ISLE OF ANGLESEY COUNTY COUNCIL

STATEMENT OF ACCOUNTS 2011/12

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EXPLANATORY FOREWORD

REVIEW OF THE YEAR

The Council's revenue budget for 2011/12 was the first year of the significant cuts programme resulting from the international economic downturn. Budget reductions of £3.4m were applied, together with £1.9m of growth, which were set against a reduction in external funding (mainly Welsh Government grants) of £1.2m and a Council Tax increase of 3.7%. As part of the budget, £2.5m was set aside from balances to meet the cost of redundancies required to enable the budget reductions.

It was recognised that this would be a difficult budget to deliver and as part of the budget setting process, members were advised that in relation to the savings proposal about half were identified as giving high confidence in delivery; a third ought to be deliverable; a sixth were at planning stage.

At the third quarter budget review an overall overspend of £0.7m was envisaged on net budgets, mitigated by a projected reduction in the cost of redundancies, reducing the call on general balances by £0.7m. The overspends were caused by delays in the savings programme, projected reductions in council tax income and costs arising from intervention; they were offset by projected savings in services and corporate budgets interest and debt repayment.

By the end of the year, the call on general balances had deteriorated by £0.2m, mainly as a result of further costs from redundancies. However, the contribution from balances was £0.6m less than originally budgeted. The final out-turn for the year is a reduction of £0.9m (increase of £1m in 2010/11) in General Balances to £5.8m (£6.8m in 2010/11) and an increase of £1.2m (reduction of £0.7m in 2010/11) in Earmarked Reserves to £12.9m (£11.7m in 2010/11).

Although savings were made across many services, there were overspends in Children's Social Services as a result of growing demand and problems with the availability of suitable placements. There was an overspend on the cost of integrating pupils with special learning needs in mainstream schools. These overspends were partly mitigated by savings in other Social Service and Education budgets. Council tax income continues to be less than budgeted, as economic conditions tighten. The budget achieved £0.4m or 1.7% less than expected.

During the year, net spending by schools reduced their reserves (in total) by £1.0m to £1.25m, a similar reduction to that in the previous year. School reserves are limited to the uses of the individual schools and the position of individual schools varies. Fourteen schools had a deficit at the end of the financial year (nine at the end of the previous year) and a number of other schools are projecting deficits in future years.

CAPITAL

The Council spent £21.6m in the year and major items in the capital budgets are shown below. The new archives building was completed as planned in 2011/12. No other major projects were completed in the year. The only major project to commence was the relocation of Ysgol y Bont. The small-holdings programme of improvements, now having completed its second year, saw a significantly increased level of expenditure as the programme gained momentum. The Convergence projects were fully underway during the previous year and have continued at the same level this year. Expenditure on Council houses was marginally above that in 2010/11 as the Welsh Housing Quality Standard (WHQS) programme maintained its momentum.

MAJOR CAPITAL PROJECTS

Project	In Year £000	Cumulative £000	Total Project Budget £000
Ysgol y Bont, relocation – preparatory work	216	227	320
Housing Stock – WHQS	7,739	21,092	35,000
3 Towns Regeneration	1,629	4,096	8,248
Coastal environment	1,827	4,180	4,590
New Archive Building	176	1,170	1,129
Small Holdings – improvements	2,226	2,446	6,300

CAPITAL EXPENDITURE AND FINANCING 2011/12

	Council Fund £000	Housing Revenue Account £000	Total £000
Capital Expenditure	**12,382**	**9,237**	**21,619**
Grants and Contributions	7,469	2,623	10,092
Revenue Contributions	446	3,200	3,646
Capital Receipts	888	56	944
Supported Borrowing	3,579	0	3,579
Unsupported Borrowing	0	3,358	3,358
Total Financing	**12,382**	**9,237**	**21,619**
Resources available at 31 March 2012			
Capital Expenditure Reserve	1,000	0	1,000
Leisure Improvement Reserve	215	0	215
Supported Borrowing carried forward	3,749	0	3,749
Total available	**4,964**	**0**	**4,964**

Capital commitments outstanding at the year end were £6.1m. A sum of £1.2m, together with unused approved borrowing capacity which was a further £3.7m, has been reserved towards these commitments and other projects programmed for future years. Other plans will be financed from approved grants, receipts from projected asset sales and borrowing.

