
Movement in Long-Term Mortgage Debtors	(5)	0
Closing Capital Finance Requirement	(660)	(660)

The Government Grants and Other Contributions line shown above represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement of £208,000 (2010/11 £7,000) plus the Disabled Facilities Grant shown as a Service Specific Grant in note 7 and Partnership for Urban South Hampshire (PUSH) loans together totalling £566,000 (2010/11 £424,000).

Additions to Long-Term Assets (£3.001M) and expenditure on revenue items funded from capital (£1.182M) totalling £4.183M has been analysed on a service basis below:

	2011/12 Long-Term Assets	2011/12 Revenue Expenditure Funded From Capital	2011/12 Total
	£'000	£'000	£'000
Community & Leisure	334	45	379
Environmental	569	0	569
Estates	1,861	0	1,861
Housing & Env. Health	14	1,119	1,133
IT	175	5	180
Planning Policy & Transport	48	13	61
Total Expenditure	3,001	1,182	4,183

23. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements.

	2010/11 £'000	2011/12 £'000
Cash held by the Council	11	5
Bank Current Accounts	539	(200)
Short-term deposits	7,770	2,084
Total Cash & Cash Equivalents	8,320	1,889

24. Analysis of Debtors due after more than one year

	2010/11 £'000	2011/12 £'000
Housing Association Loans	10	10
Mortgages	8	8
Total Debtors due after one year	18	18

25. Analysis of Debtors

	2010/11 £'000	2011/12		Net £'000
		Debtor £'000	Bad Debt Allowance £'000	
Central Government Bodies	3,754	1,537	0	1,537
Sundry Debtors	3,869	5,315	(1,175)	4,140
Collection Fund	142	314	(156)	158
Housing	54	64	(56)	8
Car Leasing and Loans	141	166	(13)	153
Total Debtors	7,960	7,396	(1,400)	5,996

Included within car leasing and loans above are loans to employees for vehicle purchases. Interest is set at a fixed rate of 1% above base rate at the date the loan was agreed. At 31st March 2012, £141,000 (2010/11 - £110,000) was outstanding. The interest foregone by the Council by offering this scheme as opposed to investing the funds was negligible.

26. Analysis of Creditors

	2010/11	2011/12
	£'000	£'000
Sundry Creditors	4,328	4,669
Collection Fund	515	748
Central Government	449	543
Section 106 Balances	3,135	3,222
Compensated Absences Accrual	248	210
Finance Lease Creditors due in less than 1 year	80	102
Total Creditors	8,755	9,494

Section 106 balances relate to contributions made by developers as part of certain planning agreements. These sums are included as creditors because many contributions have time conditions within which expenditure must be made.

The section 106 balances are comprised of the following types of contribution.

	2010/11	2011/12
	£'000	£'000
Open Spaces / Recreation	1,817	2,020
Highways / Cycle Routes / Green Travel	412	377
Education & Skills' Development	535	465
Specific Projects	79	68
Other	292	292
Total Section 106 balances	3,135	3,222

27. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £96,000 (2010/11 £102,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £87,000 (2010/11 £87,000).

28. Provisions

The opening balance included a provision for appeals by bus operators in respect of Concessionary Travel arrangements dating back to 2007/08. The provision was based on figures provided by the transport consultants responsible for managing the Hampshire-wide scheme of which Test Valley is a part.

The final settlement was agreed in the year. This did not require any further payment from the Council and so the provision has been reversed.

The movement in the provision in the year is summarised in the table below.

	2010/11	2011/12
	£'000	£'000
Provision at start of year	177	300
Additional provision made in year	160	0
Payments made	(37)	0
Reversal of unrequired amounts	0	(300)
Balance at end of year	300	0

29. Usable Reserves

The Council's usable reserves represent the level of funding the Council has at its disposal to allocate to future expenditure, subject to the requirement to retain prudent reserve levels for unforeseen future events.

The amounts making up the Council's usable reserves are summarised in the table below. More information on each reserve is given in the following paragraphs.

Reserve	2010/11	2011/12
	£'000	£'000
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	9,510	10,673
Capital Receipts Reserve	37,628	35,848
Total Usable Reserves	49,138	48,521

General Fund Balance

The recommended minimum prudent level of General Reserves is considered to be £2M and is the level at which the General Fund Balance has been included in these accounts.

Unbudgeted surpluses arising from the Comprehensive Income & Expenditure Statement are transferred to earmarked reserves or the Capital Receipts Reserve at the end of each year.

Revenue & Earmarked Reserves

Earmarked reserves are held for specific purposes for costs which will be incurred in future years.

A breakdown of the movement in Earmarked Reserves is shown in the table below.

