

Notes to the accounts

1. Accounting Policies

1.1. General principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2. Accruals of income and expenditure

Sums due to, or from, the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services
- Supplies and services expenditure is 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 stock in the Balance Sheet
- Employee benefits, including pension benefits are accounted for as they are earned
- Interest payable and receivable on borrowing and lending is accounted for on the basis of an effective interest rate calculated for the relevant financial instrument rather than the actual cash paid or received in accordance with the contract.

However, there are some exceptions, as follows:

- Overtime is accounted for with the basic pay with which it is paid. The total amount involved at 31 March 2012 is estimated at £3.0 million (£3.5 million in 2010/11).
- electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.

The above exceptions apply every year, so they do not have a material effect on the year's accounts.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Cash and cash equivalents

Cash is represented by cash in hand in the Council's main bank account, in schools' local bank accounts and in petty cash accounts held for minor day-to-day expenses by service units, including schools, across the whole county. Cash equivalents are investments that are readily convertible the same day to known amounts of cash with insignificant risk of change in value.

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

1.4. Exceptional items

When items of income and expense are material, their nature and amount are 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 an understanding of the Council's financial performance.

1.5. Prior period adjustments, changes in accounting policies and estimates and errors

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

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

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

1.6. Employee benefits

Benefits payable during employment

Short-term employee benefits, such as salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. leased cars) for current employees, are recognised as an expense in the year in which employees render service to the council.

Teachers' pay is governed by the Burgundy Book, which states that teachers should receive not less than one-third of a year's salary for each full term's service. With Hampshire's policy of a fixed Easter break during April, the spring term's pay and leave entitlement straddles two financial years. An accrual is made by charging children's services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

Other staff work under Employment in Hampshire County Council (EHCC) terms and conditions which permit them to carry forward, in exceptional circumstances, up to 5 days (37 hours) annual leave per year, pro-rated for those working part time. In addition, some staff may have flexible working conditions which permit them to accumulate up to a maximum of 40 hours flexi-time. In this case they can theoretically carry forward up to 40 hours flexi-time from one financial year to another. However, the actual amounts of annual leave and flexi-time carried forward are much lower than the maximum amounts and are similar each year, so an accrual for non-teaching staff is not required.

These accruals are called Compensated Absences Adjustments and in accordance with statutory regulations are reversed out of the General Fund and charged to the Compensated Absences Adjustment Account within the Movement in Reserves Statement.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the Comprehensive Income and Expenditure Statement (as part of the cost of services) when a termination notice has been issued to an employee. A provision for termination costs is included in the Comprehensive Income and Expenditure Statement (as part of the cost of services) where there is an agreed business case setting out the estimated termination costs resulting from a proposed restructuring.

Where termination benefits involve the enhancement of pensions by way of added years, legislation requires 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 charges for termination benefits and replace them with a charge for the actual amounts payable to the former employee and the pension fund.

Post employment benefits (retirement pensions)

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pensions Scheme, administered by Hampshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The local government pension scheme is accounted for as a defined benefits scheme where:

- The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).
- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

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

- **Current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.
- **Past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to the number of years of service earned in earlier years. This is shown as a non-distributed cost in the Comprehensive Income and Expenditure Statement.
- **Interest cost:** this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is shown as a financing cost within the Comprehensive Income and Expenditure Statement.
- **Expected return on assets:** this is the annual investment return on the fund assets attributable to the Council, based on an average of the

expected long-term return. This is shown as investment income within the Comprehensive Income and Expenditure Statement.

- **Gains/losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown as a non-distributed cost in the Comprehensive Income and Expenditure Statement.
- **Actuarial gains and losses:** these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

Statutory provisions limit the council to raising council tax to cover the actual amounts payable by the Council to the pension fund in the year. In the Movement in Reserves Statement an appropriation is made between the General Fund and the Pension Fund Reserve to remove the notional debits and credits for retirement benefits included in the Comprehensive Income and Expenditure Statement and replace them with debits for the actual amounts paid to the pension fund and any amounts due to the fund but unpaid at the year-end.