CAPITAL FINANCING

The Capital Plan is dependent on resources from grants, from anticipated capital receipts, and on a level of borrowing close to the level assumed by the National Assembly when calculating revenue support. Economic conditions have affected the prospects for sales of assets and the Capital Plan has been revised for these changes.

A small number of projects have been approved for unsupported borrowing to be financed through budgets or new income sources. The most notable of these is the WHQS project which is being part funded in this way from 2010 onwards.

HOUSING REVENUE ACCOUNT

Revenue expenditure was £0.947m less than expected for the year, mainly due to the effect of WHQS in reducing the level of call out, repairs and deferred expenditure on the new computer system into 2012/13. In order to reduce borrowing, additional revenue contributions were used in preference to part of the budgeted borrowing to finance capital expenditure. The balance on the account was £0.247m (£0.255m 2010/11), with little movement on the previous year.

BORROWING AND INVESTMENTS

A single loan of £6.5m matured during the year and no new long term borrowing was taken out as it was decided that utilising cash balances would be most beneficial in the current economic climate. This resulted in external borrowing at the year end of £96.1m (31 March 2011: £102.6m). This repaid loan was at a low rate of 2.08%, resulting in an increased average external rate of 5.53% (31 March 2011: 5.31%). Assumed borrowing for the year was £6.9m. As a consequence of the decision to internalise borrowing, the Capital Financing Requirement changed from being £4.9m less than external borrowing to being £4.6m more than external borrowing.

As a result of these transactions and changes in debtors, creditors and other items, there was a reduction in the total level of investments and cash on the balance sheet date of £18.4m to £16.2m by the year end, partly as a result of the reduced level of borrowing.

FINANCIAL POSITION AT 31 MARCH 2012

The net worth of the Authority in the balance sheet has decreased by £25.6m over the year, mainly due to an increase of £17.1m in the Council's net pension liability (89.3m increase in 2010/11) and an increase of £13.7m in the net position on borrowing and investments (£4.3m decrease in 2010/11), partially offset by an increase in cash and short-term debtors of £4.5m (decrease of £5.2m in 2010/11). The statement discloses an estimated net liability of £63.7m (46.6m in 2010/11) in respect of pensions. This estimate is very dependent on the assumptions used, and the reduction over the year was mostly attributed to falling real bond yields and poor investment returns. The projected pension expense for next year has also risen for the same reasons, and reduced the expected asset rate of returns.

The best assessment of financial standing is the extent to which the Authority has made provisions for known liabilities and the amount of distributable reserves available to cover other risks. The Council has made provision for known liabilities and has established reserves where required by statute, where earmarked by Council plans, or where prudent to meet risk or uncertainty. In setting the budget for the year, it had originally been intended that £2.5m would be released from general balances to finance the cost of redundancies and other costs to achieve permanent revenue savings. Almost £1m of this was accounted for in 2010/11 in compliance with accounting requirements. A further £0.3m was used by decisions taken in the year, giving a saving of £1.2m. Part of this surplus is being made available in 2012-13 and the remaining part has been used to finance the unachieved savings and the overspend on corporate budgets in 2011/12.

A total of £2m (£1.2m in 2010/11) has been reserved for the costs arising from Single Status and Job Evaluation, although this is not an estimate of any actual liability. At the year end, schools' reserves stood at £1.3m (£2.3m in 2010/11), the Housing Revenue Account balance at £0.2m (£0.2m in 2010/11) and the Earmarked Reserves at £12.9m (£11.7m in 2010/11).

The Authority's financial standing is adequate despite the deteriorating state of public finance. The majority of the expected savings were achieved during the year although there were delays on some corporate projects as a result of changes in the management of the organisation. Many services made savings in advance of the known pressures in 2012/13 but it is recognised that budgets will be even tighter in future years and delivery of cuts becomes more difficult. The outlook for public spending remains very poor and unlikely to improve in the short term.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Isle of Anglesey County 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 Authority, that officer is the Section 151 Officer.
* manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
* approve the statement of accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the authority'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 IFRS Code").

In preparing this statement of accounts, the Section 151 Officer has:

* selected suitable accounting policies and then applied them consistently.
* made judgements and estimates that were reasonable and prudent.
* complied with The IFRS Code of Practice.