	Balance as at 31/03/2010	Transfers In 2010/11	Transfers Out 2010/11	Balance as at 31/03/2011	Transfers In 2011/12	Transfers Out 2011/12	Balance as at 31/03/2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	315	285	0	600	0	0	600
Budget Equalisation Reserve	310	290	0	600	625	0	1,225
Investment Equalisation Reserve	600	0	0	600	0	0	600
Pension Equalisation Reserve	200	0	0	200	0	0	200
Capacity Building Reserve	250	0	(47)	203	0	0	203
Special Projects Reserve	100	50	0	150	0	(20)	130
New Homes' Bonus Reserve	0	0	0	0	480	0	480
Asset Management Plan	1,088	0	(79)	1,009	180	(11)	1,178
Vehicles and Equipment Replacement Reserve	800	200	(87)	913	616	(547)	982
Budget Carry Forward Reserve	0	117	0	117	105	(117)	105
Local Authority Business Growth Incentive	705	0	(425)	280	0	(92)	188
Borough Election Reserve	200	0	0	200	0	(115)	85
All Risks Self-Insurance Reserve	167	0	0	167	0	(15)	152
Trading Services' Reserves	95	0	0	95	0	(95)	0
Planning Delivery Grant Reserve	390	0	(58)	332	0	(58)	274
Local Development Framework Reserve	292	108	0	400	14	0	414
Waste Performance & Efficiency Grant	191	0	(56)	135	0	(27)	108
Revenue Financing of Capital	179	0	(179)	0	0	0	0
Developer contribution for future years' maintenance costs	3,241	142	(226)	3,157	423	(211)	3,369
Other Earmarked Reserves	289	99	(36)	352	110	(82)	380
Total Earmarked Revenue Reserves	9,412	1,291	(1,193)	9,510	2,553	(1,390)	10,673

The most significant amounts included within Other Earmarked Reserves are in respect of a desktop replacement programme for PCs and Printers (£95,000) and for expenditure in respect of Housing, Health and Communities Service projects (£100,000).

The property insurance policy has an excess of £5,000 per claim. The Council self-insures 'All Risks' items for which an earmarked reserve of £152,000 (2010/11 £167,000) is set aside. In the case of car loans, the risk of default or death of the borrower is on a self-insured basis. A fund was set up to collect premiums from borrowers.

Capital Receipts Reserve

The movement of the balance of the Capital Receipts Reserve reflects the transactions in the year in generating capital receipts & contributions and incurring capital expenditure. These transactions are summarised in the table below.

	2010/11		2011/12	
	£'000	£'000	£'000	£'000
Balance at start of year		40,604		37,628
Capital Receipts				
Sale of Assets	274		300	
Right to Buy Receipts	424		105	
Transfer from Deferred Credits	5		0	
		703		405
Capital Expenditure				
Purchase of Assets	555		1,456	
Revenue Expenditure funded from Capital Under Statute	3,036		616	
Repayment of finance lease creditor	82		113	
Payments to Housing Pool	6		0	
		(3,679)		(2,185)
Balance at end of year		37,628		35,848

The Grants and Contributions line shown above represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement of £208,000 (2010/11 £7,000) plus the Disabled Facilities Grant shown as a Service Specific Grant in note 7 and PUSH loans together totalling £566,000 (2010/11 £424,000).

30. Unusable Reserves

There are a number of unusable reserves that make up part of the Council's net worth. The balances on these accounts are calculated according to proper accounting practices but the balance cannot be used by the Council for future expenditure on delivering services.

The amounts making up the Council's unusable reserves are summarised in the following table. More information on each reserve is given in the following paragraphs.

Reserve	2010/11	2011/12
	£'000	£'000
Revaluation Reserve	19,972	19,203
Capital Adjustment Account	123,922	117,886
Deferred Credits	8	8
Collection Fund Adjustment Account	119	174
Accumulated Absences Account	(248)	(210)
Pension Fund Reserve	(39,440)	(51,100)
Total Unusable Reserves	104,333	85,961

Revaluation Reserve

The balance on the Revaluation Reserve represents the unrealised gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- revalued 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 realised.

The reserve contains only revaluation gains accumulated since 1st April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance of the Capital Adjustment Account.

	2010/11		2011/12	
	£'000	£'000	£'000	£'000
Balance at start of year		19,931		19,972
Upward revaluations of assets in the year	383		212	
Downward revaluations of assets in the year	0		(400)	
Depreciation of previous years' revaluation gains	(231)		(231)	
Accumulated gains on assets disposed of in the year	(111)		(350)	
		41		(769)
Balance at end of year		19,972		19,203

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the purchase, subsequent expenditure, depreciation and impairment of assets compared with the financing of those assets under statutory provisions.

	2010/11		2011/12	
	£'000	£'000	£'000	£'000
Balance at start of year		131,045		123,922
Reverse previous years' impairment losses	0		30	
Transfer from Revaluation Reserve	111		0	
Revaluation gains / (losses) on Investment Property	(7,641)		(5,977)	
Assets purchased in the year	2,001		3,001	
Repayment of Finance Lease obligations	82		113	
Transfer from Capital Receipts Reserve	3,036		616	
		(2,411)		(2,217)
Disposal of assets	(235)		(374)	
Depreciation on Historic Cost element of assets	(1,441)		(1,583)	
Impairments	0		(1,079)	
Revenue expenditure funded from capital	(3,036)		(616)	
New Finance Lease Obligations	0		(167)	
		(4,712)		(3,819)
Balance at end of year		123,922		117,886

Deferred Credits

This represents the balance of the remaining mortgages given by the Council that will become usable capital receipts when they are repaid.

