HART DISTRICT COUNCIL
AUDITED STATEMENT OF ACCOUNTS
2011/12

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INTRODUCTION

The purpose of this foreword is to provide an easily understandable guide to these financial statements and to highlight the most significant features of the accounts for 2011/12.

Hart District Council provides a wide range of services to its council taxpayers. Spending is split between capital and revenue expenditure. Revenue expenditure is financed from council tax, government grants and contributions, and fees, charges and other income. Capital expenditure provides economic benefits lasting more than one year and is financed from loans, grants, capital receipts and revenue contributions. This statement sets out the financial performance of the council for 2011/12 and its financial position at 31 March 2012.

The Accounts and Audit Regulations 2011 require that the responsible financial officer of the council must, no later than 30th June immediately following the end of year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.

CHANGES IN PRESENTATION AND ACCOUNTING POLICIES

In comparison to the 2010/11 accounts which with the introduction of IFRS (International Financial Reporting Standards) meant major changes to the accounting policies, in 2011/12 there were far fewer changes. The key changes for this year are outlined below:

- Grants - more detail has been added to explain the changes in accounting for grants under IFRS.
- Property, Plant and Equipment valuations - more clarification of the basis of valuing our assets.
- Heritage Assets - there is a new section which defines the concept of heritage assets. This has been brought in to local government accounting for the first time this year. Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Heritage assets include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections and works of art. A thorough review of the asset register has been conducted and for the year ending 31st March 2012, the Council does not hold any heritage assets.
- Pensions - these have been reviewed and where applicable refreshed the accounting treatment applied in respect of the Local Government Pension Scheme and associated transactions
- General Review - there has been a general tidy-up of policy wording, removal of duplication and ensured all terminology fits with the IFRS set of accounts.
- SerCOP - The Service Reporting Code of Practice (SeRCOP) 2011/12 now requires Income and Expenditure for Culture, Environment, Regulatory and Planning Services to be split in three as follows:
    - Culture and Related Services;

- o Environmental and Regulatory Services; and
- o Planning Services.

FINANCIAL STATEMENTS

The Council is required by law to complete its accounts in line with the Code of Practice on Local Authority Accounting ("the Code"). In theory, the Code ensures that all local authorities produce their accounts on a consistent basis, enabling comparisons. The Code represents an attempt by accounting regulators to reconcile accounting standards in general use within the UK with the statutory local government finance framework. This is not an easy marriage: there are material differences between what accounting rules state should be included in the accounts and what legislation states should be financed by a local authority and local council taxpayers.

Accordingly there are many entries, particularly within the Comprehensive Income & Expenditure Statements, which are included as notional items for presentational purposes, so that accounting standards are fulfilled, and then "reversed out" so that the bottom line financial performance is consistent with statutory requirements. The Code also requires expenditure on services to be categorised under standard headings that bear little relation to the actual organisation and structure of the Council.

The above can lead to a confusing picture if the core financial statements are taken at face value. Unfortunately, the Council has no discretion to depart from the prescribed format and content of those statements.

Further information on the main features of each of the financial statements is set out below.

Readers will notice that there are, in some instances, differences of £1k between figures in the main accounting statements and the supporting notes. This is due to rounding differences where, for example, a figure is rounded up to the nearest £1,000 on the statement but down to the nearest £1,000 on the note. These rounding differences have no overall effect on the statements.

<u>Statement of Responsibilities</u>

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the council and the Chief Finance Officer for the Accounts. It contains a certification by the Chief Finance Officer. The council's Chief Finance Officer is Tony Higgins.

<u>Movement in Reserves Statement</u>

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

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils 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.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used fund capital expenditure or repay debt). The second category of reserves is those that the council 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 were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.'

Cash Flow Statement

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

Collection Fund

The Collection Fund reflects a statutory requirement for billing authorities to maintain a separate fund to show the transactions in respect of the collection of council tax and non-domestic rates and the distribution of precepts.

Annual Governance Statement

The Annual Governance Statement is included alongside the accounting statements. It sets out the conclusions of the council's review of internal control for 2011/12 as required by the Accounts and Audit Regulations and follows the guidance on best practice: *Delivering Good Governance in Local Government* issued by CIPFA in 2007. The Annual Governance Statement describes the council's governance framework and reviews its effectiveness.

FINANCIAL PERFORMANCE

This section provides a brief summary drawing attention to the main characteristics of the council's financial performance in 2011/12 and its financial position as reported in the financial statements.

The Comprehensive Income and Expenditure Statement is prepared in accordance with the Service reporting Code of Practice (SeRCoP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and as a result we have to take our services and categorise accordingly.

During 2011/12 the General Fund Revenue account has been subject to regular and rigorous monitoring. Monthly reports provide a mechanism to analyse revenue and capital activity at all levels, providing detailed analyses from a Corporate, Group and individual Service level perspective.

Officers and Members kept a close eye on revenue expenditure and income during 2011/12. Inflation has remained high, and some of our income streams have been adversely affected during the year.

However despite this, the continued close scrutiny applied to the budgets and expenditure has lead to an underspend in the year of £604k against a budget of £180k. This has lead to a contribution to the Council's General Fund of £424k at the end of the year.

The main areas of variance in the year are outlined below (figures in brackets represent a saving):

Community and Partnerships

- CCTV-Late implementation of restructure £30k
- Community Safety – Under spends on supplies, service and transport (£19k)

Corporate Services

- Corporate Communications – Reduction in contractors spend (£17.1k)
- Corporate Performance - Reduction in consultant spend (£15k)
- External Audit – Additional Audit fees £17k plus costs in relation to Car parking income objection £25k
- Superannuation back-funding (£34k)
- IT-Savings on License budget due to the installation of Google mail

(£41k)

- IT-Saving on revenue expenditure for IT Capital project (£36.9k)
- Corporate Training (£32.1k)
- Local Land charges – Increased charges from HCC £28.7k

Democratic Services

- Partnership Support – Vacancy saving not met £25k.(Offset by Admin restructure review)

Finance

- Bank charges – Savings made through the implementation of internet banking (£20.3k)
- Revenues and benefits – Recoveries above budget (£95.5k)
- Interest – Interest received higher than expected (£66.9k)

Housing

- Strategic Housing – Costs due to late redundancy £20k

Leisure

- Hart Leisure Centre – Additional income 365 Promotion (£37k)
- Frogmore Leisure centre – Additional income 365 Promotion (£15.4k)

Planning

- Development Control – Additional contractors fees £15.6k
- Development Control – Increased S106 fee income (£25k)

Regulatory Services

- Pest Control – Contract cost fee for outsourcing £27k
- Environmental Health(Pollution) – Reduction in contractor fees (21k)
- Health &Safety – Reduction in supplies, services and training (£14k)

Technical Services

- Waste management– Saving on Waste contract (£32k)
- Estates Management – Vacancy Saving (£30k)
- Corporate Buildings – Reduction in Repairs and Maintenance on Buildings (£20k)
- Off Street Parking – Salary saving due to part year vacant posts (£19k)
- Off Street Parking – Reduction in Car park fees and Penalty notice income £57k
- On Street Parking Salary saving due to part year vacant posts (£19k)
- On Street Parking – Reduction in penalty notice income £31k
- Concessionary travel – Provision for liable debt no longer needed (£57k)
- Admin Buildings – Savings on Utility bills (£31k)

Provisions and Appropriations

- Redundancy costs lower than expected (£142.7k), £25k offset against Democratic Services vacancy saving

CAPITAL BUDGET

The overall performance against the 2011/12 capital budget is shown in the table below:

Area	Approved Budget £'000s	Actual Expenditure £'000s	Variance £'000s
Corporate Management	2	0	(2)
Community and Partnerships	12	0	(12)
Housing and Customer Services	929	771	(158)
Leisure and Environmental Promotion	667	395	(272)
Planning	0	0	0
Technical Services	572	119	(453)
Capital Programme Provisions	0	0	0
Total Capital Programme	**2,182**	**1,285**	**(897)**

Budgets of £203k were removed during the year as they were no longer required.

The remaining £694k under spend was predominantly due to slippage on individual schemes. The programme was fully funded and these budgets will be available in 2012/13 to complete this work. The most significant under spends are against the following schemes:

- Fleet Pond Restoration £213k
- Future of CCTV £425k

The capital programme for 2011/12 was funded as follows:

Financed by:	**£'000s**
Useable Capital Receipts	381
Developers Contributions	421
Housing Earmarked Capital Reserves	51
Disabled Facilities Grant	277
Water Framework	140
Rushmoor Borough Council	15
Total	**1,285**

COLLECTION FUND

The Collection Fund had a surplus of £768k at the end of 2011/12. In accordance with regulations the surplus will be shared between the county council, the police authority, the fire authority and the district council. The district council's share of the surplus is estimated to be £111k. The council will benefit from this surplus during 2012/13.

Turnover of the fund in 2011/12 was £53.3m (£52.9m in 2010/11).

The Collection Fund can be found on page 82.

PENSION LIABILITY

The application of International Accounting Standard (IAS) 19 has resulted in a pension liability of £28.656 million shown in the Balance Sheet, an increase of £6.185 million in the year. The main driver for this increase was an actuarial loss of £5.800m.

The liability represents our share of the liability to Hampshire County Council's Pension Fund. This amount is matched by a Pensions Reserve also shown on the Balance Sheet and therefore has no immediate impact on the Council's overall financial position and its General Fund Balances.

Further details are set out in the Accounting Policies (Note 1) and Pension Note (Note 35).

IAS19 does not directly impact on the actual level of employer contributions paid to the Hampshire County Council Fund. Employers' levels of contributions are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The movement to the Fund is set out in more detail in note 35. The total liability has an impact on the net worth of the council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the council remains sound. The deficit on the scheme will be recovered through increased contributions over the remaining life of the employees as assessed by the actuary.

SIGNIFICANT ISSUES

As part of the component accounting, elements of Land and Buildings Plant, Equipment and Engineering Services (PEES) in 2010/11 were reclassified as Vehicles, Plant and Equipment (VPE) and this has been reversed in 2011/12 as they form part of the Building. This had no overall effect on the bottom line of the balance sheet or general fund of the Council.

This statement is given in respect of 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, Tony Higgins.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts by 30th September

……………………………………….
Councillor D. Neighbour
Date: 26 Sep 2012
Chairman, Audit and Compliance Committee

Chief Finance Officer Responsibilities
I acknowledge my responsibility for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12: (the Code)*

In doing so, the following have been done:

- I have selected suitable accounting policies and applied them consistently.
- I have made appropriate judgements and estimates that were reasonable and prudent.
- I have complied with the local authority Code.
- I have kept proper accounting records which were up to date.
- I have taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the accounts present a true and fair view of the financial position of the council and of its income and expenditure for the year ended 31 March 2012.