The Section 151 Officer has also:

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

Certificate

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

Signed: ....

GILL LEWIS
INTERIM SECTION 151 OFFICER

27 SEPTEMBER 2012

MOVEMENT IN RESERVES STATEMENT
FOR THE CURRENT AND COMPARATIVE YEAR

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (Deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Summary. These are different from the statutory amounts required to be charged to the Council Fund Balance for Local Tax purposes. The 'Net Increase / Decrease before transfers to statutory and other reserves' line shows the statutory Council Fund Balance before any discretionary transfers to or from statutory and other reserves undertaken by the Council.

	Council Fund Balance £000	Earmarked Council Fund Reserves (Note 8) £000	Housing Revenue Account Balance (HRA Note) £000	Capital Receipts Reserve (Note 23) £000	School Balances (Note 23) £000	**Total Usable Reserves £000**	**Total Unusable Reserves £000**	**Total Reserves of the Authority £000**
Balance as 1 April 2010	**5,806**	**12,299**	**2,488**	**2,925**	**3,145**	**26,663**	**56,115**	**82,778**
Movement in reserves during the year								
Surplus/(Deficit) on provision of services	16,072	0	(1,118)	0	0	**14,954**	**0**	**14,954**
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	**91,421**	**91,421**
Total Comprehensive Income and Expenditure	**16,072**	**0**	**(1,118)**	**0**	**0**	**14,954**	**91,421**	**106,375**
Adjustments between accounting basis and funding basis under regulations (note 7)	(16,688)	0	(1,115)	(2,925)	0	**(20,728)**	**20,728**	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(616)**	**0**	**(2,233)**	**(2,925)**	**0**	**(5,774)**	**112,149**	**106,375**
Transfers to/(from) Earmarked Reserves	1,553	(654)	0	0	(899)	**0**	**0**	**0**
Increase/(Decrease) in year	**937**	**(654)**	**(2,233)**	**(2,925)**	**(899)**	**(5,774)**	**112,149**	**106,375**
Balance 31 March 2011	**6,743**	**11,645**	**255**	**0**	**2,246**	**20,889**	**168,264**	**189,153**
Movement in reserves during the year								
(Deficit) on provision of services	(3,520)	0	(4,957)	0	0	**(8,477)**	**0**	**(8,477)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	**(17,080)**	**(17,080)**
Total Comprehensive Income and Expenditure	**(3,520)**	**0**	**(4,957)**	**0**	**0**	**(8,477)**	**(17,080)**	**(25,557)**
Adjustments between accounting basis and funding basis under regulations (note 7)	2,816	0	4,949	0	0	**7,765**	**(7,765)**	**0**
Net (Decrease) before Transfers to Earmarked Reserves	**(704)**	**0**	**(8)**	**0**	**0**	**(712)**	**(24,845)**	**(25,557)**
Transfers to/(from) Earmarked Reserves	(243)	1,237	0	0	(994)	**0**	**0**	**0**
Increase/(Decrease) in Year	**(947)**	**1,237**	**(8)**	**0**	**(994)**	**(712)**	**(24,845)**	**(25,557)**
Balance 31 March 2012	**5,796**	**12,882**	**247**	**0**	**1,252**	**20,177**	**143,419**	**163,596**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDED 31 MARCH 2012

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

2011/12					2010/11 Restated		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
5,719	(5,413)	306	Central services		5,860	(5,189)	671
8,154	(3,356)	4,798	Cultural and related services		11,534	(3,375)	8,159
71,486	(12,720)	58,766	Children and Educational Services		71,668	(13,909)	57,759
16,981	(4,374)	12,607	Highways and transport services		16,062	(4,191)	11,871
10,256	(12,426)	(2,170)	Local Authority housing (HRA)		6,010	(11,882)	(5,872)
21,976	(19,525)	2,451	Other housing services		21,118	(18,764)	2,354
33,883	(11,590)	22,293	Adult Social Care		33,592	(11,720)	21,872
9,405	(3,510)	5,895	Planning and Development		8,229	(3,900)	4,329
11,374	(3,173)	8,201	Environmental Services		12,820	(2,706)	10,114
8,355	(1,284)	7,071	Corporate and democratic core		8,214	(1,673)	6,541
419	0	419	Non distributed costs		(22,885)	0	(22,885)
198,008	**(77,371)**	**120,637**	**Deficit on Continuing Operations**		**172,222**	**(77,309)**	**94,913**
		19,660	Other Operating Expenditure	9			21,519
		4,392	Financing and Investment Income and Expenditure	10			7,098
		(136,212)	Taxation and Non-Specific Grant Income	11			(138,484)
		8,477	**Deficit or (Surplus) on Provision of Services**				**(14,954)**
		(1,807)	Deficit or (Surplus) on revaluation of non current assets	24			(22,764)
		18,887	Actuarial losses / (gains) on pension assets / liabilities	40			(68,656)
		17,080	**Other Comprehensive Income and Expenditure**				**(91,420)**
		25,557	**Total Comprehensive Income and Expenditure**				**(106,374)**