Collection Fund Adjustment Account

This represents the Council's share of the Balance on the Collection Fund. The Collection Fund and associated notes are shown in full on pages 62 to 64.

Accumulated Absences Account

This represents the reversal of the accrual for compensated absences (annual leave not taken at the year end). The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund and the subsequent level of Council Tax.

Pension Fund Reserve

The Pension Fund Reserve absorbs the timing differences arising from the different arrangements for accounting for retirement benefits and for funding those benefits under statutory provisions.

The Council accounts for retirement benefits in the Comprehensive Income & Expenditure Statement as the benefits are earned by employees; however, benefits are financed as the Council makes contributions to the pension fund.

The debit balance on this reserve therefore shows a substantial shortfall between the benefits earned by past and current employees of the Council and the resources set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The transactions relating to the Council's pension liability are shown in more detail in note 15.

31. Net Assets Employed

The net assets (total assets less liabilities) of the Council in total are £134.482M (2010/11 £153.471M). This represents the total equity of the Council.

The net assets figure net of the deficit on the pension fund of £51.100M (see note 15 above). Without this provision the Council's net assets would be £185.582M (2010/11 £192.911M).

The effect of the pensions reserve is to reduce the Council's net worth by 27.53% (2010/11 - 20.44%).

32. Financial Instruments

Financial instruments are contractual arrangements that give rise to a financial asset in one entity and a financial liability in another. For the Council this primarily relates to financial assets in the form of investments and debtors and financial liabilities in the form of creditors.

During the year all investment funds were managed internally.

Income earned on the Council's investments is credited to the Comprehensive Income & Expenditure Statement. This totalled £770,000 (2010/11 £688,000). The difference between the figure above and the income shown on the Comprehensive Income & Expenditure Statement relates to other non-investment based income received in the year of £2,000.

The investment structure is based entirely on cash deposits over varying terms of maturity. At the Balance Sheet date the Council had investments (fixed term deposits and call accounts) of £52.244M (2010/11 £49.979M), including accrued interest of £330,000 (2010/11 £93,000).

Financial Instrument Balances

The Code requires that financial instruments (investment, lending and borrowing of the Council) shown on the Balance Sheet be further analysed into various categories.

	31st March 2011		31st March 2012	
	Current	Long-Term	Current	Long-Term
	£'000	£'000	£'000	£'000
<u>Investments</u>				
Cash & Cash Equivalents	8,320	0	1,889	0
Loans and Receivables	37,209	5,003	50,490	0
<u>Debtors</u>				
Central Government Bodies	305	0	312	0
Sundry Debtors	4,297	18	3,787	18
Housing	54	0	64	0
Car Leasing and Loans	141	0	166	0
<u>Creditors</u>				
Sundry Creditors	(3,418)	0	(3,727)	0
Central Government	(449)	0	(543)	0
Section 106 Balances	(3,135)	0	(3,222)	0
Finance Lease Creditors	(80)	(121)	(102)	(154)

Fair Value of Assets Carried at Amortised Cost

The fair value of each class of financial asset that is carried in the Balance Sheet at amortised cost is disclosed below. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the investments.

	31st March 2011		31st March 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	11	11	6	6
Cash Equivalents	8,309	8,313	1,883	1,883
Deposits with banks and building societies	42,212	42,241	50,490	50,740
Total	50,532	50,565	52,379	52,629

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2012) attributable to the commitment to receive interest above market rates.

It is considered that the carrying value is equal to the fair value for all other financial assets and liabilities not included in the table above.

The table below summarises the movements of the Council's investments over the year.

			Balance 2011/12
		£'000	£'000
Opening Position			
Long Term Investments		5,003	
Temporary Investments		37,209	
Balance at 1st April 2011			42,212
Movements in Year			
Long Term Investments			
Reclassification to temporary investments		(5,000)	
Investments Purchased in the year		0	
Accrued Interest at 31st March 2011		(3)	
Accrued Interest at 31st March 2012		0	
			(5,003)
Temporary Investments (<1 year to maturity)			
Investments Returned in the year		(116,943)	
Investments Purchased in the year		124,984	
Reclassification from long-term investments		5,000	
Accrued Interest at 31st March 2011		(90)	
Accrued Interest at 31st March 2012		330	
			13,281
Closing Position			
Long Term Investments		0	
Temporary Investments		50,490	
Balance at 31st March 2012			50,490

33. Nature and Extent of Risks Arising From Financial Instruments

Liquidity Risk

The Council is debt free and has ready access to borrowing from the Public Works Loans Board. There is a minimal risk that the Council will not be able to meet its commitments under financial instruments.