……………………………………….
Tony Higgins
Date: 26 Sep 2012
Head of Finance (S151 Officer)

2011/12	Note	General Fund	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31/03/2011		**(2,211)**	**(1,653)**	**(3,563)**	**(1,654)**	**(9,081)**	**2,047**	**(7,034)**
Movement in reserves during 2011/12								
(Surplus) or deficit on the provision of services		**840**	**-**	**-**	**-**	**840**	**-**	**840**
Other Comprehensive Income and Expenditure		**-**	**-**	**-**	**-**	**-**	**5,320**	**5,320**
Total Comprehensive Income and Expenditure		**840**	**-**	**-**	**-**	**840**	**5,320**	**6,160**
Adjustments between accounting basis and funding basis under Regulations	7	**(1,928)**	**-**	**188**	**100**	**(1,640)**	**1,640**	**-**
Net (Increase)/ Decrease before transfers to Earmarked Reserves		**(1,088)**	**-**	**188**	**100**	**(800)**	**6,960**	**6,160**
Transfers to/from Earmarked Reserves	8	**663**	**(663)**	**-**	**-**	**-**	**-**	**-**
(Increase)/Decrease in Year		**(424)**	**(663)**	**188**	**100**	**(800)**	**6,960**	**6,160**
Balance at 31/03/2012 carried forward		**(2,635)**	**(2,316)**	**(3,375)**	**(1,554)**	**(9,881)**	**9,007**	**(874)**

2010/11	Note	General Fund	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31/03/2010		**(2,068)**	**(2,407)**	**(3,767)**	**(1,430)**	**(9,672)**	**4,877**	**(4,795)**
Movement in reserves during 2010/11								
(Surplus) or deficit on the provision of services		2,478	-	-	-	2,478	-	2,478
Other Comprehensive Income and Expenditure		-	-	-	-	-	(4,717)	(4,717)
Total Comprehensive Income and Expenditure		**2,478**	**-**	**-**	**-**	**2,478**	**(4,717)**	**(2,239)**
Adjustments between accounting basis and funding basis under Regulations	7	(1,867)	-	204	(224)	(1,887)	1,887	-
Net (Increase)/ Decrease before transfers to Earmarked Reserves		**611**	**-**	**204**	**(224)**	**591**	**(2,830)**	**(2,239)**
Transfers to/from Earmarked Reserves	8	(754)	754	-	-	-	-	-
(Increase)/Decrease in Year		**(143)**	**754**	**204**	**(224)**	**591**	**(2,830)**	**(2,239)**
Balance at 31/03/2011 carried forward		**(2,211)**	**(1,653)**	**(3,563)**	**(1,654)**	**(9,081)**	**2,047**	**(7,034)**

2010/11 (RESTATED) Gross Expenditure £000's	Income £000's	Net Expenditure £000's		2011/12 Gross Expenditure £000's	Income £000's	Net Expenditure £000's
			Continuing Operations			
4,181	(3,346)	835	Central Services to the Public	4,195	(3,365)	830
8,152	(3,377)	4,775	Cultural and Related Services	5,694	(3,193)	2,501
6,705	(2,291)	4,414	Environmental and Regulatory Services	6,642	(3,873)	2,769
3,061	(1,020)	2,041	Planning Services	3,018	(2,095)	923
15,847	(13,926)	1,921	Other Housing Services	15,695	(13,896)	1,799
1,529	(14)	1,515	Corporate and Democratic Core	1,036	(18)	1,018
1,842	-	1,842	Non-distributed Costs	342	-	342
(7,101)	-	(7,101)	Exceptional Item	-	-	-
34,216	**(23,974)**	**10,242**	**Surplus (-) or Deficit on Continuing Operations**	**36,622**	**(26,440)**	**10,182**
3,946	(188)	3,758	Other operating expenditure (Note 9)	2,361	(237)	2,124
3,182	(2,308)	874	Financing and investment income and expenditure (Note 10)	3,023	(2,531)	492
-	(12,396)	(12,396)	Taxation and non-specific grant income (Note 11)	-	(11,958)	(11,958)
41,344	**(38,866)**	**2,478**	**Surplus(-) or Deficit on Provision of Services**	**42,006**	**(41,166)**	**840**
		(1,347)	Surplus or deficit on revaluation of non-current assets			(480)
		(3,370)	Actuarial gains/losses on pension asset and liabilities			5,800
		(4,717)	**Other Comprehensive Income and Expenditure**			**5,320**
		(2,239)	**Total Comprehensive Income and Expenditure**			**6,160**

BALANCE SHEET

31 March 2011 £000's	31 March 2011 (Restated) £000's		Note	**31 March 2012 £000's**
192	192	Council Dwellings	12	**189**
14,155	18,754	Other Land and Buildings	12	**18,461**
5,495	896	Vehicles, Plant, Furniture and Equipment	12	**356**
28	28	Community Assets	12	**214**
277	277	Surplus Assets	12	**295**
-	-	Investment Properties	12/13	**40**
274	274	Intangible Assets	14	**86**
-	-	Long term investments	-	**-**
6	6	Long term debtors		**3**
20,427	**20,427**	**Long Term Assets**		**19,644**
8,687	8,687	Short term investments	15	**9,091**
25	25	Inventories	-	**4**
3,199	3,199	Short term debtors	16	**3,156**
880	880	Cash and cash equivalents	17	**3,409**
12,791	**12,791**	**Current Assets**		**15,660**
(1,000)	(1,000)	Short term borrowing		**-**
(2,622)	(2,622)	Short term creditors	18	**(5,679)**
(3,622)	**(3,622)**	**Current Liabilities**		**(5,679)**
(28)	(28)	Long term creditors	15	**(12)**
(63)	(63)	Lease Liability	33	**(83)**
(22,471)	(22,471)	Other long term liabilities	35	**(28,656)**
(22,562)	**(22,562)**	**Long Term Liabilities**		**(28,751)**
7,034	**7,034**	**Net Assets**		**874**
(9,081)	(9,081)	Usable reserves	19	**(9,881)**
2,047	2,047	Unusable reserves	20	**9,007**
(7,034)	**(7,034)**	**Total Reserves**		**(874)**

I certify that the accounts present a true and fair view of the financial position of the council and of its income and expenditure for the year ended 31 March 2012.

……………………………………….
Tony Higgins (Head of Finance)

Date:

CASH FLOW STATEMENT

2010/11 £000's	2010/11 £000's Restatement		Note	**2011/12 £000's**
2,478	2,478	Net (surplus) or deficit on the provision of services		**840**
(3,339)	(2,835)	Adjustments to net (surplus) or deficit on the provision of services	21	**(1,672)**
667	947	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**999**
(194)	590	**Net cash flow from operating activities**		**167**
(85)	(869)	**Investing Activities**	22	**(236)**
299	299	**Financing Activities**	23	**(2,459)**
20	20	**Net (increase) or decrease in cash and cash equivalents**		**(2,528)**
900	900	**Cash and cash equivalents at 01/04/2011**		**880**
880	880	**Cash and cash equivalents at 31/03/2012**		**3,409**

1. ACCOUNTING POLICIES

General

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year ending 31st March 2012. The Authority is required to prepare an Annual Statement of Accounts by the Accounts & Audit (England) Regulations 2011. The Accounts are prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice.

Format of the Accounts

The Accounts are comprised of 5 main statements as follows:

1. The Movement in Reserves Statement
2. The Comprehensive Income and Expenditure Account
3. The Balance Sheet
4. The Cash Flow Statement
5. The Collection Fund Statement

The first four Statements as detailed above comprise the Consolidated Financial Statements for the Council and are supported by a common set of Notes. The Collection Fund Statement is supported by its own set of Notes to the Accounts.

The Collection Fund Statement is a record of revenue expenditure and income relating to the Council's role as a billing authority for Council Tax and National Non-Domestic Rates (NNDR) in accordance with the requirements of section 89 of the Local Government Finance Act 1988. Its primary purpose is to show the transactions of the billing authority in relation to the collection from taxpayers of tax due and distribution of the same to local authorities (including itself) and the Government. Collection Fund Statement items are only included within the Comprehensive Income & Expenditure Account and Balance Sheet when they relate to the Council's own entitlements or commitments as distinct from those of Local Government or Central Government partners. Amounts owed to or owing by Taxpayers at the Balance Sheet Date are therefore not shown in the Authority's Balance Sheet with the exception of the proportion of Council Tax to which the authority itself is entitled.

Basis of Accounting

In general, except where specifically stated, the Statement of Accounts is prepared on an historic cost basis, i.e. expenditure is included on the basis of the price actually paid rather than any additional allowance being made for changes in the purchasing power of money, modified by the revaluation of Property, Plant & Equipment as detailed below.

The following accounting concepts have been applied in the preparing of the accounts:

- **Relevant:** The accounts are prepared so as to provide readers with information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions

- **Reliability:** The accounts are prepared on the basis that the financial information contained within them is reliable, i.e. they are free from material error, deliberate or systematic bias, complete within the bounds of materiality and represent faithfully what they intend to represent. Where there is uncertainty in measuring or recognising the existence of assets, liabilities, income and expenditure then caution or prudence has been used as a basis to inform the selection and application of accounting policies and estimation techniques.

- **Comparable:** A consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has material effect on information, this has been disclosed.

- **Understanding:** Every effort has been made to make the accounts as easy to understand as possible. Nevertheless, an assumption has been made that the reader will have a reasonable knowledge of accounting and local government. Where the use of technical terms has been unavoidable, an explanation has been provided in the Glossary of Terms.

- **Materiality:** In using its professional judgement, the Council considers the size and nature of any transaction, or set of transactions. An item is considered material where its omission would reasonably change the substance of the financial disclosure.

- **Accruals:** The accounts are prepared on an income and expenditure basis with activity accounted for in the year it takes place rather than when cash payments are made or received. Sums due for goods or services received by the Council before 31st March 2012 are included in the accounts and recorded as creditors in the balance sheet. Similarly income due but not received by 31st March 2012 has been included as debtors in the balance sheet.

- **Going Concern:** The accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future.

The accounting policies that have been applied in the preparation of the 2011/12 financial statements and the 2010/11 equivalent statements are described in detail below.

Accruals

All income and expenditure in the accounts has been accounted for on an accruals basis. This requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid. The only exception to this is the cash flow statement, which, in accordance with The Code of Practice requirements, is prepared on a receipts and payments basis.

- Revenue from the sale of goods is recognised when the council transfers the significant risk 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 council.

- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

- Where revenue and expenditure 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 income that might not be collected.

Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Council and these benefits can be measured reliably.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Accounting standard IAS18 (Revenue) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. Council Tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the Council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Council.

Grants and Contributions

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

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or the future economic benefits or service potential must be returned to the transferor.
Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as 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 ring-fenced 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 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 fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non ring-fenced and is credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement

Transferred Operations

Operations transferred to or from other local authorities are treated as Continuing Operations as they continue to be provided by local government as a whole.

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 investments that mature in no more than three-months or less 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 council's cash management.

Exceptional Items

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

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 prior period adjustments.

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.

Overheads and Support Services

The costs of the council's overheads and support services are fully charged to those that benefit from the supply or service, substantially in accordance with CIPFA's *Service Reporting Code of Practice* (SeRCOP). Charges are based on various measurements, the most significant being time allocations for most officers, floor area for administrative buildings and facility usage for computer services. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed costs - cost of discretionary benefits awarded to employees retiring early (see Pensions Costs below), and any depreciation and impairment losses chargeable on Assets Held For Sale.

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

Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves 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, retirement and employee benefits, council tax income and financial instruments. They do not represent usable resources for the council. These reserves are explained in the relevant policies, but in summary:

- The Revaluation Reserve and Capital Adjustment Account are capital reserves; they do not represent usable resources for the council.

- The Capital Receipts Reserve is not available for revenue purposes; it is only available for capital purposes.

- The Pensions Reserve is a non-distributable reserve reflecting the net liability on the council's proportion of the assets and liabilities in the pension scheme.

- The Financial Instruments Adjustment Account is a non-distributable reserve maintained to manage the accounting and statutory requirements of financial instruments.

- The Collection Fund Adjustment Account is a reserve required to maintain the difference between the amount of council Tax income determined under IFRS and the amount required to be credited to the General Fund under statute.

- The Accumulated Absences Reserve is required to maintain the difference between employee benefits charged to the General Fund under IFRS and those that are charged under statute.

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 accrual 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 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.

The council has set a de-minimis level in respect of the recognition of capital expenditure of £5,000

Measurement

Items of property, plant and equipment 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 council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the exchange transaction has no commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying mount of the asset given up by the council.

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 and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and 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 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 the asset depreciated replacement cost (DRC) is used as an estimate of fair value.

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance 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.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Investment Property	Community Assets	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at Historical Cost	**0**	**0**	**3,596**	**40**	**238**	**0**	**3,874**
Valued at Fair Value as at:							
31 Mar 2012	0	1,235	0	0	0	24	**1,259**
31 Mar 2011	0	12,790	0	0	0	0	**12,790**
31 Mar 2010	195	60	0	0	0	0	**255**
31 Mar 2009	0	3,471	0	0	0	290	**3,761**
31 Mar 2008	0	1,318	0	0	0	0	**1,318**
Total Cost or Valuation	**195**	**18,874**	**3,596**	**40**	**238**	**314**	**23,257**

The Revaluation Reserve contains revaluations 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. 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 the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation usually over 5-7 years
- infrastructure – straight line allocation usually over 20 years

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

Component accounting

Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they will be recognised separately. The de-minimis threshold for Hart District Council is a current net book value of £200k. Individual assets with a value less than £200k will be disregarded for componentisation. This level will be reviewed annually.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged

Land and Buildings will be componentised between the two elements where this has not already been done, subject to the de-minimis level being considered.