BALANCE SHEET AS AT 31 MARCH 2012

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

	Note	31/03/12 £000	31/03/11 £000
Property, Plant and Equipment	12	299,444	301,902
Heritage Assets	13	3,040	3,038
Investment Property	14	8,379	7,874
Intangible Assets	15	74	77
Long Term Investments	16	0	0
Long Term Debtors	18	450	450
Long Term Assets		**311,387**	**313,341**
Short Term Investments	16	5,058	25,126
Inventories	17	675	499
Short Term Debtors	18	22,363	19,530
Cash and Cash Equivalents	19	11,164	9,457
Assets held for sale	20	180	514
Current Assets		**39,440**	**55,126**
Short Term Borrowing	16	(1,946)	(8,289)
Short Term Creditors	21	(18,856)	(22,363)
Short Term Provisions	22	(4,296)	(1,072)
Grants receipts in advance	34	(144)	(502)
Current Liabilities		**(25,242)**	**(32,226)**
Long Term Creditors	21	(4)	(3)
Long Term Provisions	22	(2,142)	(4,410)
Long Term Borrowing	16	(96,097)	(96,103)
Other Long Term Liabilities	40	(63,746)	(46,572)
Long Term Liabilities		**(161,989)**	**(147,088)**
Net Assets		**163,596**	**189,153**
Usable reserves	MIRS	20,177	20,889
Unusable Reserves	24	143,419	168,264
Total Reserves		**163,596**	**189,153**

CASH FLOW STATEMENT – 2011/12

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

2011/12 £000		Note	2010/11 £000
(8,477)	**Net (Deficit)/Surplus on the Provision of Services**		**14,954**
14,319	Adjustments to net surplus or deficit on the provision of services for non- cash movements	25	10,838
(10,976)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(14,311)
(5,134)	**Net cash flows from Operating Activities**		**11,481**
13,347	**Net cash flows from Investing Activities**	26	**(15,170)**
(6,506)	**Net cash flows from Financing Activities**	27	**4,993**
1,707	**Net increase in cash and cash equivalents**		**1,304**
9,457	Cash and cash equivalents at the beginning of the financial year	19	8,153
11,164	**Cash and cash equivalents at the end of the financial year**	19	**9,457**

NOTE 1 – STATEMENT OF ACCOUNTING POLICIES

Policy Reference	Policy Title
1	General Principles
2	Accruals of Income and Expenditure
3	Events After the Balance Sheet Date
4	Interest in Companies and Other Entities
5	Jointly Controlled Operations and Jointly Controlled Assets
6	Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
7	Value Added Tax (VAT)
8	Property, Plant and Equipment
9	Investment Property
10	Intangible Assets
11	Inventories and Long Term Contracts
12	Cash and Cash Equivalents
13	Financial Instruments
14	Provisions, Contingent Liabilities and Contingent Assets
15	Reserves
16	Revenue Recognition
17	Internal Interest
18	Leases
19	Minimum Revenue Provision (MRP)
20	Grants Receivable
21	Revenue Expenditure Funded from Capital Under Statute (REFCUS)
22	Overheads and Support Services
23	Charges to Revenue for Non-Current Assets
24	Employee Benefits

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2005 (as amended 2010), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

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.

2. Accruals of Income and Expenditure

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

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

3. 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 financial year 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 financial year – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the financial year – the Statement of Accounts are 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.

4. Interest in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and is, therefore, not required to prepare group accounts.

5. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior 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 the transactions, other events and the conditions on the Authority's financial position and financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) 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.

7. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

8. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH);
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate 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. In practice, the Council undertakes valuations of its assets based on a five-year rolling programme. Individual items within distinct classes of asset, eg primary schools, smallholdings, etc are valued in a single year, in order to ensure that all assets of any one type are revalued within a short period. In the years between valuations, reference is made to the relevant indices and adjustments made to valuations if there is any indication of material change. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- 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 line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Examples of events and changes in circumstances that indicate impairment may have incurred include:

- significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the Authority to undertake a significant reorganisation; and
- a significant adverse change in the statutory or other regulatory environment in which the Authority operates.

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 line(s) in the Comprehensive Income and Expenditure Statement;

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over periods of up to 75 years, as estimated by the valuer;

- vehicles, plant, furniture and equipment – straight-line allocation over 5 to 10 years, dependent on the initial value of the asset;

- infrastructure – straight-line allocation over periods of up to 45 years, dependant on the value of the asset.

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset (or disposal group) 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 (or disposal group) is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

A ‘disposal group’ is a group of assets, possibly with some associated liabilities, which the Authority intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by IAS 36.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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. A proportion of receipts relating to housing disposals is set aside to reduce the need to borrow and to match debt charges funded from housing subsidy. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council 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 non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage Assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art.

Operational Heritage Assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Authority for other activities or to provide other services) are valued and accounted for as operational assets, in the same way as other assets of that general type (e.g. operational buildings). For completeness, information in respect of operational Heritage Assets, in addition to being incorporated into disclosures under the relevant operation heading(s) (e.g. Property, Plant and Equipment), will be separately identified and disclosed together with that relating to other Heritage Assets.

Heritage Assets are valued on the basis which is most appropriate and relevant in respect of the individual asset or class of assets. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, Heritage Assets are measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). Where Heritage Assets are measured at valuation, then the carrying amount is measured with sufficient frequency to ensure that the valuations remain current, and at intervals of no greater than five years.

Where a Heritage Asset has a finite life, depreciation is provided for on the same bases as for other classes of asset (for detail see under 'Property, Plant and Equipment'). Depreciation is not provided on Heritage Assets which have indefinite lives.

The carrying amount of a Heritage Asset is reviewed where there is evidence of impairment; for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment is recognised on the same basis as for other classes of asset (for detail see under ‘Property, Plant and Equipment’).

9. Investment Properties

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund Balance. The gains and losses are, therefore, reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

10. Intangible Assets

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority’s goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are, therefore, carried at cost less accumulated amortisation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses, and disposal gains and losses are, not permitted to have an impact on the Council Fund Balance. The gains and losses are therefore, reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

11. Inventories and Long Term Contracts

Inventories are included in the balance sheet at the lower of cost or net realisable value. The cost of inventories is assigned using the 'First In, First Out' (FIFO) costing formula.

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 financial year.

Work in progress is included in the balance sheet at cost.

12. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

13. Financial Instruments

Financial Liabilities

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

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the cost less accumulated amortisation of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their cost less accumulated amortisation. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority 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 and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the cost less accumulated amortisation of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis;
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

14. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

The Council has established a number of provisions to meet liabilities which are expected to arise in future years but are of uncertain timing or amounts. They are charged to net cost of services in the year that they are recognised. Payments when made are charged directly to that provision.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot 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 Authority 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 Authority.

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.

15. Reserves

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

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

16. Revenue Recognition

The revenue recognition policy covers the sale of goods (produced by the Authority for the purpose of sale or purchased for resale), the rendering of services (excluding services directly related to construction contracts), interest, royalties and dividends, non-exchange transactions (i.e. council tax) and where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria.

Revenue is recognised and measured at the fair value of the consideration receivable. However, if payment is on deferred terms, the consideration receivable is recognised initially at the cash price equivalent. The difference between this amount and the total payments received is recognised as interest revenue in the Surplus or Deficit on Provision of Services. Short duration receivables with no stated interest rate are measured at original invoice amount where the effect of discounting is immaterial. There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions i.e. revenue relating to council tax and general rates, and, therefore, these transactions are measured at their full amount receivable.