Market Risk

The Council had £1M invested in variable rate deposits at 31st March 2012. The risk of significant gains or losses as a result of movements in interest rates is negligible.

The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value.

The Council does not have any available for sale assets (e.g. equity shares) and is therefore not prone to any gains or losses arising from movements in market prices.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks and building societies as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of institutions that meet strict criteria as defined in the Council's Treasury Management Strategy (Cabinet February 2011). The Council also has a policy of limiting deposits with institutions to a maximum of £10M.

The following table summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions.

	Amount at 31st March 2012	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Deposits with Banks and Building Societies	52,244	0.0	0.0	0
Debtors				
Long Term Debtors	18	0.0	0.0	0
Sundry Debtors	5,315	22.1	22.1	1,175
Housing Debtors	64	87.5	87.5	56
Other Debtors	166	7.8	7.8	13
Total	57,807			1,244

The historical experience of default represents the Council's estimation of debts that will not be paid. This amount is fully written down in the bad debt allowance. The Council is not aware of any wider market conditions that will alter the allowance already made.

The Council does not allow credit for customers. The following table provides a breakdown of amounts past due included in Sundry Debtors.

	31st March 2011	31st March 2012
	£'000	£'000
Less than three months	399	77
Three months to one year	145	256
More than one year	264	393
Total	808	726

Foreign Exchange Risk

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

34. Related Party Transactions

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, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government departments are set out in more detail in note 7.

Members of the Council have direct control over the Council's financial and operating policies. The amount paid to Councillors is disclosed in note 12. All 48 Councillors, standards committee, non-Council members and Heads of Service have confirmed that they have not had material transactions with the Council during the financial year.

During 2011/12 £354,000 (2010/11 £351,000) in grants was paid to voluntary organisations in which 9 Councillors had an interest. The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The most significant of these grants are reported annually to Cabinet prior to the start of the financial year.

35. Group Accounts

For 2011/12 it is not considered that there are any bodies that meet the requirements for Group Accounting and as such these accounts solely represent Test Valley Borough Council's transactions and balances in the year.

36. Contingent Assets

As part of the Large Scale Voluntary Transfer Agreement (LSVT), the Council is entitled to receive income generated from Right to Buy sales of former Council properties. In 2011/12 the income generated from this source was £105,000 (2010/11 £424,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

37. Contingent Liabilities

Large Scale Voluntary Transfer

As part of the LSVT the Council was required to provide Environmental warranties to both Testway Housing and their lenders for a period of 36 years (to expire 19th March 2036). There was no local knowledge of serious problems in this regard, and considering the likely costs involved in obtaining insurance cover, it is currently not considered to be cost effective to purchase insurance against this risk.

The Council also provided a guarantee to Testway Housing in respect of any pension deficit arising in respect of staff transferred from the Council to Testway Housing in the event that Testway Housing is wound up. 164 staff were transferred as part of LSVT. Currently, the guarantee relates to 63 staff (11 active members and 52 deferred pensioners).

During the year, Testway Housing Ltd was amalgamated with Flourish Homes and Sarson Housing Association to form a new company, Aster Communities, which is part of the Aster Group. On 17th August, 2011, the Council reaffirmed its guarantee to Aster Group in respect of any pension deficit arising in relation to the ex-Council staff members who were formerly employed by Testway Housing.

There is no information to suggest that Aster Group is not a going concern, neither is it possible to assess the potential deficit. As a result it is not considered appropriate to provide for any liability in this regard.

Municipal Mutual Insurance Ltd – Scheme of Arrangement

In 1992 Municipal Mutual Insurance Ltd. (MMI), which the Council and many other local authorities had insured with, experienced trading difficulties. The Company's creditors agreed a "Scheme of Arrangement" which allowed the Company to work towards a 'solvent run-off' (of the company) until all outstanding claims were settled. Under the arrangement, after all claims are settled, the Company will be wound up and any assets distributed to the creditors.

If, however, the Company becomes insolvent, there is a claw back arrangement where the creditors are required to pay a proportion of the claims paid. For Test Valley Borough Council, these claims totalled £303,561.29 as at 31 March 2012.

On 28th March, 2012, judgement was handed down by the Supreme Court in the Employers' Liability Policy Trigger Litigation relating to mesothelioma claims which found against MMI. The judges ruled that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma. MMI's Board of Directors are now seeking legal, financial and actuarial advice in order to determine the full implications of the judgement and the most appropriate way forward for the company. The Scheme Administrator, the Creditors' Committee and the Financial Services Authority will also be involved in the decision.

Until such time as the Council has more information relating to this complex process, it is not considered appropriate to provide for any liability in this regard.

Land Disposal

There is a possible legal claim against the Council in respect of a land disposal and associated section 106 developer contributions that took place in a previous financial year. The potential for a decision against the Council and the likely financial impact cannot be quantified at this time.