Discretionary benefits

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, including teachers, are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7. Events after the balance sheet date

Events after the balance sheet date are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue (30 September). There are two types of event:

- Adjusting events - those that provide evidence of a condition that existed at the Balance Sheet date – for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date – for this type of event the accounts are not adjusted to reflect such events. However, where the event would have a material effect, disclosure is made in the notes to the accounts of the nature and estimated effect of the event.

Events taking place after the date authorised for issue are not reflected in the Statement of Accounts

1.8. Financial instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are 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 estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the 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 Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their 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 rate of interest for the instrument. For most of the loans that the Authority has made, this means that

the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Authority has made loans at less than market rates (soft loans). When material soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) 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, with the difference serving to increase the amortised cost of the loan in 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 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 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.

Foreign currency translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March.

1.9. Government Grants and other contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received and the expenditure for which the grant has been given has or will be incurred.

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

recipient as specified or future economic benefits or service potential must be returned to the donor.

In deciding if developer contribution agreements have conditions attached the Council has applied the substance over form concept and assumed that all agreements have a constructive obligation to repay contributions if not used even if this is not explicit in the agreement.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, or where there are no conditions attached to the grant or contribution, the income is credited to the Comprehensive Income and Expenditure Statement as follows:

- to the relevant service for revenue grants and contributions and capital grants used to fund revenue expenditure funded by capital under statute
- to the Taxation and Non-Specific Grant Income section for non-ring-fenced revenue grants and contributions and all other capital grants and contributions.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is transferred to the Capital Grants and Contributions Unapplied Reserve. Where it has been applied in the year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but are yet to be used, they are transferred to an earmarked reserve in the Movement in Reserves Statement. Once used in subsequent years, they are transferred to the General Fund to fund the revenue expenditure.

1.10. Intangible assets

Intangible assets do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services. The Council does not have any material intangible assets. Capital expenditure on immaterial intangible assets is classified as furniture and equipment.

1.11. Interests in companies and other entities

The Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled

entities and would require the Council to prepare group accounts. However, the Council is corporate trustee or the designated treasurer for a number of trust funds and these funds are disclosed in the notes to the accounts.

1.12. Stock and long term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. For example, County Supplies stock of £1.6 million is valued at the latest buying price. The rest are mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

Long term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the balance sheet are included as assets under construction within Long Term Assets.

1.13. Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.14. Jointly controlled operations

The council has pooled budget arrangements with NHS bodies that involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

1.15. Leases

Leases are arrangements that convey the right to use an asset in return for a payment or series of payments even if the arrangement does not take the legal form of a lease. Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all of the risks and rewards, incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases. Extremely long leases of land (say over 250 years) could be treated as finance leases.

Lease classifications are determined individually by carrying out a number of qualitative and quantitative tests and then making a judgement based on the overall outcomes of the tests. For the purposes of lease classifications a de minimus level is used equivalent to 1% of the general fund balance. In addition, property leases under 25 years are classified as operating leases.

The Council as lessee:

Finance Leases - Where the Council leases a material asset under a finance lease it is recognised in the accounts as if it were the council's asset and revalued and depreciated in line with the normal policy for non-current assets. The asset recognised is matched by a liability for the obligation to pay the lessor. The lease payment is 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).

Operating Leases - Where the Council leases a material asset under an operating lease the asset is not recognised in the balance sheet. Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services that benefit from use of the leased asset. Charges are made on a straight-line basis over the life of the lease.

The Council as lessor:

Finance leases - Where the Authority 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. A gain, representing the Authority's net investment in the lease, is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement 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), 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),
- 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 the payment 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 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 on an asset it is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

1.16. Overheads and support services

The costs of overheads and support services are apportioned to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice that applies for the relevant year. This means that 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 (as these relate to the Council's status as a multi-functional, democratic organisation)
- Non-Distributed Costs (as these are the costs of discretionary benefits awarded to employees retiring early and impairment charges for assets held for sale).