17. Internal Interest

The Authority invests its cash balances in accordance with its Treasury Management and Investment Policies for periods up to 5 years and the interest is accrued and credited to the Council Fund. Interest is credited to trust funds and other third party funds based on the rate of interest earned by the Council. Some reserves receive interest by way of an appropriation calculated on the same basis.

18. Leases

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

Where a lease covers both land and buildings, the land and buildings 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 fulfillment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged in the Comprehensive Income and Expenditure Statement as an expense to the services benefitting from the use of the leased property, plant or equipment. 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).

The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and 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.

19. Minimum Revenue Provision (MRP)

The Local Government Act 2003 requires the Council to charge the Council Fund a provision for the redemption of debt. This is then reduced by the amount of depreciation charge already made to the Comprehensive Income and Expenditure Account to leave the net MRP chargeable to the Council Fund.

The Council Calculated the Housing Revenue Account (HRA) provision at 2% of the opening HRA Capital Financing Requirement (CFR).

The Council Fund provision is based on 4% of the opening Non-HRA CFR up to 2007/08, in line with Regulations implemented under the Local Government Act 2003. These regulations have been replaced with a more flexible MRP system based on statutory guidance. A new policy was adopted for 2008/09 onwards to enable assets financed from unsupported borrowing to be charged to the Council Fund according to some appropriate method, such as written down over the life of an asset. The policy also allows MRP to be deferred until the asset is commissioned.

Expenditure incurred under Section 40(6) of the Local Government and Housing Act 1989 up to 2003/04 is required to be amortised over 7 years, rather than be subjected to the 4% MRP calculation.

20. Grants Receivable

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council 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 fund capital expenditure.

21. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

22. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Chartered Institute of Public Finance Accounting (CIPFA) Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

23. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the contribution in the Council 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.

24. Employee Benefits

Benefits Payable During Employment

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

The Authority does not award long term employee benefits i.e. those which are not expected to be paid or settled within 12 months of the Balance Sheet date.

Termination Benefits

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

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

Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Department for Education;
- The Local Government Pension Scheme administered by Gwynedd Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

Teachers' Pension Scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified to the Council. The scheme is, therefore, accounted for as if it was a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers Pension Agency in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Gwynedd Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a real discount rate (based on the indicative rate of return on high quality corporate bonds as measured by the yield on iboxx Sterling Corporate Index AA over 15 years);
- The assets of Gwynedd Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
    - Quoted securities – current bid price;
    - Unquoted securities – professional estimate;
    - Property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long term return – credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement;

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services to the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- actuarial gains and losses – changes on the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited / (credited) to the Pensions Reserve;

- contributions paid to the Gwynedd Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any employee (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

NOTE 2 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Council has adopted the amendmets to IFRS 7 Financial Instruments: DisclosuresTransfers of Financial Assets. However, there is no impact on the financial statements as the Council has not made any transfers of financial assets

NOTE 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 made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority has £301m recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2012. The Council has now adopted a 5 year rolling programme for the valuation of its assets. The programme is constructed in such a way as to ensure that entire classes of assets (e.g primary schools, small holdings, car parks) are revalued in a single year. The valuations are undertaken by the Authority's in-house valuation team who are members of the Royal Institute of Chartered Surveyors (RICS), and independantely verified by an external authority. Non-property assets have not been revalued as the Authority has judged that the carrying value of these assets is approximate to fair value, given their relatively short useful economic lives and the relative value of these assets.

NOTE 4 – ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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 different from the assumptions and estimates.

The following items in the Authority's Balance Sheet at 31 March 2012 may be considered to be most vulnerable for estimating error in the forthcoming financial year:

Property, Plant and Equipment – Assets are depreciated over useful lives in accordance with standard accounting practices. Any difference between the depreciation applied and actual deterioration to assets will naturally reflect in future spending patterns. Information relating to Property, Plant and Equipment is contained in Note 12.

The accounting policy for the depreciation of Property, Plant and Equipment (see Note 1, item 8) identifies that:

> 'Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.'

Applying this in practice requires two judgements to be made, to establish:

- the proportion of the cost of an asset which is considered to represent a significant part of the asset, and

- the cost threshold, below which the separate calculation of depreciation on part of an asset would not have a significant effect on the amount of depreciation as a whole.