38. Events After the Balance Sheet Date

At a special Council meeting on 22nd June 2012 the Council resolved to purchase land and buildings in Romsey for use as offices. Terms for the purchase are still to be determined. As the decision came after the balance sheet date and does not provide updated information on an existing position as at 31st March, the accounts do not include any transactions in respect of the decision.

39. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 27th June 2012.

Following the completion of the audit, the final Statement of Accounts was authorised for issue by the Head of Finance 14th September 2012 and approved by the General Purposes Committee on 26th September 2012.

THE COLLECTION FUND

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

INCOME AND EXPENDITURE ACCOUNT					
		2010/11		2011/12	
		£'000	£'000	£'000	£'000
INCOME					
	Council Tax	58,956		59,640	
	Transfers from General Fund				
	Council Tax Benefits	5,512		5,515	
	Business Ratepayers	39,304		43,109	
TOTAL INCOME			103,772		108,264
EXPENDITURE					
	Precepts				
	Hampshire County Council	47,219		47,613	
	Hampshire Fire Authority	2,793		2,816	
	Hampshire Police Authority	6,654		6,709	
	Test Valley Borough Council	5,857		5,887	
	Parishes	1,064		1,069	
	Payments to preceptors in respect of previous surpluses	0		356	
		63,587		64,450	
	Council Tax Bad & Doubtful Debts				
	Written Off	80		61	
	Provisions	64		136	
		144		197	
	NDR Net Payment to the National Pool	39,125		42,930	
	NDR Cost of Collection	179		179	
		39,304		43,109	
TOTAL EXPENDITURE			103,035		107,756
Surplus for the year			737		508
Balance at the start of the year			356		1,093
Surplus at the end of year			1,093		1,601

NOTES TO THE COLLECTION FUND

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Non Domestic Rating Multiplier for the year, which was 43.3p in 2011/12.

Net income is derived following adjustments in respect of:

- Transitional Relief
- Mandatory and Discretionary Relief in respect of charities and kindred organisations
- Small Business Relief
- Hardship Relief
- Empty Property Relief and
- Bad debts

The total non-domestic rateable value at the 31st March 2012 was £119,472,625.

The income from Council Tax is directly linked to the banding of properties based on their valuations. The number of chargeable dwellings in each valuation band is converted to an equivalent number of Band D dwellings, which was used to calculate the Council Tax base of 45,875 for 2011/12.

The Collection Fund balance on the 31st March 2012 was a surplus of £1.601M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors. The surplus does not include the NNDR balance, which forms part of Council's debtor balances.

The surplus will be shared amongst the major preceptors (Test Valley's share is 10.86%) and will be included in the Council Tax calculations for 2012/13 and 2013/14.

Major Preceptors on the Collection Fund				
2010/11		2011/12		
Total		Precept	Share of 31/03/11 Surplus	Total
£'000		£'000	£'000	£'000
47,219	Hampshire County Council	47,613	264	47,877
2,793	Hampshire Fire Authority	2,816	16	2,832
6,654	Hampshire Police Authority	6,709	37	6,746
5,857	Test Valley Borough Council	5,887	39	5,926
62,523	Total	63,025	356	63,381

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	1	984	4,190	8,248	6,335	6,086	3,639	2,784	375	32,642
10% Discount	0	29	32	50	36	46	24	51	17	285
25% Discount	1	1,384	3,668	3,990	2,239	1,407	672	425	29	13,815
50% Discount	0	56	50	74	116	43	34	33	6	412
100% Exempt	0	155	174	586	267	144	69	82	3	1,480
Net Adjustment for Properties Charged at a Lower Band	2	25	67	(37)	0	(26)	9	(26)	(14)	0
Total Number of Properties	4	2,633	8,181	12,911	8,993	7,700	4,447	3,349	416	48,634
Chargeable Number of Properties	1.75	2,064.50	6,982.00	11,302.50	8,090.25	7,185.75	4,172.00	3,144.75	408.25	43,352
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	1.0	1,376.3	5,430.4	10,046.7	8,090.3	8,782.6	6,026.2	5,241.3	816.5	45,811.3
Provision for Bad Debts	0.0	(24.4)	(82.6)	(133.7)	(95.7)	(85.1)	(49.4)	(37.2)	(4.8)	(512.9)
Crown Contributions										576.7
Total Band D Equivalents										45,875