A component can either be part of an individual structure, such as roofs, windows, heating systems or a complete building where many buildings are held as a single asset such as the Council offices.

Where individual assets are beneath the de-minimis threshold but collectively are above, they should be considered for componentisation where they are generally treated together elsewhere.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £200k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de-minimis threshold,
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de-minimis threshold,

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 charged 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 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. 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 previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that 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 (75% for dwellings, 50% for land and other assets net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council’s underlying need to borrow. 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

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 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 fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance.
Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Leases and Lease Type Arrangements

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. An operating lease is a lease other than a finance lease.

Land and buildings elements of a lease are considered separately for the purposes of a lease classification.

Where an arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset it will be assessed whether such an arrangement is a lease or contains leases. Such leases will be assessed as being finance or operating in accordance with this accounting policy.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or, if lower, the present value of the minimum lease payments). 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. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than its 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 from leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under an operating lease are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the lease term even if this does not match the pattern of payments.

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet 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. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by payments of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the council grants an operating lease over a property or item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service 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. 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.

Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or both. 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 property is initially measured at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gain or loss arising from a change in the fair value of investment property is recognised in 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 are credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and it is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of assets held by the council can be determined by reference to an active market. In practice, no intangible assets held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(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 from 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 General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

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 council has determined to meet the cost of such expenditure from existing capital resources or borrowing, 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 that there is no impact on council tax.

He value of REFCUS in 2011/12 was £984k (2010/11 £504k).

Borrowing Costs

All borrowing costs are recognised as an expense as they are incurred.

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and 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 financial year.

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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render the service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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 service area lines in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated 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 any such amounts payable but unpaid at the year-end.

Post Employment Benefits

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

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

- The liabilities of the HCC 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, employees turnover rates etc and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 4.7% based on the indicative rate of return on high quality corporate bond (gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years).
- The assets of the HCC pension fund attributable to the council are included in the balance sheet at their fair value:
    - Quoted securities-current bid price
    - Unquoted securities-professional estimate
    - Unitised securities-current bid price
    - Property-market value
- The change in the net pensions liability is analysed into seven components:
    - Current service cost-the increase in liabilities as a result of years of service earned for the year-allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of 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 closer to being paid-debited to 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 council, based on an average of the expected long-term return-credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
    - Gains/losses on settlements and curtailments-the results of actions to relieve the council of liabilities or events that reduce the expected future service or accrual benefits of employees-debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
    - Actuarial gains and losses-changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions-debited to the Pensions Reserve
    - Contributions paid to the HCC 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 General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated in accordance with the relevant standards. This means that in the Movement in Reserve Statement there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The council 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 member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

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 reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

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

Financial Assets

Financial assets are classified into three 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
- Financial instruments at Fair Value through Profit or Loss

Loans and receivables are recognised when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently carried at their amortised cost. 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 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 any accrued interest and interest credited to the Comprehensive Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of renovation loans to home owners at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year-the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where financial 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/losses that arise from the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for sale assets and financial instruments at fair value through profit or loss are recognised when the council 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 amortised cost 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 council.

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

- Instruments with quoted fixed prices-the market price
- Other instruments with fixed or determinable payments-discounted cash flow analysis
- Equity shared with no quoted market price-independent appraisal of company valuations

Changes in the fair value of Available for Sale Assets 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/loss for the asset accumulated in the Available for Sale Reserve.

Changes in the fair value of Financial Instruments at Fair Value through profit or loss are recognised in full in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective 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/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement , along with any accumulated gains/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).

Financial Liabilities

Financial liabilities are recognised when the council becomes a party to the contractual provisions of a financial instrument and 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 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 the 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 council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, plus any accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early resettlement 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 amortised cost 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 General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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 about the amount of the obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and 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 expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the position is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle the provision is expected to be recovered from a third party (e.g. 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 council settles the obligation.

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 included 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.

Contingent Liabilities

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

Provisions for Impairment of Bad and Doubtful Debts (loans and receivables)

The carrying amount of debtors is adjusted for doubtful debts, which are provided for, and known uncollectable debts are written off. This basis of provision is dependent upon the nature of the debt and for sundry debts takes into account material amounts that are settled in the first month of the financial year.

For sundry debtors and recovery of benefit overpayments (excluding benefit overpayments recovered from ongoing entitlement) the following provision is made:

Debts of between 91 and 180 days:	50%
Debts of over 181 days old:	100%

A 31% provision for bad debts is made for recovery of benefit overpayments from ongoing benefit entitlement.

Council Tax and NNDR:

Provision is as follows:

Debt of up to 1 year:	5%
Debt up to 2 years:	25%
Debt up to 3 years:	40%
Debt up to 4 years:	50%
Debt up to 5 years:	75%
Debt up to 6 years:	90%
Debt over 6 years:	100%

Value Added Tax

Value added tax is included in income and expenditure accounts only to the extent that it is irrecoverable.

Capital Receipts

The receipt arising from the disposal of an asset will be classed as a capital receipt, to be used to finance capital expenditure, if it is greater than £10k. If the receipt falls below this threshold it will fall to the income and expenditure account, in accordance with the Local Government Act 2003.

Heritage Assets

These are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution for knowledge and culture. Heritage Assets include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections and works of art

For the year ending 31 March 2012, the council does not hold any Heritage Assets.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 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 made in the Statement of Accounts are:

- **Future Funding.** There continues to be 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.

- **Classification of Leases.** The Council has undertaken an exercise to classify the leases it holds, both as a lessee and lessor, as either operating or finance leases. The accounting policy for leases has been applied to these arrangements and additional assets are recognised as Property, Plant and Equipment in the Council's Balance Sheet.

- **Contracts or other arrangements which may include a Lease.** Under International Financial Reporting Standards the Council is deemed to control assets that fall within contractual and other arrangements which involve the provision of a service using specific assets and which therefore are considered to contain a lease. The accounting policy for leases has been applied to these arrangements (where they have been identified) to determine whether the lease contained within them is a finance or an operating lease and as a result additional assets are recognised as Property, Plant and Equipment in the Council's Balance Sheet.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £29,772 for every year that useful lives had to be reduced.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.	The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £4.37m. However, the assumptions interact in complex ways. During 2011 / 2012, the Authority's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £0.56m as a result of estimates being corrected as a result of experience and increased by £4.21m attributable to updating of the assumptions.
Arrears	At 31 March 2012, the council had a balance of sundry debtors	If collection rates were to deteriorate, a doubling of the

Item	Uncertainties	Effect if actual results differ from assumptions
	for £3,746k. A review of significant balances suggested that an impairment of doubtful debts of 15% (£549k) was appropriate. However, in the current economic climate it is not certain whether such an allowance may be sufficient.	amount of the impairment of doubtful debts would require an additional £549k to set aside as an allowance

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The council incurs a significant proportion of it's spend on benefit payments, which is funded predominantly by government grant. The following amounts were incurred within the Comprehensive Income and Expenditure Statement on benefit payments.

2010/11				**2011/12**		
Gross Expenditure £000's	Income £000's	Net Expenditure £000's		**Gross Expenditure £000's**	**Income £000's**	**Net Expenditure £000's**
			Central Services to the Public			
3,742	(3,229)	513	Council Tax Benefits	**3,747**	**(3,266)**	**481**
			Other Housing Services			
13,687	(13,438)	249	Housing Benefit	**13,696**	**(13,483)**	**233**

Following the revaluation of a proportion of the council's land and buildings a revaluation loss of £207k has been recognised within the surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement. During 2010/11 assets valued at £4.6m were reclassified as Vehicles, Plant and Equipment from Land and Buildings. This reclassification was reversed in the 2010/11 comparatives in these statements and the balance sheet restated.

6. EVENTS AFTER THE BALANCE SHEET DATE

The date that the accounts were authorised for audit was the date that the S151 Officer signed the Statement of Responsibilities on page 8. That date was 30 June 2012. Events after the balance sheet date (31 March 2012) have only been considered up to the authorisation date.

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.

There are no events after the balance sheet date which the Council need to consider for these accounts.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2011/12	General Fund Balance £000's	Capital Receipts Reserve £000's	Capital Grants Unapplied £000's	Movement in Unusable Reserves £000's
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	**(1,060)**	**-**	**-**	**1,060**
Revaluation losses on Property, Plant and Equipment	**(207)**	**-**	**-**	**207**
Amortisation of intangible assets	**(188)**	**-**	**-**	**188**
Revenue expenditure funded from capital under statute	**(984)**	**-**	**-**	**984**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**(132)**	**-**	**-**	**132**
Statutory provision for the financing of capital expenditure	**33**	**-**	**-**	**(33)**
Capital expenditure charged against the General Fund	**-**	**-**	**-**	**-**
Adjustments primarily involving the Capital Grants Unapplied Account: Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	**737**	**-**	**(737)**	**-**

2011/12	General Fund Balance £000's	Capital Receipts Reserve £000's	Capital Grants Unapplied £000's	Movement in Unusable Reserves £000's
Application of grants to capital financing transferred to the Capital Adjustment Account	**-**	**-**	**837**	**(837)**
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited to as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**261**	**(261)**	**-**	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	**-**	**448**	**-**	**(448)**
Contribution from the Capital Receipts Reserve to finance the payment to the Government capital receipts pool	**(1)**	**1**	**-**	**-**
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	**(1,300)**	**-**	**-**	**1,300**
Employer's pensions contributions and direct payments to pensioners payable in the year	**915**	**-**	**-**	**(915)**
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**-**	**-**	**-**	**-**
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(2)**	**-**	**-**	**2**
Total Adjustments	**(1,928)**	**188**	**100**	**1,640**

2010/11 Comparatives	General Fund Balance £000's	Capital Receipts Reserve £000's	Capital Grants Unapplied £000's	Movement in Unusable Reserves £000's
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	(1,389)	-	-	1,389
Revaluation losses on Property, Plant and Equipment	(5,088)	-	-	5,088
Amortisation of intangible assets	(210)	-	-	210
Revenue expenditure funded from capital under statute	(784)	-	-	784
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,724)	-	-	1,724
Statutory provision for the financing of capital expenditure	38	-	-	(38)
Capital expenditure charged against the General Fund	14	-	-	(14)
Adjustments primarily involving the Capital Grants Unapplied Account: Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	759	-	(479)	(280)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	255	(255)

Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited to as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	188	(188)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	389	-	(389)
Contribution from the Capital Receipts Reserve to finance the payment to the Government capital receipts pool	(3)	3	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 35)	5,370	-	-	(5,370)
Employer's pensions contributions and direct payments to pensioners payable in the year	939	-	-	(939)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	6	-	-	(6)
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	17	-	-	(17)
Total Adjustments	**(1,867)**	**204**	**(224)**	**1,887**

8. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

	Balance at 1 April 2010	Transfers In 2010/11	Transfers Out 2010/11	**Balance at 31 March 2011**	**Transfers In 2011/12**	**Transfers Out 2011/12**	**Balance at 31 March 2012**
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Housing and Planning	94	-	(94)	**-**	**-**	**-**	**-**
Homelessness	51	-	(39)	**12**	**299**	**-**	**311**
Habitat Regulations	7	34	(7)	**34**	**-**	**(34)**	**-**
Technical Reserve	30	-	(30)	**-**	**-**	**-**	**-**
Olympic Event	14	-	-	**14**	**-**	**-**	**14**
Community Reserve	155	-	(77)	**78**	**1**	**-**	**79**
Interest Reserve	390	-	(162)	**228**	**27**	**-**	**255**
Open Spaces	1,484	242	(886)	**840**	**-**	**(105)**	**735**
Hitches Lane SANG	182	155	-	**337**	**241**	**-**	**578**
SAMM	-	1	-	**1**	**105**	**(6)**	**100**
CA Reviews	-	7	-	**7**	**-**	**(7)**	**-**
Technical Clothing	-	4	-	**4**	**-**	**(4)**	**-**
C & P Funding	-	33	-	**33**	**-**	**(33)**	**-**
CLG Funding	-	48	-	**48**	**-**	**(48)**	**-**
Hawley Meadows SANG	-	-	-	**-**	**60**	**(38)**	**22**
Dilly Lane SANG	-	-	-	**-**	**172**	**-**	**172**
Dilly Lane CS	-	-	-	**-**	**51**	**-**	**51**
New Burdens	-	17	-	**17**	**-**	**(17)**	**-**
Total Earmarked Reserves	**2,407**	**541**	**(1,295)**	**1,653**	**956**	**(292)**	**2,317**

Earmarked Reserves are set aside for specific purposes. An explanation of each with a balance at 31 March 2012 is given below:

Housing & Planning: Represents the unspent allocation of a number of government grants which will be used to finance service provision within these service areas.