The Council has set these figures at 20% of the total cost of the asset and £2m respectively. As is stated above in respect of depreciation in general, physical deterioration of the individual parts of an asset may, over time, lead to spending patterns which have not been fully reflected in the levels of depreciation previously provided for.

Council Housing - The Council's Housing stock is valued under a standard methodology, part of which requires the application of an adjustment factor to allow for the difference between rents and yields on private sector and social housing. There is currently no published adjustment factor for Wales, and so the Council has selected the most comparable of the English regions and applied the published factor for that, which was 31%. (Should a specific factor be published, either for Wales a a whole, or on a regional basis, then this will be applied. Each 1% of any resulting change would increase or decrease the reported value of the stock by approximately £3.4m).

Provisions – Various separate provisions, the basis of which have been individually assessed, are contained within these accounts as detailed in Note 22.

Pensions Liability – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgments as provided by actuaries engaged by the administering authority. Further details are contained in Notes 39 and 40.

Doubtful Debts Impairment / Allowance – A certain impairment level of doubtful debts is contained within the accounts and are based on a specific policy. Any departure between the impairment level applied and the actual arrears position will naturally reflect in future spending patterns. Doubtful Debts impairments are contained within the figures for Short Term Debtors contained in Note 18.

NOTE 5 – MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income or expenditure that have not been disclosed elsewhere in the accounts.

NOTE 6 – EVENTS AFTER BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Interim Section 151 Officer on 25 September 2012.

Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

NOTE 7 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

2011/12	Usable Reserves			
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	7,819	2,760	0	(10,579)
Revaluation losses / (gains) on Property, Plant and Equipment	1,376	0	0	(1,376)
Movements in the market value of Investment Properties	(395)	0	0	395
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(7,359)	(2,623)	0	9,982
Revenue expenditure funded from capital under statute	3,811	0	0	(3,811)
Carrying amount of non current assets sold	1,512	8,720	0	(10,232)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Minimum Revenue Provision For Capital Funding	(3,272)	(603)	0	3,875
Capital expenditure charged against the Council Fund and HRA balances	(445)	(3,200)	0	3,645
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(944)	944
Proceeds From Sale of Non Current Assets	(855)	(139)	994	0
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	0	5	(5)	0
Other Capital Receipts	(53)	(19)	72	0
Capital Receipts Reserve set aside to repay debt	0	0	(117)	117
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	107	28	0	(135)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	6,544	115	0	(6,659)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,256)	(115)	0	8,371
Adjustment involving the Unequal Pay Back Pay Adjustment Account:				
Amounts by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	1,935	0	0	(1,935)
Adjustment involving the Accumulating Compensated Absences Adjustment Account				
Adjustments in relation to Short-term compensated absences	347	20	0	(367)
Total Adjustments	**2,816**	**4,949**	**0**	**(7,765)**

2010/11 (Conparative)	Usable Reserves Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	6,976	2,765	0	(9,741)
Revaluation losses / (gains) on Property, Plant and Equipment	5,894	(5,314)	0	(579)
Movements in the market value of Investment Properties	(543)	0	0	543
Capital grants and contributions	(9,852)	(2,640)	0	12,492
Revenue expenditure funded from capital under statute	3,744	0	0	(3,744)
Carrying amount of non current assets sold	3,536	8,989	0	(12,525)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Minimum Revenue Provision For Capital Funding	(3,529)	(520)	0	4,049
Capital expenditure charged against the Council Fund and HRA balances	(755)	(3,948)	0	4,703
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(4,528)	4,528
Proceeds From Sale of Non Current Assets	(1,449)	(370)	1,819	0
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	0	11	(11)	0
Capital Receipts Reserve set aside to repay debt	0	0	(205)	205
Adjustments involving the Financial Instruments Adjustment Account:				
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	110	25	0	(135)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	(12,506)	0	0	12,506
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,046)	(111)	0	8,157
Adjustment involving the Accumulating Compensated Absences Adjustment Account				
Adjustments in relation to Short-term compensated absences	(268)	(2)	0	270
Total Adjustments	**(16,688)**	**(1,115)**	**(2,925)**	**20,729**