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.
Accruals Basis	This is the accounting concept that means income is recorded when it is earned, rather than when it is paid to you, and expenses are recorded when you commit to an obligation, rather than when you pay it.
Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: - events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) - the actuarial assumptions have changed.
Agency Services	Services which are performed by or for another authority or public body, where the authority responsible for the service reimburses the Council carrying out the work for the costs of the work.
Assets	Items of worth which are measurable in terms of value.
Current assets	Assets which may change in value on a day to day basis e.g. (stocks), or which are expected to be fully recovered within one year (e.g. short-term deposits with banks).
Balances	The reserves of the Council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible assets which yield benefits to the Council for more than one year.
Capital Receipts	Monies received from the sale of fixed assets, which may be used to finance new capital expenditure.
Cash and Cash Equivalents	Cash and cash equivalents are cash and deposits held in banks that are readily convertible into known amounts of money without penalty or time delays.
Collection Fund	This is a statutory fund separate from the main accounts of the Council. It records all income due from Council Tax and National Non Domestic Rates. It shows the precept payments due to Test Valley Borough Council, Hampshire County Council, Hampshire Police Authority and Hampshire Fire Authority.
Contingent Assets	Future income owed to the Council arising from a past event for which the amounts cannot be accurately quantified at the balance sheet date.
Contingent Liabilities	Amounts due to individuals or organisations which may arise in the future but which at this time cannot be determined accurately.
Creditors	Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment was not made at the Balance Sheet date.
Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Debtors	Amounts owed for work or services rendered by the Council within the financial year and which have not been paid.
Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.
Effective Interest Rate	The Effective Interest Rate is the average rate of interest over the life of a loan. It takes into account known changes in interest rates over the period of a loan, e.g. discounted rates in early periods.

Expected Rate of Return on Assets	The average rate of return expected over the remaining life of the assets held by the pension scheme.
Expenditure	Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.
Fair Value	The value an asset or liability could reasonably be transferred for in an arm's length transaction with another party who is properly informed about that item.
Financial Instruments	These represent any item that will cause the Council to receive or pay money. This ranges from sundry debtors and creditors to cash investments. The only items that are excluded from this are Council Tax and Business Rates.
General Fund	The main revenue fund of the Council includes the net cost of all services financed by local taxpayers and government grants.
Heritage Assets	Assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.
IFRS	International Financial Reporting Standards are the guidelines within which the Council's accounts have to be prepared.
Impairment of Fixed Assets	The reduction of the value of an asset through either market price changes or reduction in the asset's ability to deliver services e.g. if affected by fire or flood. Impairments as a result of market price changes from previous years may be reversed as market conditions change.
Income	Amounts due to the Council for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.
Intangible Assets	Assets that have no physical form but which provide economic benefits to the Council. Examples include software licences (that last over one year) and rights to hold markets in Andover High Street.
Interest on Pension Liabilities	The expected increase during the period in the present value of pension scheme liabilities because the benefits are one year closer to settlement.
Inventories	Stocks and work-in-progress are included under this heading.
Investment Property	Properties owned by the Council which are held solely for income generation purposes or for appreciation in sale value.
Leasing	Where a rental is paid for the use of an asset for a specified period of time. Two forms of lease exist. Under a Finance Lease the asset is treated as the property of the lessee. Under an Operating Lease the asset remains the property of the lessor and the lease costs are a revenue expense of the Council.
Liabilities	Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.
National Non Domestic Rates (NNDR)	Businesses pay Non-Domestic rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the Council. Business rates are pooled nationally and a share is given back to the Council in the form of a grant.
Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs.

Precepts	The method by which an authority obtains the income it requires by making a levy on an appropriate billing authority. The billing authority (this Council) must then charge for the precepted amount. For example, the Council Tax bills raised by the Council include the amounts precepted by Hampshire County Council, Fire and Police Authorities and Parish Councils.
Present Value	The current estimated value of future assets or liabilities taking into account the estimated effects of the time value of money.
Property Plant and Equipment	Tangible assets which yield benefit to the Council for a period of more than one year. They can be further classified into:
Land and Buildings	Property assets held and occupied, used or consumed by the Council in the direct delivery of services for which it has either statutory or discretionary responsibility e.g. Council offices.
Vehicles and Equipment	Items of plant and machinery used by the Council in the delivery of services e.g. refuse vehicles, grounds maintenance equipment.
Community assets	Assets that the Council intends to hold in perpetuity, which have no determinate finite useful life and may have restrictions on their disposal e.g. parks, works of art.
Infrastructure assets	These are inalienable assets, the benefit of which is received only by their continued use e.g. cycle routes, footpaths.
Provision	An amount set aside for expenditure in a future financial period as a result of an obligation arising from a past event. The obligation must be expected to result in a payment that can be reasonably estimated.
Reserves	These are amounts set aside for future purposes where there is no certainty about the level and timing of expenditure.
Revenue Contributions to Capital	The method of financing capital expenditure by transferring funds from the General Fund to the Capital Receipts Reserve.
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This mainly includes employee costs, general running expenses and contract payments.
Revenue Support Grant	This is a Central Government Grant paid each year as a contribution towards the cost of the Council's services in general.
SerCOP	The Service Accounting Code of Practice is published by CIPFA and defines where different items of income and expenditure should be shown on the Comprehensive Income & Expenditure Statement.

Test Valley Borough Council

Annual Governance Statement 2011/12

Scope of responsibility

The 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, and which includes arrangements for the management of risk.

The Council has approved and adopted a local 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 can be obtained from the Head of Legal and Democratic Services. This statement explains how the Council has complied, and continues to comply, with the principles underlying this code and also meets the requirements of regulation 4[2] of the Accounts and Audit (England) Regulations 2011 in relation to the review of the effectiveness of its system of internal control.