Homelessness Reserve: This is a fund built up to facilitate the provision of services to homeless people in the District. In addition a grant of £299k was received in 2011/12 to fund county-wide homelessness projects.

Habitat Regulations: This reserve has been created to allow the Council to discharge its obligations under the Habitat Regulations

Technical Reserve: Has been established to fund redundancies in this service area.

Community Reserve:	This reserve is used to fund a number of projects within this service area
Olympic Event:	This reserve has been established to allow for an event to be provided celebrating the Olympiad in 2012
Building Control:	This reserve holds any surplus accumulated on the Building Control account and is used to ensure the service breaks even over a three year period.
Interest Reserve:	This reserve holds the interest that has accumulated on unspent S106 payments and is set aside for use on those areas to which the S106's relate.
Open Spaces:	This reserve holds developers contributions towards the maintenance of the council's open spaces.
Hitches/Dilly Ln SANG:	Developers contribution to provide Suitable Alternative Natural Green (SANG) spaces.
SAMM:	Strategic Access Management and Monitoring
CA Reviews:	To undertake conservation reviews.
Technical Clothing:	To provide personal protection equipment.
C&P Funding:	Carry forward of Flexibility Grant.
CLG Funding:	Carry forward of Homelessness Grant.
Hawley Meadows SANG:	Developers contribution to provide Suitable Alternative Natural Green (SANG) spaces.
Dilly Lane CS:	Commuted Sums
New Burdens:	Carry forward of New Burdens Grant.

CLG funding and Homelessness is covered by the Local Services Support Grant (LSSG).

9. OTHER OPERATING EXPENDITURE

2010/11 Total £'000		2011/12 Exp £'000	Inc £'000	Total £'000
2,219	Parish Precepts	**2,227**	**-**	**2,227**
2	Payments to the Government Housing Capital Receipts Pool	**1**	**-**	**1**
-	Capital Receipts on third party assets	**-**	**-**	**-**
1,537	Gains or losses on the disposal of non current assets	**133**	**(237)**	**(104)**
3,758		**2,361**	**(237)**	**2,124**

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2010/11 Total £'000		2011/12 Exp £'000	Inc £'000	Total £'000
2	Interest payable and similar charges	**3**	**-**	**3**
3,180	Pension interest cost	**3,020**	**-**	**3,020**
(2,070)	Expected return on pension asset	**-**	**(2,300)**	**(2,300)**
(238)	Interest receivable and similar income	**-**	**(231)**	**(231)**
874		**3,023**	**(2,531)**	**492**

11. TAXATION AND NON SPECIFIC GRANT INCOMES

2010/11 £000's		2011/12 £000's
(8,026)	Council tax income	**(8,103)**
(3,366)	Non domestic rates	**(2,262)**
(525)	Non-ring fenced government grants	**(1,329)**
(479)	Capital grants and contributions	**(264)**
(12,396)		**(11,958)**

12. PROPERTY, PLANT AND EQUIPMENT

(i) <u>Measurement:</u>

Vehicle, Plant and Equipment and community assets are included at depreciated historic cost.

All other assets are included at fair value.

The council carries out a rolling programme of valuation that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. Valuations were carried out by an external valuer, Capita Symonds in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Other Land and Buildings – were valued on the basis of open market value for their existing use or, where this could not be assessed because there was no market for an asset, the depreciated replacement cost.

(ii) Depreciation

Depreciation is provided for on all non-current assets with a finite useful life, which can be determined at the time of acquisition or revaluation. Depreciation is based on the asset value included in the balance sheet. The straight line method of calculation is used. Depreciation is not provided for freehold land. Newly acquired assets are depreciated from the following year.

Depreciation is calculated on the following bases:

* dwellings and other land and buildings – straight line allocation over the life of the property as estimated by the valuer
* vehicles, plant and equipment – straight line allocation usually over 5 or 7 years

(iii) Contractual Commitments

There are currently no material contractual commitments in respect of capital expenditure

2011/12 Movement	Council Dwelling	Land and Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	Investment Properties	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1st April 2011	**195**	**18,993**	**4,986**	**103**	**290**	**-**	**24,567**
Additions	-	114	25	187	-	-	326
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	78	-	-	(41)	-	37
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services*	-	(70)	-	-	(136)	-	(206)
De-recognition – disposals	-	-	(1,415)	(52)	-	-	(1,467)
De-recognition – other	-	-	-	-	-	-	-
Reclassification	-	(241)	-	-	201	40	-
At 31 March 2012	**195**	**18,874**	**3,596**	**238**	**314**	**40**	**23,257**
Depreciation and Impairment							
At 1st April 2011	**(3)**	**(239)**	**(4,090)**	**(75)**	**(13)**	**-**	**(4,420)**
Depreciation charge for the year	(3)	(617)	(433)	(1)	(6)	-	(1,060)
De-recognition – disposals	-	-	1,283	52	-	-	1,335
Depreciation written out to Revaluation Reserve	-	399	-	-	44	-	443
De-recognition – other	-	-	-	-	-	-	-
Reclassification	-	44	-	-	(44)	-	-
At 31st March 2012	**(6)**	**(413)**	**(3,240)**	**(23)**	**(19)**	**-**	**(3,702)**
Balance Sheet amount at 31 March 2012	**189**	**18,461**	**356**	**214**	**295**	**40**	**19,555**
Balance Sheet amount at 1 April 2011	192	18,754	896	28	277	-	20,147

* Includes £1.4m disposals to Veolia

2010/11 Movement Restated*	Council Dwelling £'000	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Community Assets £'000	Surplus Assets £'000	Total £'000
Cost or Valuation						
At 1st April 2010	**195**	**27,779**	**5,167**	**369**	**290**	**33,800**
Additions	-	101	85	-	-	186
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	1,347	-	-	-	1,347
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services**	-	(5,088)	-	-	-	(5,088)
De-recognition – disposals	-	(1,632)	(266)	(266)	-	(2,164)
De-recognition – other	-	(3,514)	-	-	-	(3,514)
Other movements in cost or valuation	-	-	-	-	-	-
At 31 March 2011	**195**	**18,993**	**4,986**	**103**	**290**	**24,567**
Depreciation and Impairment						
At 1st April 2010	**-**	**(3,130)**	**(3,712)**	**(137)**	**(6)**	**(6,985)**
Depreciation charge for the year	(3)	(731)	(623)	(25)	(7)	(1,389)
De-recognition – disposals	-	108	245	87	-	440
De-recognition – other	-	3,514	-	-	-	3,514
At 31st March 2011	**(3)**	**(239)**	**(4,090)**	**(75)**	**(13)**	**(4,420)**
Balance Sheet amount at 31 March 2011	**192**	**18,754**	**896**	**28**	**277**	**20,147**
Balance Sheet amount at 1 April 2010	195	24,649	1,455	232	284	26,815

* 2010/11 statements included a reclassification of an element of land and buildings to vehicles plant and equipment totalling £4.599m. This reclassification has been reversed.

** Revaluation Decrease of £5.1m as a result of revaluation of Civic Offices (£4.0m), Harlington Centre (£0.7m) and Springwell Lane Depot (£0.4m). £1.8m depreciation incurred charge in non-distributed costs.

13. INVESTMENT PROPERTIES

An investment property is one that is used solely to earn rentals or for capital appreciation or both.

Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve.

One property was reclassified as an Investment Property in 2011/12. This was the Public Conveniences at Reading Road, Hook, given a Fair Value of £39,500.

14. INTANGIBLE ASSETS AND IMPAIRMENT LOSSES

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses.
All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are:

- Cedar: 5 years
- Academy: 5 years
- Capita/CEDAR Consultancy: 5 years

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £188k charged to revenue in 2011/12 was charged to the IT and Finance Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

2010/11 £000's		**2011/12 £000's**
	Balance at start of year :	
2,148	Gross carrying amounts	**2,193**
(1,709)	Accumulated amortisation	**(1,919)**
439	Net carrying amount at start of year	**274**
	Additions:	
45	Purchases	**0**
(210)	Amortisation for the period	**(188)**
274	Net carrying amount at end of year	**86**
	Comprising:	
2,193	Gross carrying amount	**2,193**
(1,919)	Accumulated amortisation	**(2,107)**
274		**86**

There are no material contractual commitments in respect of the acquisition or enhancement of intangible assets.

Impairment Losses

Disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure are consolidated in Notes 12 and 14, reconciling the movement during the year in the Property, Plant and Equipment and Intangible Asset balances. There were no impairment losses in 2011/12.

15. FINANCIAL INSTRUMENTS

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term			Short Term		
Balance at 31st March	2010 £000's	2011 £000's	**2012** **£000's**	2010 £000's	2011 £000's	**2012** **£000's**
Investments:						
Loans and receivables	-	-	-	8,730	8,687	**8,091**
Financial Assets at Fair Value through profit and loss	-	-	-	-	-	**1,000**
Total Investments	-	-	-	8,730	8,687	**9,091**
Debtors:						
Loans and receivables	11	6	**3**	1,530	1,015	**2,598**
Total Debtors	11	6	**3**	1,530	1,015	**2,598**
Cash and Cash Equivalents						
Loans and Receivables	-	-	**-**	-	880	**3,409**
Total Cash and Cash Equivalents	-	-	**-**	-	880	**3,409**
Borrowings:						
Loans and Receivables	-	-	**-**	-	(1,000)	**-**
Financial liabilities at amortised cost	-	(28)	**(12)**	-	-	**(8)**
Financial liabilities at fair value through profit and loss	-	-	**-**	-	-	**-**
Total Borrowings	-	(28)	**(12)**	-	(1,000)	**(8)**
Other Long Term Liabilities:						
Finance Lease Liabilities	(58)	(63)	**(57)**	(21)	(28)	**(26)**
Total other long term liabilities	(58)	(63)	**(57)**	(21)	(28)	**(26)**
Creditors:						
Loans and Receivables	-	-	**-**	(1,484)	(1,525)	**(1,965)**
Total Creditors	-	-	-	(1,484)	(2,525)	**(1,965)**

Income, Expense, Gains and Losses

2011/12	Financial Liabilities Measured at amortised cost	Financial Assets: Loans and Receivables	Assets and Liabilities at fair Value through the Profit and Loss	Total
	£000's	£000's	£000's	£000's
Interest expense	3	-	-	3
Total expense in Surplus or Deficit on the Provision of Services	**3**	**-**	**-**	**3**
Interest Income	-	(231)	-	(231)
Interest income accrued on impaired financial assets	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	**3**	**(231)**	**-**	**(228)**
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**
Net gain/(loss) for the year	**3**	**(231)**	**-**	**(228)**

2010/11 Comparative	Financial Liabilities measured at amortised cost	Financial Assets Loans and Receivables	Total
	£000's	£000's	£000's
Interest expense	2	-	2
Total expense in Surplus or Deficit on the Provision of Services	**2**	**-**	**2**
Interest Income	-	(238)	(238)
Interest Income accrued on impaired Financial Assets	-	-	-
Total income in Surplus or Deficit on the Provision of Services	**2**	**(238)**	**(236)**
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**	**-**	**-**
Net gain/(loss) for the year	**2**	**(238)**	**(236)**

Fair Value for Assets and Liabilities Carried at Amortised Cost

"Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price."

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to be approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		**31 March 2012**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
	£000's	£000's	**£000's**	**£000's**
Financial Liabilities	(1,028)	(1,028)	**(20)**	**(20)**
Lease Liability	(63)	(91)	**(60)**	**(86)**
Loans and Receivables	8,687	8,700	**11,091**	**11,117**
Financial Assets at Fair Value through profit and loss	-	-	**1,000**	**1,000**

The fair value of lease liabilities is calculated as the net present value of future minimum lease payments.