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

1.17. Property, plant and equipment (PPE)

Material assets that have a physical substance and are held for use in the provision of services 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 PPE assets is capitalised on an accruals basis, provided that it benefits the council and the services that it provides are for more than one financial year. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more which is not in accordance with recommended practice. This does not have a material effect in the accounts. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land and Buildings are measured at fair value. For land and buildings this means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties. For surplus land and buildings this means open market value.
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the fair value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

PPE assets included in the Balance Sheet at fair value (i.e. land and buildings) are re-valued where there have been material changes in the value, but as a minimum every five years.

Increases in valuations are matched by credits to the Asset Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the relevant service area within the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the service area. The Asset Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date form part of the Capital Adjustment Account.

Impairment

Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve 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 historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

Disposals and assets held for sale

When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to non-distributed costs in the Comprehensive Income and Expenditure Statement. Assets that are being abandoned or scrapped are written out without being reclassified.

When the asset is disposed of, or decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. 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. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement).

1.18. Foundation schools and voluntary aided and voluntary controlled schools

The fixed assets and long term liabilities of foundation schools remain vested in the Governing Bodies and are not included in the Council's Balance Sheet. In addition, the Council also has voluntary aided schools (VA schools) and voluntary controlled schools (VC schools). The Council owns some of the assets in relation to these schools but some of the assets are the property of another party (e.g. the diocese). The Council recognises the value of the assets it owns in relation to VA schools in the Balance Sheet. All assets of VC schools are recognised by the Council, even those it does not own, as the Council controls the service and economic potential of these assets.

1.19. Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the Authority are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

It is the Authority's opinion that due to the size and variety of the museum and archives collection and the fact that many of the items are unique and irreplaceable, it is not possible to obtain a fair value at a cost commensurate to the benefit derived by the users of the accounts. The historical cost of buildings and archaeological sites, where known, is not material. Therefore, asset values are not included in the balance sheet, but details of heritage assets are given in the notes to the accounts.

The Authority also owns a number of operational heritage assets that, in addition for being held for their contribution to knowledge and culture, are also used for other activities or to provide other services. Operational heritage assets are accounted for as operational assets and valued in the same way as other assets of that type.

1.20. Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and

Expenditure line in the Comprehensive Income and Expenditure Statement

- principle repayment – applied to write down the Balance Sheet liability

1.21. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation, but the timing of the transfer is uncertain. For example, the County Council makes provision for doubtful debts and also for legal claims that could eventually result in the payment of compensation or other settlement.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

1.22. Carbon reduction commitment scheme

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

1.23. Landfill allowances scheme

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. After initial recognition, allowances are measured at the lower of cost and net realisable value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

As landfill is used, a liability and an expense are recognised. The liability is discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date.

1.24. Contingent liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that payments will be required or the amount of the payment cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.25. Contingent assets

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

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

1.26. Reserves

The County 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 heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the County Council.

1.27. Revenue expenditure funded from capital under statute

Legislation allows some expenditure such as grants to external organisations for capital purposes and spending on buildings not owned by the County Council, e.g. foundation schools, to be funded from capital resources. Such expenditure is not carried on the Balance Sheet and is charged to the Income

and Expenditure Statement in the year it is incurred. However, so that it does not impact on the year's council tax, an adjustment is made in the Statement of Movement on the General Fund balance.

1.28. Redemption of debt

The Council's borrowing for capital purposes is controlled under the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is expressed as the Capital Financing Requirement and is derived from the opening Balance Sheet.