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 and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Council for the year ended 31 March 2012 and will continue to be developed during the coming year.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are as follows:

- The Council has fulfilled the following key roles (now formally adopted as part of the Local Code of Governance):
 - To promote the well-being of the area and provide leadership to the community;
 - To ensure the provision of high quality services provided in-house, by private sector companies, jointly with other Councils or agencies, or by the voluntary sector;
 - To be accountable and provide stewardship for the use of public funds and resources;
 - To build a strong sense of community.

In fulfilling these roles the Council is committed to following the six core principles of good corporate governance identified in the CIPFA/SOLACE Guidance and how the Council is working towards achieving these principles is set out in the document "Principles of Good Governance" which is attached to the code.

- The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Community Plan, Corporate Plan and a range of corporate and service strategies including the Andover Vision. There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website and Test Valley News.
- The Council has developed a new Corporate Plan for 2011 / 2015 "Doing things differently" which was approved by the Council's Cabinet on 13/04/2011. It has 4 main aims with a clear action plan detailing how these aims will be delivered. It is supported by a performance management framework (including performance indicators) to measure progress. In developing the plan previous priorities were reviewed, extensive consultation was undertaken with local people and elected Councillors whilst also considering external influences on the borough such as government policy
- The Council formally reviews its progress against its corporate priorities through an Annual Performance Report which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet. The Partnership Board of the Test Valley Partnership is responsible for reviewing the Community Plan ("Your Test Valley") and this involves the Council and a number of other public sector organisations, local groups and organisations within the borough. All such reviews are open and transparent to promote good governance.

- The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of Corporate Plan.
- The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards. OSCOM and the Cabinet consider an annual report on performance and there are other review mechanisms in place including the portfolio reviews conducted by OSCOM.
- The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to Members and Officers and includes protocols for how Council and committee meetings should operate and the relationship between Members and Officers.
- The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's Standards Committee promotes high standards of conduct by Members and considers complaints made against Members. The Localism Act 2011 contains provisions abolishing the ethical framework introduced by the Local Government Act 2000. The Council plans to introduce a new Member Code of Conduct commencing in July 2012. A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.
- The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Regulations. These accord with good professional practice and were fully revised in 2007 and further amended in 2008, 2009 and 2010. The delegations to Members and Officers are kept continually under review and revised as appropriate.
- Elected members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Equality impact assessments are an important and integral part of the Council's decision-making process. The Council's Equality Plan, Recognising the Difference, was updated in 2011 and explains how we will build on the work we've already done and sets out the steps we will take to bring about further improvement during 2012/13.

- The Council's approach to risk management is outlined in its Risk Management Strategy and corporate risks are reported to OSCOM on a quarterly basis. The Economic Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees (Cabinet and General Purposes) use a template which includes a section on risk assessment which must be completed before the report can be considered.
- On the 18th April 2011, Full Council resolved to transfer the responsibility of the Audit Committee to a Panel of OSCOM. This decision was taken following a thorough performance review of the work of the Audit Committee and against a background of needing to make savings and efficiencies across the Council through the best use of time and resources. The terms of reference for the Audit Panel include:

Audit Activity

- To consider the Internal Audit Partnership Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- To consider summaries of specific internal audit reports as requested.
- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To liaise with the Audit Commission over the appointment of the Council's external auditor.
- To commission work from internal and external audit.

Regulatory Framework

- To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- To review any issue referred to it by the chief executive or a director, or any Council body.
- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council's complaints process.

- To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
 - To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
 - To consider the Council's compliance with its own and other published standards and controls.
- The Chief Executive is the Council's Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and Democratic Services is designated as the Council's Monitoring Officer and is responsible for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance is designated as the Council's Section 151 Officer with responsibility for ensuring the "proper administration of financial affairs". The Head of Finance also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is about to make, expenditure which is unlawful. These three statutory officers meet as necessary during the year to discuss significant corporate issues as they arise.
- The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. Financial Regulations require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourage staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's Intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area. The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for OSCOM summarising these complaints and how they were resolved.
- The Head of Administration is responsible for identifying and providing for Members' training needs. Annual questionnaires are sent out to all Members and these inform the programme of training to be offered during the year. All new Members are provided with induction training to assist them with understanding and successfully carrying out their different roles and training is provided on specific issues where appropriate e.g. planning. The Councillor Induction and Development Guide was fully revised in 2011 and is given to all Members. All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.

- The Council has in place various channels of communication with the community and other stakeholders. These include a “My Test Valley” Panel, various ad hoc forums, public participation at Council meetings and opinion surveys carried out on general Council performance and specific topics. Publications such as Test Valley News are sent to all households and the Council’s website is an important source of information about the Council and its services. The website was completely redesigned during 2011/12 to make it more accessible to residents and businesses of Test Valley and to make it easier to undertake transactions online and suggest items for consideration at OSCOM. The Council has an External Communication Strategy and Consultation Strategy which promote communication with stakeholders.
- The Council has identified its key partnerships and promotes good governance in those. The Council’s Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships.