The 2011/12 Code of Practice requires the fair value of each class of financial asset and liability to be disclosed in the Notes to the Statement of Accounts to enable it to be compared to its carrying amount. The purpose of the valuation is to allow the user to evaluate quantitatively the authority's financial position and performance with regard to each class of financial instrument, and also to indicate the extent of the authority's risk exposure arising as a result of these transactions.

The Code of Practice states that fair value disclosures are not required for short-term trade payables and receivables since the carrying amount is a reasonable approximation of fair value.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

16. DEBTORS

Short-term Debtors

2011 £000's		2012 £000's
1,721	Central Government Bodies	**123**
463	Other Local Authorities	**438**
1,015	Bodies external to general government	**2,595**
3,199	**Balance as at 31 March**	**3,156**

Long-term Debtors
Long-term Debtors for 2011/12 is £3k (2010/11 £6k) and are owed from bodies external to central government

The figures for bodies external to general government are shown net of impairment of £549k (£519K at 31st March 2011)

17. CASH AND CASH EQUIVALENTS

2010/11 £000's		2011/12 £000's
1	Cash held by the council	**2**
879	Bank Current Accounts	**407**
-	Short Term Deposits	**3,000**
880	Total	**3,409**

18. CREDITORS

Short-Term Loan

2011 £'000		2012 £'000
(1,000)	Short Term Loan from Building Society	**-**
(1,000)	**Balance as at 31 March**	**-**

Short-Term Creditors

2010 £000's		2011 £000's
(236)	Central Government Bodies	**(1,815)**
(861)	Other Local Authorities	**(1,899)**
(1,525)	Bodies external to general government	**(1,965)**
(2,622)	**Balance as at 31 March**	**(5,679)**

19. USABLE RESERVES

2010/11 £000's		2011/12 £000's
(2,111)	General Fund	**(2,635)**
(1,653)	Earmarked General Fund Reserves	**(2,316)**
(3,563)	Capital Receipts Reserve	**(3,375)**
(1,654)	Capital Grants Unapplied	**(1,554)**
(9,081)	**Total Usable Reserves**	**(9,881)**

20. UNUSABLE RESERVES

2010/11 £000's		2011/12 £000's
(1,485)	Revaluation Reserve	**(1,898)**
(18,814)	Capital Adjustment Account	**(17,629)**
(5)	Deferred Capital Receipts Reserve	**(4)**
22,471	Pensions Reserve	**28,656**
(183)	Collection Fund Adjustment Account	**(183)**
63	Accumulated Absences Account	**65**
2,047	**Total Unusable Reserves**	**9,007**

Revaluation Reserve

2010/11 £000's		2011/12 £000's
(188)	Balance at 1st April	**(1,485)**
(1,347)	Upward revaluation of assets	**(492)**
-	Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	**12**
(1,347)	*Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services*	**(480)**
3	Difference between fair value depreciation and historical cost depreciation	**67**
47	Accumulated gains on assets sold or scrapped	**-**
50	*Amount written off to the Capital Adjustment Account*	**67**
(1,485)	**Balance as at 31 March**	**(1,898)**

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and 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, or

- disposed of and the gains are realised.

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

Capital Adjustment Account

2010/11 £000's		**2011/12 £000's**
(26,983)	Balance at 1st April	**(18,814)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
1,389	Charges for depreciation and impairment of non-current assets	**1,060**
5,088	Revaluation losses on Property, Plant and Equipment	**207**
210	Amortisation of intangible assets	**188**
784	Revenue expenditure funded from capital under statute	**984**
1,724	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**132**
9,195		**2,571**
(50)	Adjusting amounts written out of the Revaluation Reserve	**(67)**
9,145	**Net written out amount of the cost of non-current assets consumed in the year**	**2,504**
	Capital financing applied in the year:	
(389)	Use of the Capital Receipts Reserve to finance new capital expenditure	**(449)**
(280)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**-**
(255)	Application of grants to capital financing from the Capital Grants Unapplied Account	**(837)**
(38)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	**(33)**
(14)	Capital expenditure charged against the General Fund balance	**-**
(976)		**(1,319)**
(18,814)	**Balance as at 31 March**	**(17,629)**

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Deferred Capital Receipts Reserve

2010/11 £000's		**2011/12 £000's**
(5)	Balance at 1st April	**(5)**
-	Transfer to the Capital Receipts Reserve upon receipt of cash	**1**
(5)	**Balance as at 31 March**	**(4)**

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

Pensions Reserve

2010/11 £000's		**2011/12 £000's**
32,150	Balance at 1st April	**22,471**
(3,370)	Actuarial (gains) or losses on pensions assets and liabilities	**5,800**
(5,370)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**1,300**
(939)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(915)**
22,471	**Balance as at 31 March**	**28,656**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Collection Fund Adjustment Account

2010/11 £000's		**2011/12** **£000's**
(177)	Balance at 1st April	**(183)**
(6)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	**-**
(183)	**Balance as at 31 March**	**(183)**

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

Accumulated Absences Account

2010/11 £000's		**2011/12** **£000's**
80	Balance at 1st April	**63**
(80)	Settlement or cancellation of accrual made at the end of the preceding year	**(63)**
63	Amounts accrued at the end of the current year	**65**
(17)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**2**
63	**Balance as at 31 March**	**65**

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

21. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £000's	2010/11 £000's (Restatement)		**2011/12 £000's**
(381)	(381)	Interest received	**(227)**
2	2	Interest paid	**3**

Adjustment to net Surplus on the Provision of Services for non-cash movements

2010/11 £000's	2010/11 £000's (Restatement)		**2011/12 £000's**
(1,599)	(1,599)	Depreciation	**(1,248)**
(5,088)	(5,088)	Impairment	**(207)**
(1,724)	(1,724)	Net book value of disposed assets	**(132)**
(830)	(830)	Increase / (Decrease) in Debtors	**1,567**
99	99	Increase / (Decrease) in Creditors	**(1,245)**
1	1	Inventory	**(21)**
6,309	6,309	Pension Liability Increase / (Decrease)	**(385)**
(504)	-	REFCUS	**-**
(3)	(3)	Housing Pooling Payment	**(1)**
(3,339)	**(2,835)**		**(1,672)**

22. CASH FLOW STATEMENT – INVESTING ACTIVITIES

2010/11 £000's	2010/11 £000's (Restatement)		**2011/12 £000's**
175	175	Purchase of property, plant & equipment	**337**
33,150	33,150	Purchase of investments	**20,400**
787	3	Other payments for investing activities	**1**
(188)	(188)	Proceeds from sale of property, plant & equipment	**(237)**
(33,250)	(33,250)	Proceeds from investments	**(20,000)**
(759)	(759)	Other receipts from investing activities	**(737)**
(85)	(869)	**Net Cash Flow from Investing Activities**	**(236)**

23. CASH FLOW STATEMENT – FINANCING ACTIVITIES

2010/11 £000's	2010/11 £000's (Restatement)			2011/12 £000's
(1,032)	(1,032)	Cash receipts from borrowing		**0**
		Other receipts from financing activities		
(5)	(5)	-	Capital Receipts	**(27)**
(74)	(74)	-	Preceptors Cash	**(84)**
		-	NNDR Cash receipts	**(3,392)**
33	33	Cash payments to reduce finance lease liabilities		**28**
4	4	Repayments of short term borrowing		**1,016**
1,373	1,373	Other payments from financing activities		**0**
299	299	**Net cash flow from financing activities**		**(2,459)**

24. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- no charges are made for impairment or revaluation losses in excess of the balance on the Revaluation Reserve whereas these are charged to services in the Comprehensive Income and Expenditure Statement.
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions rather than current service cost of benefits accrued in the year.

Portfolio Information 2011/12	Community And Partnerships	Corporate Management	Finance	Democratic Services	Housing and Cust. Services	Leisure and Environ. Promotion	Planning Services	Technical and Environmental Services	Regulatory Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(167)	(346)	(295)	(11)	(76)	(2,436)	(1,499)	(1,768)	(107)	(6,706)
Government grants	(18)	-	(16,503)	(87)	(303)	(384)	(16)	(1,900)	(34)	(19,245)
Total Income	**(185)**	**(346)**	**(16,798)**	**(99)**	**(379)**	**(2,820)**	**(1,515)**	**(3,669)**	**(141)**	**(25,951)**
Employee expenses	429	980	213	101	579	1,698	1,063	1,559	419	7,041
Other operating expenses	191	1,864	18,010	647	988	2,205	400	4,630	159	29,093
Support service recharges	216	(1,733)	(529)	179	384	624	1,097	(505)	267	-
Total operating expenses	**836**	**1,110**	**17,694**	**927**	**1,950**	**4,527**	**2,560**	**5,684**	**845**	**36,134**
Net cost of services	**650**	**764**	**896**	**828**	**1,572**	**1,708**	**1,045**	**2,015**	**704**	**10,182**

Reconciliation to net cost of services in the Comprehensive Income and Expenditure Statement	**£'000**
Cost of services in portfolio analysis	10,182
Add services not included in main analysis	-
Remove amounts reported to management not included in the Comprehensive Income and Expenditure Statement	-
Net cost of services in the Comprehensive Income and Expenditure Statement	**10,182**

Reconciliation to Subjective Analysis 2011/12	Service Analysis	Services not in Analysis	Not reported to Mgt.	Not included in I&E	Recharge Allocation	Net cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(6,706)	-	-	(487)	-	(7,193)	(237)	(7,430)
Interest and investment income	-	-	-	-	-	-	(2,531)	(2,531)
Income from council tax	-	-	-	-	-	-	(8,103)	(8,103)
Government grants and contributions	(19,245)	-	-	-	-	(19,245)	(3,857)	(23,102)
Total Income	**(25,951)**	**-**	**-**	**(487)**	**-**	**(26,439)**	**(14,727)**	**(41,166)**
Employee expenses	7,001	-	(40)	-	-	6,961	-	6,961
Other service expenses	27,678	-	-	527	-	28,205	-	28,205
Support Service Recharges	-	-	-	-	-	-	-	-
Depreciation, Amortisation and Impairment	-	-	1,455	-	-	1,455	-	1,455
Interest payments	-	-	-	-	-	-	3,023	3,023
Precepts and levies	-	-	-	-	-	-	2,227	2,227
Payments to the housing capital receipts pool	-		-	-	-	-	1	1
Gain or loss on disposal of fixed assets	-	-	-	-	-	-	133	133
Total operating expenses	**36,134**	**-**	**(40)**	**527**	**-**	**36,621**	**5,384**	**42,005**
(Surplus) or deficit on the provision of services	**10,182**	**-**	**(40)**	**40**	**-**	**10,182**	**(9,342)**	**840**

Portfolio Information 2010/11	Community And Partnerships	Corporate Management	Finance	Democratic Services	Housing and Cust. Services	Leisure and Environ. Promotion	Planning Services	Technical and Environmental Services	Regulatory Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(209)	(121)	(594)	(131)	(60)	(2,743)	(1,191)	(1,831)	(79)	(6,959)
Government grants	(41)	(13)	(16,130)	-	(392)	(185)	(51)	(245)	-	(17,057)
Total Income	**(250)**	**(134)**	**(16,724)**	**(131)**	**(452)**	**(2,928)**	**(1,242)**	**(2,076)**	**(79)**	**(24,016)**
Employee expenses	530	704	186	263	701	1,743	1,339	2,149	467	8,082
Other operating expenses	207	1,838	18,037	722	865	3,988	366	7,239	144	33,406
Support service recharges	558	426	(533)	240	549	670	1,514	(3,796)	372	-
Total operating expenses	**1,295**	**2,968**	**17,689**	**1,225**	**2,115**	**6,401**	**3,219**	**5,592**	**983**	**41,488**
Net cost of services	**1,045**	**2,834**	**966**	**1,094**	**1,663**	**3,473**	**1,977**	**3,516**	**904**	**17,472**

Reconciliation to net cost of services in the Comprehensive Income and Expenditure Statement	**£'000**
Cost of services in portfolio analysis	17,472
Add services not included in main analysis	(7,230)
Remove amounts reported to management not included in the Comprehensive Income and Expenditure Statement	-