With regard to The Local Authority (Capital Finance and Accounting)(England)(Amendment) Regulations 2008, the Council's policy is to make a minimum revenue provision equal to 4% of the capital financing requirement at the beginning of the year on supported borrowing. For unsupported borrowing incurred after 1 April 2008, minimum revenue provision is made on an equal instalment basis that reflects the life of the related asset, using a period that is no longer than used to calculate the corresponding depreciation. For deferred liabilities relating to PFI and service concessions, minimum revenue provision is made on the basis of the principal element of the annuity payment required to write down the liability over the life of the related asset.

1.29. VAT

Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

1.30. Accounting standards issued, not adopted

There is just one accounting standard that has been issued but not yet adopted. Amendments to IFRS 7 - Financial Instruments: Disclosures (Transfer of financial assets). This applies from 1 April 2012 and is not expected to have a material impact on the financial statements of this Authority.

2. Critical judgements in applying accounting policies

In applying the accounting policies set out in note 1, the Authority 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:

2.1. Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are

subsidised by the council they are deemed to be Property, Plant and Equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. Where assets are being held vacant for purposes of future capital appreciation, due to market conditions or planning decisions, these have been classified as Investment Property. The classification determines the valuation and depreciation method to be used.

2.2. Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. These tests include the following assumptions in the classification of operating leases:

- Land leases under 250 years
- Property leases under 25 years
- All leases below £330,000

As a result, no material finance leases have been identified. In addition, judgements have been made on whether any contracts for services include embedded leases. None have been identified.

2.3. Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending legal actions based on experience in previous years or in other local authorities.

2.4. Future funding for local government

There is a high degree of uncertainty about future levels of funding for local government. However, earmarked reserves will provide invest to save funding for a range of efficiency measures to ensure services can continue to be provided at an appropriate level.

2.5. Production of group accounts

The Council is sole trustee of a number of trust funds as a result of individuals or executors of an estate seeking to place an asset or assets in a charitable trust and requesting the County Council to act as trustee given that as a statutory corporation, the local authority will provide certainty that the charitable purpose can be sustained. This is an alternative to creating trustees within the family of the individual. As such, these trusts are unconnected with the County Council's role of providing services funded from taxation. Therefore, in order to assess the authority's financial position either from year to year or as compared with other authorities, trust funds are

excluded from the County Council's accounting statements, although they are included in a disclosure note.

3. Uncertainties relating to assumptions and estimates used.

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

There is one item in the council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year and that is the 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 Authority with expert advice about the assumptions to be applied.

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £183.0 million. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that for funded liabilities, the net pension liability had increased by £15.9 million as a result of estimates being corrected as a result of experience and increased by £167.0 million attributable to updating of the assumptions.

4. First time adoption of Financial Reporting Standard FRS 30

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority which required adoption from 2011/12. In line with the Authority's accounting policies, no restatement of the accounts is required.

5. Events After the Balance Sheet date

The Statement of Accounts was authorised by the Chief Financial Officer on 27 September 2012. In the period since 31 March 2012 until the date the accounts were authorised, 9 schools have transferred to academy status. The balance sheet at 31 March 2012 included assets and liabilities relating to these schools that will transfer during 2012/13. This includes plant, property and equipment valued at £86.8 million at 31 March 2012 and cash backed reserves of £2.9 million. However, the actual value of transfers will be agreed as at the date of transfer.

6 Adjustments between accounting basis and funding basis under regulations

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

2011/12	Usable reserves		Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	

Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.

Depreciation and impairment of non-current assets	-214,699		214,699
Movement in the market value of investment property	772		-772
Revenue expenditure funded by capital under statute	-14,091		14,091
Book value of non-current assets sold	-4,091		4,091
Capital grants and contributions applied	83,713		-83,713
transferred to Capital Adjustment Account	-148,396	-	148,396
Transfer cash proceeds from sale of non-current assets	7,814	-6,698	-1,116
Use of capital receipts to finance capital expenditure		6,698	-6,698
Council tax income accrual transferred to Collection Fund Adjustment Account	1,351		-1,351
Net charges relating to retirement benefits transferred to the Pensions Reserve	-68,962		68,962
Effective interest on soft loans transferred to the Financial Instruments Adjustment Account	79		-79
Employee benefits accrual transferred to the Accumulated Absences Account	1,948		-1,948

Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.