NOTE 8 – TRANSFERS TO/FROM EARMARKED RESERVES

	Balance as at 01/04/10 £000	Transfers In 2010/11 £000	Transfers Out 2010/11 £000	Balance as at 31/03/11 £000	Transfers In 2011/12 £000	Transfers Out 2011/12 £000	Balance as at 31/03/12 £000
Council Fund:							
Capital Expenditure	1,499	273	(784)	988	478	(466)	1,000
Penhesgyn Waste Landfill Site Reserve	886	0	0	886	0	0	886
Infrequent Events	12	9	0	21	9	0	30
Museum Purchases	15	0	(4)	11	4	0	15
Leisure Improvements Reserve	415	0	0	415	0	(200)	215
School Days	(27)	0	(18)	(45)	45	(19)	(19)
Service Reserves	1,614	2,843	(2,539)	1,918	1,115	(1,526)	1,507
Restricted Services Reserves	927	583	(177)	1,333	827	(379)	1,781
Building Maintenance Unit	86	15	(8)	93	7	(19)	81
Equal Pay, Single Status and Job Evaluation	2,345	152	(1,275)	1,222	776	(32)	1,966
Section 117 (Mental Health Act 1983)	327	0	(28)	299	0	0	299
Recycling	955	206	0	1,161	312	0	1,473
Risk Management Reserve	62	0	(34)	28	45	(8)	65
Performance Management Reserve	1,357	130	(317)	1,170	196	(312)	1,054
Insurance Fund	1,826	319	0	2,145	417	(33)	2,529
Total Council Fund	**12,299**	**4,530**	**(5,184)**	**11,645**	**4,231**	**(2,994)**	**12,882**
Total Earmarked Reserves	**12,299**	**4,530**	**(5,184)**	**11,645**	**4,231**	**(2,994)**	**12,882**

Purpose of Earmarked Revenue Reserves

Capital Expenditure - to fund capital expenditure in future years. This has been created to ensure committed capital expenditure, including expenditure which has slipped from previous years, is fully financed.

Penhesgyn Waste Landfill Site Reserve - This reserve has been created from the net cash assets, less winding up and capping costs, of Cwmni Gwastraff Môn-Arfon Cyf which is in the process of being wound up. The reserve will be used to contribute towards any future liabilities arising from the management of the Penhesgyn site.

Infrequent Events - to allow the Council to even out from year to year the cost of making contributions to events which occur less frequently than annually.

Museum Purchases - earmarked gifts and other finances to fund future expenditure of Oriel Ynys Môn.

Leisure Improvements Reserve - to fund capital expenditure on improvements to, and provision of, strategic leisure facilities.

School Days - to equalise the costs of varying number of school days in each financial year.

Service Reserves - under the Council's Financial Procedure Rules over and under-spending is carried forward as earmarked reserves to the level set by the Executive.

Restricted Service Reserves - earmarked budgets within service areas which remain unspent at year end.

Building Maintenance Unit - to provide a working balance. A substantial part of this balance accrued under the Unit's previous status as a Direct Service Organisation under Compulsory Competitive Tendering legislation.

Equal Pay, Single Status and Job Evaluation - As a result of the 'Single Status' agreement, the Authority, in common with most other local authorities, is required to introduce a new pay and grading system with effect from 1 April 2007. The extent to which this may involve an obligation to back pay is uncertain. Negotiations are proceeding on a revised pay and grading structure. A sum has been set aside in the Job Evaluation reserve towards the overall cost of the exercise, including the administrative costs, the cost of new pay scales, any pay protection and any back pay. Although the individual elements cannot be estimated with certainty, the Authority is of the view that the sums set aside are adequate.

Section 117 (Mental Health Act 1983) - to provide for the anticipated repayment of charges previously levied on some Social Services users.

Recycling - landfill cost savings created by diverting waste to recycling. The reserve will be utilised towards recycling initiatives.

Risk Management Reserve – the Risk Management Reserve was set up to cover work done in collaboration with the Council's Insurers including Corporate Risk Management, Business Continuity and Health and Safety.

Performance Management Reserve - amounts earmarked towards performance improvement measures from the Outcome Agreement Grant.

Insurance Fund - The Council runs an internal insurance account which pays for self insured losses and which receives 'premia' from service accounts. The known losses at year end are provided for. This reserve is the surplus on the internal insurance account plus interest on balances and is intended to cover claims which have been incurred but have not been reported.