Net cost of services in the Comprehensive Income and Expenditure Statement	**10,242**

Reconciliation to Subjective Analysis 2010/11	Service Analysis	Services not in Analysis	Not reported to Mgt.	Not included in I&E	Recharge Allocation	Net cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(6,959)	-	-	42	-	(6,917)	(189)	(7,106)
Interest and investment income	-	-	-	-	-	-	(2,308)	(2,308)
Income from council tax	-	-	-	-	-	-	(8,026)	(8,026)
Government grants and contributions	(17,057)	-	-	-	-	(17,057)	(4,369)	(21,426)
Total Income	**(24,016)**	**-**	**-**	**42**	**-**	**(23,974)**	**(14,892)**	**(38,866)**
Employee expenses	8,082	-	(7,230)	-	-	852	-	852
Other service expenses	26,718	-	-	(42)	-	26,676	-	26,676
Support Service Recharges	-	-	-	-	-	-	-	-
Depreciation, Amortisation and Impairment	-	-	6,687	-	-	6,687	-	6,687
Interest payments	-	-	-	-	-	-	3,182	3,182
Precepts and levies	-	-	-	-	-	-	2,219	2,219
Payments to the housing capital receipts pool	-	-	-	-	-	-	3	3
Gain or loss on disposal of fixed assets	-	-	-	-	-	-	1,724	1,724
Total operating expenses	**41,488**	**-**	**(7,230)**	**(42)**	**-**	**34,216**	**7,128**	**41,344**
Surplus or deficit on the provision of services	**17,472**	**-**	**(7,230)**	**-**	**-**	**10,242**	**(7,765)**	**2,478**

26. AGENCY SERVICES

The council provides as number of services on behalf of Hampshire County Council. In 2011/12 the council received £263,928 for providing these services (2010/11 £263,926)

27. MEMBERS ALLOWANCES

2010/11 £000's		**2011/12 £000's**
192	Allowances	**196**
6	Expenses	**7**
198	Total	**203**

28. OFFICERS' REMUNERATION & TERMINATION BENEFITS

Remuneration

The number of employees (including senior employees – see below) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Number of Employees 2010/11	**Remuneration Band £**	**Number of Employees 2011/12**
2	50,000 to 54,999	2
-	55,000 to 59,999	-
3	60,000 to 64,999	-
1	65,000 to 69,999	3
1	70,000 to 74,999	-
-	75,000 to 79,999	1
1	80,000 to 84,999	1
-	85,000 to 89,999	-
-	90,000 to 94,999	-
-	95,000 to 99,999	-
1	100,000 to 104,999	1

The following tables set out, for 2011/12 and 2010/11, the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to or more than £50,000 per year.

2011/12 Post Holder	Salary including fees and allowances £	Additional Payments and Allowances £	Total remuneration excluding pension contributions £	Employer Pension Contributions £	Total Remuneration including pension contributions £
Chief Executive	**98,840**	**4,735**	**103,575**	**19,342**	**122,917**
Corporate Director A*	**81,338**	**3,000**	**84,338**	**15,917**	**100,255**
Corporate Director B	**74,522**	**1,386**	**75,908**	**14,583**	**90,491**
Waste and Recycling Manager	**51,660**	**103**	**51,763**	**10,110**	**61,873**
Environmental Health Manager	**46,592**	**4,000**	**50,592**	**9,838**	**60,430**
Head of Environmental Maintenance	**63,176**	**3,000**	**66,176**	**12,363**	**78,539**
Head of Housing	**63,176**	**3,000**	**66,176**	**12,363**	**78,539**
Head of Leisure	**63,176**	**3,000**	**66,176**	**12,363**	**78,539**
Head of Finance A**	**17,925**	**0**	**17,925**	**0**	**17,925**
Head of Finance B***	**10,635**	**0**	**10,635**	**0**	**10,635**
	571,040	**22,224**	**593,264**	**106,879**	**700,143**

* Left post on 31.3.12
** 0.4 FTE. Annualised salary is £88,739. Started in post on 03.10.11
*** 0.4 FTE. Annualised salary is £88,739. Started in post on 26.4.11. Left post on 11.08.11

The equivalent for 2010/11 is shown below:

2010/11 Post Holder	Salary including fees and allowances £	Additional Payments and Allowances £	Total remuneration excluding pension contributions £	Employer Pension Contributions £	Total Remuneration including pension contributions £
Chief Executive	98,840	4,738	103,578	18,878	122,456
Corporate Director A	79,838	3,000	82,838	15,249	98,087
Corporate Director B*	77,476	0	77,476	2,479	79,955
Waste and Recycling Manager	51,660	1,170	52,830	9,963	62,793
Head of Planning	68,300	1,170	69,470	13,045	82,515
Head of Environmental Maintenance	61,860	3,000	64,860	11,815	76,675
Head of Housing	61,860	3,000	64,860	11,815	76,675
Head of Leisure	61,860	3,000	64,860	11,815	76,675
Chief Solicitor & Monitoring Officer**	76,993	2,994	79,987	8,049	88,036
	638,687	22,072	660,759	103,108	763,867

*Includes termination payments (leaving date 31/05/2010) as detailed below. The annual salary would have been £77,890 and redundancy payment £64,494.

**Includes termination payments (leaving date 31/03/2011) as detailed below.

Termination Benefits

In 2011/12 the council terminated the contracts of 15 employees (8 in 2010/11). These terminated contracts incurred liabilities of £134k (2010/11 £217k). The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Remuneration Band	Number of Compulsory Redundancies		Number of other departures agreed		Total cost of exit packages in each band	
	2010/11	**2011/12**	2010/11	**2011/12**	2010/11 £'s	**2011/12 £'s**
£0 - £19,999	-	**1**	-	**1**	-	**3,162**
£20,000 - £39,999	1	**6**	3	**6**	42,407	**90,917**
£40,000 - £59,999	2	**-**	1	**1**	84,804	**40,198**
£60,000 - £79,999	1	**-**	-	**-**	90,134	**-**
	4	**7**	4	**8**	217,345	**134,277**

29. EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors, the Audit Commission.

2010/11 £000's		**2011/12 £000's**
112	Fees payable with regard to external audit services carried out by the appointed auditor for the year	**106**
32	Fees payable for the certification of grant claims and returns for the year	**39**
1	Fees payable in respect of other services provided during the year	**26**
(7)	Rebate for Previous Year	**(9)**
138		**162**

30. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £000's		2011/12 £000's
	Credited to Taxation and Non Specific Grant Income	
(489)	Revenue Support Grant	**(699)**
(3,366)	Business Rates Pool Contribution	**(2,262)**
(36)	Area Based Grant	**-**
-	Council Tax Freeze Grant	**(144)**
	Non-ringfenced Government Grants	**(487)**
-	Housing and Planning Delivery Grant	**-**
-	LPSA Reward Grant	**-**
(479)	Capital Grants and Contributions	**(264)**
(4,370)		**(3,856)**
	Credited to Services	
(41)	Local Flexibilities	**(11)**
(392)	Disabled Facilities Grant	**(292)**
(12,517)	DWP – housing benefits subsidy	**(13,047)**
(3,509)	- council tax benefits subsidy	**(2,986)**
(63)	Environmental Grants	**-**
(51)	Planning Grants	**-**
(3)	Other	**(41)**
(16,576)		**(16,377)**

The council has not received any grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.

31. 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 the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in, note 30.

Members of the council have direct control over the council's financial and operating policies. Members are required to observe the Code of Conduct for councillors, register financial interests in the council's Register maintained under section 81(1) of the Local Government Act 2000 and register the receipt of any gifts/hospitality over £25. There are no material related party transactions with members to disclose for 2011/12.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The council had no material related party transactions with officers during 2011/12.

Related party transactions with the precepting bodies and the pension fund are disclosed on page 81 (the Collection Fund) and in note 35 respectively within the Statement of Accounts.

The council had no significant interest in companies.

Amounts due to or from those parties able to control or influence the council or to be controlled/ influenced by the council are as follows:

2010/11 £000's		**2011/12 £000's**
(236)	Amounts due to Central Government	**(1,813)**
(106)	Amount due to Hampshire County Council	**(120)**
1,721	Amounts due from Central Government	**123**
109	Amounts due from Hampshire County Council	**15**

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

2010/11 £000's		**2011/12 £000's**
82	Opening Capital Financing Requirement	**121**
	Capital Investment	
186	Property, Plant and Equipment	**326**
	Investment Properties	
45	Intangible assets	
	Renovation advances	
784	Revenue expenditure funded from capital under statute	**984**
	Sources of Finance	
(389)	Capital Receipts	**(448)**
(535)	Government grants and other contributions	**(837)**
	Sums set aside from revenue:	
(14)	Direct Revenue Contributions	**-**
(38)	Minimum Revenue Provision	**(33)**
121	**Closing Capital Financing Requirement**	**113**
77	Increase in underlying need to borrow (unsupported by Government financial assistance)	**25**
(38)	Minimum Revenue Provision	**(33)**
39	**Increase / (decrease) in Capital Financing Requirement**	**(8)**

33. LEASES

Council as Lessee

Finance Leases

The council has acquired a number of photocopying machines and associated software under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment and Intangible assets in the balance sheet at the following net amounts.

31/03/11 £000's		**31/03/12 £000's**
64	Vehicles, Plant, Furniture and Equipment	**25**
50	Intangible assets	**-**
114	Total	**25**

The minimum lease payments will be payable over the following periods:

31/03/11 Lease Liability £000's	31/03/11 Minimum Payment £000's		**31/03/12 Lease Liability £000's**	**31/03/12 Minimum Payment £000's**
28	29	Due within one year	**26**	**27**
56	58	Due later than one year but before five years	**54**	**55**
7	7	Due after five years	**3**	**3**
91	94	Total	**83**	**85**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were payable.

Operating Leases

The council entered into operating leases to procure cars and plant.

The future minimum lease payments under non cancellable operating leases are:

31/03/11 £000's		**31/03/12 £000's**
11	Due within one year	**1**
1	Due later than one year but before five years	**-**
-	Due after five years	**-**
12	Total	**1**

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the 31/03/2012 is Nil (Nil 2010/11)

Lease and sublease payments recognised as an expense in the period were as follows:

31/03/11 £000's		**31/03/12 £000's**
33	Minimum lease payments	**11**
-	Contingent rents	**-**
-	Sublease payments receivable	**-**
33	Total	**11**

Council as Lessor

Finance Leases

The council has not disposed of any Property, plant or equipment under finance leases

Operating Leases

The council receives no material rental income from properties under operating leases.

35. DEFINED BENEFIT PENSION SCHEME

Participation in pension schemes

As part of the terms and conditions of employment, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The council participates in the Local Government Pension Scheme, administered locally by Hampshire County Council. This is a funded defined benefit final payment scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with pension assets. In addition there is an unfunded element relating to the award of additional service upon retirement.

Transactions relating to retirement benefits

The council recognises the cost of retirement benefits in the Surplus or Deficit on the Provision of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year.

2010/11 Funded	2010/11 Unfunded		**2011/12** Funded	**2011/12** Unfunded
£000's	£000's		**£000's**	**£000's**
		Comprehensive Income and Expenditure Statement		
		Cost of Services:		
750	-	• Current Service Cost	**620**	**-**
(7,000)	(230)	• Past Service Cost	**70**	**-**
-	-	• Settlements and curtailments	**(110)**	**-**
		Financing and Investing Income and Expenditure:		
3,050	130	• Interest Cost	**2,900**	**120**
(2,070)	-	• Expected Return on Scheme Assets	**(2,300)**	**-**
(5,270)	(100)	*Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services*	**1,180**	**120**
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
(3,310)	(60)	• Actuarial (Gains) or Losses	**5,590**	**210**
		Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
		Movement in Reserves Statement		
5,270	100	reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(1,180)**	**(120)**
		Actual amount charged against the General Fund Balance for pensions in the year		
783	156	• Employers contributions to the scheme	**756**	**159**

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure is a loss of £15.660m (2010/11 £9.860m).