Statutory provision for the repayment of debt	33,871		-33,871
Contribution from other authorities for the repayment of debt	-1,746		1,746
Capital expenditure funded from the General Fund	46,088		-46,088
transferred from Capital Adjustment Account	78,213	-	-78,213
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	70,692		-70,692
Total adjustments	-57,261	-	57,261

2010/11	Usable reserves		Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	

Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.

Depreciation and impairment of non-current assets	-165,174		165,174
Movement in the market value of investment property	5,504		-5,504
Revenue expenditure funded by capital under statute	-9,244		9,244
Book value of non-current assets sold	-8,569		8,569
Capital grants and contributions applied	86,855		-86,855
transferred to Capital Adjustment Account	-90,628	-	90,628
Transfer cash proceeds from sale of non-current assets	13,030	-13,030	
Use of capital receipts to finance capital expenditure		13,030	-13,030
Council tax income accrual transferred to Collection Fund Adjustment Account	2,128		-2,128
Net charges relating to retirement benefits transferred to the Pensions Reserve	148,075		-148,075
Effective interest on soft loans transferred to the Financial Instruments Adjustment Account	9		-9
Employee benefits accrual transferred to the Accumulated Absences Account	1,824		-1,824

Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.

Statutory provision for the repayment of debt	31,839		-31,839
Contribution from other authorities for the repayment of debt	-1,805		1,805
Capital expenditure funded from the General Fund	16,107		-16,107
transferred from Capital Adjustment Account	46,141	-	-46,141
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	80,065		-80,065
Total adjustments	200,644	-	-200,644

7 General Fund

The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years. On the Balance Sheet it is shown separately from reserves that are earmarked for specific purposes.

8 Transfers to/from earmarked reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Schools' reserves are made up of net underspendings on budgets managed by governors as adjusted for advances made under the school balances loan scheme. They are not available to other services. The opening and closing balances for each reserve is shown below:

	See note	Balance at 1 April 2010 £000	movement in 2010/11 £000	Balance at 31 March 2011 £000	movement in 2011/12 £000	Balance at 31 March 2012 £000
Schools	a	-33,969	-2,605	-36,574	-598	-37,172
Capital Grants Unapplied	b	-10,797	745	-10,052	-34,982	-45,034
Revenue Grants Unapplied	c	-1,158	-5,421	-6,579	-6,952	-13,531
Corporate Efficiency	d	-	-10,340	-10,340	-8,411	-18,751
Corporate Policy	e	-650	-1,758	-2,408	713	-1,695
Designated Underspendings	f	-14,481	-3,188	-17,669	-10,033	-27,702
Equal Pay	g	-41,031	-6,151	-47,182	47,182	-
Capital payments	h	-469	-17,597	-18,066	-38,331	-56,397
Grant Equalization	i	-22,415	3,735	-18,680	-13,500	-32,180
Insurance	j	-12,642	-4,083	-16,725	-964	-17,689
Invest To Save	k	-4,294	976	-3,318	-2,752	-6,070
Organisational Change	l	-	-3,511	-3,511	-4,608	-8,119
Local Government resource review	m	-	-	-	-6,150	-6,150
Trading Accounts	n	-12,539	-214	-12,753	-1,508	-14,261
Other	o	-12,022	1,550	-10,472	5,747	-4,725
		-166,467	-47,862	-214,329	-75,147	-289,476

- a The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets.
- b The capital grants unapplied reserve is the equivalent to the revenue grants unapplied reserve in respect of capital grants.