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 senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Internal Audit Partnership Manager, and also by comments made by the external auditor and other review agencies and inspectorates.

The effectiveness of the governance framework is maintained and reviewed through a number of mechanisms and processes:

- Full Council is ultimately responsible for maintaining, revising and ensuring compliance with the Council’s Constitution. The Head of Legal and Democratic Services ensures that the Constitution is up to date with current legislation and best practice.
- The Cabinet has responsibility for the day to day operation of the Council’s business unless that business is delegated specifically to another committee (e.g. Planning, Licensing) and ensuring that governance arrangements and compliance is adequate for the conduct of that business.
- As part of the Council’s open and transparent approach, Overview and Scrutiny Committee has responsibility for scrutinising the decisions of the Cabinet and reviewing the Council’s policies and functions and making recommendations to the Cabinet as appropriate.
- The Council’s OSCOM and its Audit Panel takes responsibility for audit and risk management issues, reviewing the Council’s work in these

areas and monitoring the progress and performance of both Internal and External Audit.

- The Council's Standards Committee has the role of promoting and maintaining high standards of conduct amongst Members and assisting them to observe the Authority's Code of Conduct. The Standards Committee meets quarterly and is chaired by an independent member who is not a Member or Officer of the Council. The Standards Committee considers complaints about Members and any action necessary to satisfy those complaints. As mentioned previously, this arrangement will change in July 2012.
- The Council's Internal Audit team, located within the Finance Service, carries out a continuous review of the Council's systems to provide independent assurance that the control environment is effective in achieving the Council's objectives. The team objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Authority's resources. The performance of the Internal Audit team is monitored by the Council's Audit Panel and Section 151 Officer. The Internal Audit Partnership Manager presents the Internal Audit Strategy and Annual Audit Plan to the Audit Panel and produces an Annual Report giving an opinion of the adequacy of the Council's systems of internal control.

On the basis of Internal Audit work completed in 2011/12, the Internal Audit Partnership Manager is able to provide Substantial assurance in respect of the Council's risk management, control and governance arrangements. "Substantial Assurance" means that systems in place are generally sound, but some weaknesses have been identified which may put some of the control objectives at risk (see annex 2). These weaknesses have been identified and form the basis of the action plan appended to this Statement.

- The Council has continued to review and refine its risk management processes during the year. Risk registers were reviewed at least quarterly at OMT and at service management team meetings. The Corporate Risk Register is reported to OSCOM on a quarterly basis.
- The Council is regularly reviewed by a number of external agencies including the Audit Commission who independently examine the Council's accounts and financial systems and who present an Annual Governance Report to Members, the latest available covering the financial year 2010/11. This was a positive report with an unqualified opinion on the Council's accounts, system of internal control and arrangements to achieve value for money.

We have been advised on the implications of this review of the effectiveness of the governance framework and of any significant governance issues. A plan to address weaknesses and ensure continuous improvement of the system is in place as shown in the attached annex 1.

We propose over the coming year to take steps to address these 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.

Signed: **Signed:**

Leader of the Council

Chief Executive

The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance is not part of the Strategic Management Team (Chief Executive and two Corporate Directors) and reports to one of the Corporate Directors. However, in practice, the Head of Finance is able to report directly to the Chief Executive and Members as and when required, and is involved and consulted in all matters which have financial implications for the Council.

Significant governance issues





Annex 1 to the Annual Governance Statement

The following identifies the significant governance issues to be addressed, the proposed action, timescale and lead officer.

Issue	Action to be Taken	Timescale	Lead Officer
Project Management	<p>To provide an OMT learning session on project management which considers a formal process (inc the development of a template) for determining a project and approach to be taken and which is linked to risk management and appropriate thresholds (financial and other).</p> <p>Subsequently to provide refresher training on the application of the Council's Project Management Toolkit including the outcomes of the learning session.</p>	<p>28th Sept, 2012</p> <p>31st Oct, 2012</p>	<p>Corporate Director (AF)</p> <p>Service Support Manager (IT)</p>
Code of Conduct	To develop a corporate policy and procedure on how to manage declarations of, and requests to undertake, dual employment. This to include annual awareness reminders through the SIB (or standard letter for operational staff) and the right to appeal if a request is not approved.	28 th Sept, 2012	Strategic HR Manager

Audit Assurance Opinion Definitions

Annex 2 to the Annual Governance Statement

	Full	Evaluation opinion - There is a sound system of control designed to achieve the system objectives, and Testing opinion – The controls are being consistently applied.
	Substantial	Evaluation opinion – While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/or Testing opinion – There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Limited	Evaluation opinion – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or Testing opinion – The level of non-compliance puts the system objectives at risk.
	No Assurance	Evaluation opinion – Control is generally weak leaving the system open to significant error or abuse, and/or Testing opinion – Significant non-compliance with basic controls leaves the system open to error or abuse.