Assets and Liabilities in relation to retirement benefits:

Reconciliation of present value of the scheme liabilities

2010/11 Funded £000's	2010/11 Unfunded £000's		**2011/12 Funded £000's**	**2011/12 Unfunded £000's**
61,420	2,550	1 April scheme liabilities	**54,040**	**2,240**
750		Current service cost	**620**	
3,050	130	Interest cost	**2,900**	**120**
290		Contributions by scheme participants	**280**	
(2,070)	(60)	Actuarial gains/(losses)	**4,770**	**210**
(7,000)	(230)	Past service costs	**70**	
		Losses on Curtailments		
		Losses on Settlements	**(1,080)**	
(2,400)		Benefits paid	**(2,540)**	
	(156)	Unfunded benefits paid		**(160)**
54,040	2,234	31 March scheme liabilities	**59,060**	**2,410**

Reconciliation of fair value of scheme assets

2010/11 £000's		**2011/12 £000's**
31,820	1 April scheme assets	**33,809**
2,070	Expected return on assets	**2,300**
290	Contributions by Members	**280**
783	Contributions by Hart DC	**755**
1,240	Actuarial gains/(losses)	**(820)**
-	Losses on Settlements	**(970)**
(2,400)	Benefits paid	**(2,540)**
33,803	31 March scheme assets	**32,814**

Hart District Council employs a building block approach to determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within the note. The overall expected return for assets is then derived by aggregating the expected return for each class of asset over the actual asset allocation for the Fund at 31st March 2011.

The actual loss on scheme assets (funded) in the year was £5,590,000 (2010/11: a gain of £3,310,000)

Scheme History	**2011/12 £000's**	2010/11 £000's	2009/10 £000's	2008/09 £000's	2007/08 £000's
Present value of liabilities					
• Funded	**(59,060)**	(54,040)	(61,420)	(45,070)	(44,110)
• Unfunded	**(2,410)**	(2,240)	(2,550)	(2,280)	(2,240)
Fair value of assets	**32,814**	33,809	31,820	24,960	32,090
Deficit in the Scheme					
• Funded	**(26,246)**	(20,231)	(29,600)	(20,110)	(12,020)
• Unfunded	**(2,410)**	(2,240)	(2,550)	(2,280)	(2,240)
	(28,656)	(22,471)	(32,150)	(22,390)	(14,260)

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £28.656m has an impact on the net worth of the council as recorded in the Balance Sheet, resulting in an overall balance on the balance sheet of £0.874m. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy. The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Finance to cover the unfunded element is only required when pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in 2012/13 is £770,000.

<u>Basis for estimating assets and liabilities</u>

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc. The County Council administered pension fund liabilities have been assessed by AON Hewitt an independent firm of actuaries. Estimates for the Fund are based on the latest full valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been as follows:

2010/11			2011/12	
Funded	Unfunded		**Funded**	**Unfunded**
		Long-term expected rate of return on assets on the scheme;		
8.4%	-	- equity investments	**8.1%**	**-**
4.4%	-	- government bonds	**3.1%**	**-**
5.1%	-	- corporate bonds	**3.7%**	**-**
7.9%	-	- property	**7.6%**	**-**
1.5%	-	- cash	**1.8%**	**-**
8.4%	-	- other assets	**8.1%**	**-**
7.1%	-	- weighted average	**6.4%**	**-**
		Mortality assumption		
		Longevity at 65 for current pensioners		
23.8	23.8	-men	**23.9**	**23.9**
24.8	24.8	-women	**24.9**	**24.9**
		Longevity at 65 for future pensioners		
25.6	25.6	-men	**25.6**	**25.6**
26.7	26.7	-women	**26.8**	**26.8**
5.5%pa	5.5%pa	Discount Rate	**4.7%pa**	**4.6%pa**
5.2%pa	-	Rate of increase in salaries	**5.0%pa**	**-**
2.8%pa	2.7%pa	Rate of increase in pensions payments	**2.5%pa**	**2.4%pa**
3.7%pa	3.6%pa	RPI Inflation	**3.5%pa**	**3.4%pa**
2.8%pa	2.7%pa	CPI Inflation	**2.5%pa**	**2.4%pa**
2.8%pa	-	Rate of increase to deferred pensions	**2.5%pa**	**-**
		Take up of option to convert annual pension into retirement lump sum		
25%	-	• Past service pension rights	**25%**	**-**
75%	-	• Future service pension rights	**75%**	**-**

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

2010/11 %		2011/12 %
63.4	Equities	**55.1**
23.3	Bonds	**27.0**
7.3	Property	**7.7**
1.7	Corporate Bonds	**1.5**
4.3	Cash	**4.1**
0.0	Other **	**4.6**
100.0		**100.0**

** Other holdings include Hedge Funds, currency holdings, asset allocation futures and other. It has been assumed that the return will be in line with equities.

History of experience gains and losses

The actuarial gains/losses identified as movements on the Pension Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2011/12	2010/11	2009/10	2008/09	2007/08
( ) denotes a loss					
Differences between the expected and actual return on assets					
Amount £000's	**(820)**	1,240	6,670	(8,600)	(1,510)
Percentage	**-2.50**	3.70	21.00	(34.50)	(4.70)
Experience gains and losses on liabilities					
Funded - Amount £000's	**(560)**	1,030	650	(250)	(41)
Percentage	**-0.90**	1.90	1.10	(0.60)	(0.90)
Unfunded Amount £000's	**(60)**	10	130	(40)	-
Percentage	**-2.50**	0.40	5.1	(1.80)	-

36. CONTINGENT ASSETS AND LIABILITIES

There are no claims arising from changing legislation affecting Local Land Charges fees made to the Council. Hart does not expect a potential liability greater than £30,000.

In the event of a previous insurance company becoming insolvent, Hart District Council could be liable for a fee of £120,788.

37. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Disclosure and Nature and Extent of Risk arising from Financial Instruments

The council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the council.
- Liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility the financial loss might arise for the council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the council to manage risk in the following ways:

- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial procedures rules and constitution.
- By formally adopting the requirements of the Code of Practice.
- By approving annually in advance prudential indicators for the following three years limiting:
    - The council's overall borrowing
    - Its maximum and minimum exposures to fixed and variable rates
    - Its maximum and minimum for exposures to the maturity structure of its debt
    - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the council's annual council tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure. Actual performance is also reported at least annually to Members.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 3 February 2010 and is available on the council's website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £7m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £5m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 50% based on the council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown below.

These policies are implemented by a central treasury team. The council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices (TMPs). These are a requirement of the Code of Practice and reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and Poor's Rating Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with the banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Corporate Director can also apply additional selection criteria to further restrict the investment counterparties available to the council and/or the maximum duration of investments. In summary, the key areas of the Investment Strategy for 2011/12 are that the minimum criteria for investment counterparties include:

- Credit ratings for short term investments of F1, P1, A1 and long term investments of AA-, Aa3, AA with the three main credit rating agencies.
- Money Market Funds with AAA rating.
- A maximum of £5m to be invested with any single institution, or a banking group.

The Annual Investment Strategy for 2011/12 was approved by Full Council on 3 February 2011.

The following analysis summarises the council's maximum exposure to credit risk. The Cumulative Default Rates are sourced from the three main rating agencies as a basis for the Credit Risk Maximum (the maximum acceptable % risk of default). This table looks at all investments, all of which mature within 1 year.

	Amount at 31 March 2012	**Historical experience of default**	**Adjustment for Market Conditions at 31 March 2012**	**Estimated maximum exposure to default**
	£000's	%	%	**£000's**
AAA rated counterparty	**2,000**	**0.00**	**0.00**	**0**
AA rated counterparty	**1,000**	**0.01**	**0.02**	**0**
A rated counterparties	**9,000**	**0.09**	**0.09**	**8**
	12,000			**8**

No breaches of the council's counterparty criteria occurred during the reporting period and the council does not expect any losses from non-performance by any of it's counterparties in relation to deposits and bonds.

Whilst the current crisis in international markets has raised the overall possibility of default, the council maintains strict credit criteria for investment counterparties.

The council generally does not allow credit for customers. However, £114k of the council's sundry debt of £1,881k (excluding recovery of benefit overpayments from ongoing entitlement) is more than one year old. The risk that these debts over 1 year old will not be paid is mitigated by a provision for bad and doubtful debts of £135k calculated in accordance with the council's accounting policies.

The provision for impairment of sundry debts (excluding council tax court costs) has increased by £41k compared to the 2010/11 position. The level of provision was reviewed in light of current economic conditions. The provision is viewed as adequate given the level of arrears that the sundry debt provision is based on has fallen and in light of the current aged profile of the debt.

Liquidity risk

The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

31 March 2011 £000's	Analysis by maturity	**31 March 2012 £000's**
	Borrowings	
(1,000)	Less than one year	**-**
-	Between 1 and 2 years	**-**
(28)	Between 2 and 5 years	**(20)**
-	Between 5 and 10 years	**-**
-	More than 10 years	**-**
(1,028)	Total	**(20)**

A maturity analysis of finance lease payments due is shown in note 33

All trade and other payables are due to be paid in less than one year.

Refinancing and Maturity Risk

The council maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial assets is as follows:

Actual 31 March 2011 £000's		**Actual 31 March 2012 £000's**
8,600	Less than one year	**9,000**
-	More than one year	**-**
8,600	Total	**9,000**

Market risk

Price risk

The council does not currently invest in equity shares or marketable bonds and is not exposed to a price risk through its treasury management activities.

Foreign exchange risk

The council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Interest rate risk

The council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council depending on how variable and fixed rates move across differing financial instrument periods. For example, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the council's liabilities would fall.

- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement would rise.
- Investments at fixed rates – the fair value of the assets would fall with a loss being taken to the Comprehensive Income and Expenditure Statement.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund or HRA balance. Movements in the fair value of any financial assets at profit or loss will also be reflected in the Comprehensive Income and Expenditure Statement - the council did not hold any such investments at 31 March 2012.

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on borrowings	**0**
Increase in interest receivable on investments	**173**
Impact on Comprehensive Income and Expenditure Statement	**173**

2010/11 £000's	COLLECTION FUND	2011/12 £000's
	Amounts required by statute to be credited to the Collection Fund	
(52,862)	Council Tax **(note 1)**	**(53,298)**
(2,898)	Council Tax Benefit: Transfer form General Fund	**(2,956)**
(27,202)	Business Rate income **(note 2)**	**(27,331)**
(82,962)		**(83,585)**
	Amounts required by statute to be debited to the Collection Fund	
	Precepts and demands:	
39,352	Hampshire County Council	**39,405**
5,545	Hampshire Police Authority	**5,557**
2,327	Hampshire Fire and Rescue Service	**2,330**
7,976	Hart District Council	**7,992**
	Business Rates:	
26,424	Payments to the national pool	**27,176**
98	Costs of collection	**98**
34	Interest on Refunds	**6**
29	Discretionary Relief	**29**
521	Bad debts written off	**374**
306	Increase/(decrease) in provision for bad debts	**(151)**
82,612		**82,817**
(350)	**(INCREASE)/DECREASE IN FUND BALANCE FOR THE YEAR**	**(768)**
	Contributions towards previous years collection fund surplus	
220	Hampshire County Council	**546**
31	Hampshire Police Authority	**77**
13	Hampshire Fire and Rescue Service	**32**
44	Hart District Council	**111**
(42)	**Movement on the fund**	**(2)**
(1,222)	(Surplus)/Deficit brought forward	**(1,264)**
(1,264)	(Surplus)/Deficit carried forward	**(1,266)**

1. COUNCIL TAX

The average council tax at Band D set by the council was as follows:

2010/11 £		**2011/12 £**
1,037.88	Hampshire County Council	**1,037.88**
146.25	Hampshire Police Authority	**146.25**
61.38	Hampshire Fire and Rescue Service	**61.38**
151.84	Hart District Council	**151.84**
58.51	Town and Parish Councils	**58.65**
1,455.86		**1,456.00**

The Council tax Base is as follows:

Band	Net number of properties	Band Multiplier	Band D Equivalents
A/AR	506.35	6/9	337.60
B	1,458.65	7/9	1,134.50
C	6.823.00	8/9	6,064.90
D	7,310.40	9/9	7,310.40
E	6,748.40	11/9	8,248.00
F	6,050.25	13/9	8,739.30
G	3,338.70	15/9	5,564.50
H	205.40	18/9	410.80
			37,810.37
Class O Exempt Properties			705
Adjustment due to new build/demolitions			30
Sub Total			38,545.37
Assumed Losses on Collection (1.5%)			578.18
Tax Base (equivalent Band D)			37,967.19

The 2011/12 tax base approved by council was 37,967.18. This figure was arrived at after allowing for contributions in lieu of council tax and provisions for bad debts.

2. INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

The council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by the government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population as at a specified date.

The total NNDR Rateable Value as at 31 March 2012 was: £70,993,455 (£71,644,707 31 March 2011)

The non-domestic rate multiplier for 2011/12 was 42.60 pence for qualifying properties of less than £18,000 rateable value and 43.30 pence for all others (2010/11 40.70 pence and 41.40 pence respectively).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HART DISTRICT COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Hart District 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 Hart District 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 Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, 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 Hart District 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, Hart District 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 Hart District 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 Practice

Audit Commission

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

September 2012

ANNUAL GOVERNANCE STATEMENT 2011/12

Scope of Responsibility

Hart District Council is responsible for ensuring that it conducts its business in accordance with the law and proper standards, and effective stewardship of public money. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility the Council must demonstrate that it has proper governance arrangements in place that enable the effective management of its functions, including those that relate to the management of risk.

The Council has adopted a code of corporate governance based on the CIPFA/SOLACE Framework; this was last reviewed in June 2011. The Annual Governance Statement explains how the Council complies with recommended good practice that is contained in the code.

The Purpose of the Governance Framework

The governance framework comprises of the systems, processes and culture values that the Council uses to direct and control its activities. The framework demonstrates how the Council engages with and is accountable to its community, and enables it to monitor the achievement of objectives and to consider whether those objectives have led to the delivery of cost effective services.

The system of internal control forms a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate the risk of failure entirely and therefore only provides reasonable not absolute assurance that all risks are mitigated. The system of internal control is based on an ongoing process of review which identifies and manages risk to an acceptable level so that it does not have an adverse impact on the achievement of objectives.

The governance framework has been in place at Hart District Council for the year ended 31st March 2012 and up to the date of approval of the Statements of Accounts for 2011/12.

The Governance Framework

The key elements of the governance framework and how the Council achieves each element is summarised below:

Identifying and communicating our vision and outcomes for citizens and service users.

A Corporate Plan was in place for the year 2011/12. A revised Corporate Plan for the period 2012/15 has been prepared, approval of which has been deferred until after the elections in May 2012. The Plan is readily available on the Council's Website.

Reviewing our vision and its implications for our governance framework.

Overview & Scrutiny Committee and Cabinet monitor progress towards the achievement of corporate objectives half yearly. This is supplemented by discussions at Management Team and regular meetings between the Chief Executive and Leader of the Council.

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

The Council encourages feedback on the services that it provides and where possible and cost effective will consult on various topics and schemes. The use of our Website and the Citizens Panel are the primary methods of consultation currently being used. Results of consultations that are carried out are fed into the decision making process.

That the roles and responsibilities of The Executive, Overview and Scrutiny and Officers are clearly defined including delegation arrangements and protocols for effective communication and decision making.

The Council's Constitution is accessible via our website and clearly sets out how the council operates and how decisions are made. The Constitution also includes terms of reference for The Executive, Overview and Scrutiny, Standards and Audit Committees. The key roles of our three statutory officers, namely The Chief Executive, Monitoring Officer and Section 151 Officer are also set out within the constitution.

The Scheme of Delegation provides clear guidance on the roles and responsibilities of senior officers and a protocol is in place for member and officer relationships.

The Constitution and Scheme of Delegation are subject to an on-going review to take into account any changes in the structure of the council. Any changes that are required to either the Constitution or Scheme of Delegation are agreed by the Cabinet and, or Full Council.

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

The Council has an induction programme for members. One of the outcomes of the member induction is to ensure they are aware of the standards of conduct that is expected of them whilst they carry out their role as a councillor. This is supported by the Code of Conduct for Members and a Standards Committee, both of which are used to promote high standards of conduct. An Officer/Member Protocol which outlines the relationships between members and officers also exists which is used to promote and maintain a good working relationship between officers and members.

A Code of Conduct is also in place for employees, which clearly states how the council expects its employees to behave. The Code of Conduct is readily available to all employees via the intranet.

The Council's expectations on behaviour and conduct are further enhanced by both the Anti Fraud and Corruption and Whistle-blowing Policies. Protocols for each of these policies can be used by employees, councillors and members of the public.

The Council also has an effective complaints procedure in place which includes the use of the Ombudsman. The Ombudsman reported no findings of maladministration during 2011/12.

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

Hart District Council has a duty to ensure it acts within the law. The Three statutory officers are in post these being:

The Chief Executive who is the Head of Paid Service

The Monitoring Officer who has specific responsibilities to ensure that the council does comply with all relevant laws and legislation and ensures high standards of ethical behaviour is maintained.

The Head of Finance as The Section 151 Officer has a duty to ensure financial transactions are legal and prudent.

Financial Management

The Section 151 Officer is responsible for the management of the council's financial transactions. He is also responsible for ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010). A system of internal financial control is in place that should provide sufficient assurance that assets are safeguarded, segregation of duties exists, arrangements for management supervision have been established and there is proper accountability. The internal financial control system includes:

- The setting of a lawful annual budget
- Monitoring actual income and expenditure against annual budgets and targets
- Identifying and implementing actions to mitigate potential overspends and income shortfalls
- Regular budget monitoring information to Members

- Ensuring all appropriate officers are aware of financial regulations and procedures
- Use of a medium term financial strategy
- Internal Audit review of key financial systems

Measuring the quality of service for users, to ensure they are delivered in accordance with our objectives and make the best use of resources.

The Council has established a set of indicators that are designed to ensure performance against key objectives and targets can be monitored. Service Plans are used to establish the levels of performance and potential service improvements that can be expected for each service. Performance indicators are reported to the Overview and Scrutiny Committee on a quarterly basis and to Service Boards each month. The economic, efficient and effective use of resources is subject to review by both Internal and External Audit.

Undertaking the core functions of an audit committee.

The Council has an Audit Committee, which is independent of Cabinet and Scrutiny functions.

The Audit Committee meets quarterly and provides assurance to the Council on the effectiveness of the governance arrangements, including the risk and internal control frameworks.

The Audit Committee is also responsible for approving the Statements of Accounts and the work of Internal Audit.

Review of Effectiveness

The Council has a responsibility to review the effectiveness of its governance framework on a regular basis. The review is informed by the work of Senior Management, Internal Audit and External Audit.

Any review of the effectiveness of the framework can only provide reasonable not absolute assurance that the framework in place is effective.

The process that is in place to maintain and review the governance framework includes:

- The Council will maintain a culture of openness and transparency and will monitor and review the operation of the constitution and its principles.
- The Executive will approve the annual budget, review and update key policies and will be the hub of the Council's decision making process.
- The Overview and Scrutiny Committee will challenge the decision making process of the Executive and if considered appropriate call in decisions that have not been implemented for further review and scrutiny.
- The Audit Committee is charged with overseeing the governance arrangements of the Council.

- The Standards Committee will ensure members act in accordance with the Code of Member Conduct. The Committee will on the advice of the Monitoring Officer investigate complaints against members that are received by the Council.
- Internal Audit will review and report on the effectiveness of the Council's risk and internal control frameworks. It will facilitate the Council's risk management arrangements and will review the arrangements in place to prevent and detect fraud
- External Audit will consider the Council's governance and financial management arrangements on an annual basis and will report their opinions accordingly within the Annual Audit Letter and Governance reports.
- Heads of Service and other Senior Managers are responsible for monitoring the internal control and risk frameworks that are in place for their service. On an annual basis they are required to carry out a self assessment on the governance framework that exists within their service.
- Strategic and Operational Risk Registers are in place. A summary of these are reported to the Audit Committee each quarter.

Significant Governance Issues

During 2011/12 a number of significant governance issues were identified arising from the work of Internal and External Audit. Recommendations were made to resolve these weaknesses which are shown below:

Weakness Identified	**Current Status**	**Further Action Required During 2012/13**
IT Network controls need to be reviewed to ensure the risk of unauthorised access to systems and data is minimised.	Network accounts for former Council and Capita employees have now been disabled.	Access to the network will be reviewed on a regular basis.
Debt Management Policies should be reviewed to ensure all possible recovery options that is proportionate to the value of outstanding debt is taken.		To be reviewed and updated by The Head of Finance.
Financial Procedure Rules to be updated to reflect the current working arrangements and structure of the council.		To be reviewed and updated by The Head of Finance.
The process for managing Criminal Record Bureau (CRB) checks is enhanced to ensure all appropriate members of staff and contractors have an up to date record.	Work has been started to improve the management of the CRB process.	The council is discussing the potential for Capita to carry out the management of CRB checks as part of the work they already carry out for Human Resources.

The Council proposes to take action on the above matters during the year 2012/13. The Council is satisfied that enhanced controls for the above weaknesses will improve the governance framework and will monitor progress being made to implement these improvements during the coming year.

Signed	…………………………..	Geoff Bonner Chief Executive	Date: 26 Sep 2012
Signed	…………………………..	Ken Crookes Leader of the Council	Date: 26 Sep 2012

Accounts - A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Actual - The final amount of expenditure or income which is recorded in the council's accounts.

Actuarial Gains and Losses – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
(b) the actuarial assumptions have changed.

Audit Commission - An independent body created by the Local Government Finance Act 1982 with responsibility for the external audit of all local authority accounts.

Balance Sheet - A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget - A statement of the council's plans for net revenue and capital expenditure over a specified period of time.

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

Capital Receipts - Proceeds from the sale of fixed assets, repayments of grants or the realisation of certain investments. Capital receipts are available to finance other items of capital expenditure or to repay debt on assets originally financed from loan.

Central Services to the Public – this includes the costs of local tax collection, elections, emergency planning, local land charges and any general grants.

Collection Fund - The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community Assets - Assets that the council intends to hold in perpetuity, which have no determinable finite useful life, and in addition may have restrictions on their disposal, e.g. parks and cemetery land.

Corporate and Democratic Core – Comprises all activities which local authorities engage in because they are elected, multi purpose authorities. It includes the costs of the Head of the Paid Service, costs of treasury management and bank charges and the costs of democratic representation.

Council Tax - A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current Service Cost (Pensions) – The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Deferred Credits - Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of council houses (deferred capital receipts).

Depreciation - The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Events after the Balance Sheet date – those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Fair Value – The amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Finance Lease – a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

General Fund (GF) - The main revenue fund of the council from which are made payments to provide services and into which receipts are paid, including the district council's share of council tax.

Impairment – A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets - Inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use, e.g. coast protection works.

Lease – An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Minimum Revenue Provision – A prudent annual provision has to be made for the repayment of debt in accordance with Capital Finance Regulations.

Net Book Value – The amount at which fixed assets are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net Service Expenditure - Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-Domestic Rates - Businesses contribute to local government expenditure on the basis of a uniform rate, decided by the Government, levied on the rateable value of the business premises. The total business rate collected nationally is redistributed to district council areas based on population.

Non Distributed Costs – Overheads for which no user now benefits and should not be apportioned to services. Costs generally included under this heading are those arising from early retirement payments to the pension fund.

Past Service Cost – The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept - The demand on the collection fund by one authority (e.g. Hampshire County Council) which is collected from the council tax payer by another (e.g. Hart). Precepts on Hart are also made by town and parish councils in the district, which are charged to the General Fund.

Prior Period Adjustments – Those adjustments applicable to prior years arising from the correction of material errors.

Provisions - Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Public Works Loans Board - A government agency which provides longer term loans to the public sector at interest rates only slightly higher than those at which the government itself can borrow.

Remuneration – all sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves - The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund General Reserves). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

Revenue Expenditure - The day-to-day running costs of services including salaries, running expenses and capital charges

Revenue Support Grant - A general grant paid by the Government to help finance the cost of local government services.

Tangible Fixed Assets – Assets that yield benefits to the council and the services it provides for a period of more than one year.

INDEX OF NOTES TO THE FINANCIAL STATEMENTS