- c The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.
- d The corporate efficiency reserve was established to earmark any corporate efficiency savings achieved in advance of their being required for budgetary purposes.
- e The corporate policy reserve is used to redirect corporate efficiency and other savings to front line services, as the public spending outlook becomes more constrained.
- f The designated underspendings reserve enables individual services to carry forward underspendings in accordance with the financial management policy.
- g The equal pay reserve is to assist in meeting transitional salary protection and equal pay claim costs likely to arise from implementation of the Pay and Benefit Review.
- h The capital payments reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payments
- i The grant equalisation reserve is to assist in managing the impact of future grant loss.
- j The insurance reserve is to cover fire, flood and storm damage reinstatement costs which are already committed and to reserve against adverse trends in liability claims.
- k The invest-to-save and modernisation reserve is to provide funding for investment which will generate future cash savings which can be recycled back into the reserve.
- l The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save and modernisation reserves to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.
- m The Local Government Resource Review reserve is being established in 2011/12 to cover the risk of reduced income resulting from business rates appeals and localisation of council tax benefit.
- n The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.
- o Other smaller reserves are sums set aside for specific future purposes.

9 Financing and investment income and expenditure

2010/11			2011/12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
26,804	-4,440	22,364	Interest	27,511	-6,192	21,319
	-5,504	-5,504	Investment property gains(-) and losses		-772	-772
390	-969	-579	Investment property transactions	389	-913	-524
108,070		108,070	Pension interest cost	109,610		109,610
	-78,930	-78,930	Expected return on pension assets		-89,840	-89,840
	-2,632	-2,632	Surplus on trading undertakings		-358	-358
135,264	-92,475	42,789	Total	137,510	-98,075	39,435

10a Property Plant and Equipment (PPE)

The movements in property plant and equipment during 2011/12 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure assets £000	Comm- unity assets £000	Surplus assets £000	Assets under const- ruction £000	Total Property, Plant and Equipment £000
Cost or valuation at 31 March 2011	3,733,941	128,857	649,340	14,255	16,214	37,035	4,579,642
Additions	58,605	6,556	60,314	65	269	12,034	137,843
Disposals	-597	-92	-	-	-31	-	-720
Transfers to other classes	3,911	-38	366	-654	366	-13,450	-9,499
Transfers to foundation schools	-	-	-	-	-	-	-
Changes in certified valuations	480	-	-	-	328	-	808
Transfer of building assets to Academy schools	-141,165	-2,902	-	-	-	-	-144,067
Cost or valuation at 31 March 2012	3,655,175	132,381	710,020	13,666	17,146	35,619	4,564,007
Accumulated depreciation at 31 March 2011	-601,758	-74,033	-136,635	-1	-9,614	-	-822,041
Depreciation for the year	-75,711	-11,820	-23,165	-	-	-	-110,696
Impairment losses	-103,693	-	-	-	-126	-	-103,819
Disposals- accumulated depreciation	273	80	-	-	-	-	353
Depreciation on transfers	437	12	11	-3	-20	-	437
Deprecation on transfers to foundation schools	-	-	-	-	-	-	-
Revaluations- write back depreciation	135,576	-	-	-	-	-	135,576
Transfer of building assets to Academy schools	12,046	2,053	-	-	-	-	14,099
Accumulated depreciation at 31 March 2012	-632,830	-83,708	-159,789	-4	-9,760	-	-886,091
Net book value (NBV) of fixed assets at 31 March 2011	3,132,183	54,824	512,705	14,254	6,600	37,035	3,757,601
Net book value at 31 March 2012	3,022,345	48,673	550,231	13,662	7,386	35,619	3,677,916
Nature of asset holding							
Owned	2,920,316	48,673	550,231	13,662	7,386	35,619	3,575,887
PFI/service concessions (see note 30)	102,029	-	-	-	-	-	102,029
	3,022,345	48,673	550,231	13,662	7,386	35,619	3,677,916

The comparative movements in PPE during 2010/11 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure assets £000	Comm- unity assets £000	Surplus Assets £000	Assets under const- ruction £000	Total Property, Plant and Equipment £000
Cost or valuation at 31 March 2010	3,595,085	120,022	586,278	13,425	16,901	32,936	4,364,647
Additions	78,862	8,849	62,414	831	45	24,202	175,203
Disposals	-4,127	-36	-	-	-466	-	-4,629
Transfers to other classes	8,884	22	648	-1	-1,455	-20,103	-12,005
Transfers to foundation schools	-	-	-	-	-	-	-
Changes in certified valuations	55,462	-	-	-	1,189	-	56,651
Adjustment to prior year revaluations	-225	-	-	-	-	-	-225
Gross book value (GBV) at 31 March 2011	3,733,941	128,857	649,340	14,255	16,214	37,035	4,579,642
Accumulated depreciation and impairment at 31 March 2010	-589,780	-63,117	-116,896	-1	-5,959	-	-775,753
Depreciation for the year	-72,011	-10,945	-20,388	-	-	-	-103,344
Impairment losses	-55,381	-	-	-	-4,381	-	-59,762
Disposals- accumulated depreciation	100	29	-	-	-1	-	128
Depreciation on transfers	-581	-	649	-	726	-	794
Deprecation on transfers to foundation schools	-	-	-	-	-	-	-
Revaluations- write back depreciation	115,895	-	-	-	1	-	115,896
Prior year revaluations - depreciation write back	-	-	-	-	-	-	-
Accumulated depreciation at 31 March 2011	-601,758	-74,033	-136,635	-1	-9,614	-	-822,041
Net book value of fixed assets at 31 March 2010	3,005,305	56,905	469,382	13,424	10,942	32,936	3,588,894
Net book value of fixed assets at 31 March 2011	3,132,183	54,824	512,705	14,254	6,600	37,035	3,757,601
Nature of asset holding							
Owned	3,039,129	54,824	512,705	14,254	6,600	37,035	3,664,547
PFI/service concessions (see note 30)	93,054	-	-	-	-	-	93,054
	3,132,183	54,824	512,705	14,254	6,600	37,035	3,757,601

10b Capital commitments

Commitments for major contracts entered into up to 31 March 2012 are estimated at £12.7 million (£37 million in 2010/11). This comprises £3.8 million (£9.4 million in 2010/11) for highways and £8.9 million (£27.6 million in 2010/11) for buildings.

10c Valuation of assets

The freehold and leasehold properties of the Council's property portfolio, including investment properties, have been valued, under a rolling programme, by the County Council's property services staff. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

IAS 16 requires the dates and amounts of valuations to be analysed across each of the classes of assets carried at current value. No analysis is required for assets valued at historic cost.

Valuation	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure £000	Comm- unity assets £000	Surplus assets £000
Valued at historic cost		48,673	550,231	13,662	
Pre 2007/08	2,920				59
2007/08	303,864				330
2008/09	530,100				647
2009/10	655,588				1,220
2010/11	821,689				2,862
2011/12	708,184				2,268
Total	3,022,345	48,673	550,231	13,662	7,386

10d Impairment losses

During 2011/12, the Authority has recognised impairment losses of £104m (£61.8m in 2010/11). Of this, £0.18m relates to assets held for sale reflecting a fall in the anticipated market value, £0.12m relates to land and buildings valued on the basis of existing use, again reflecting changes in market conditions and £103.7m relates to land and buildings that are valued on a depreciated replacement cost (DRC) basis. DRC is based on the instant build of a modern equivalent asset, depreciated to reflect its age and physical deterioration. As such the DRC valuation can be lower than the initial recognition of actual capital expenditure.

10e Foundation and aided school assets

The fixed assets of foundation schools are vested in the governing bodies of the schools, so the value of the assets has not been included in this Balance Sheet.

On 31 March 2012 there were 17 foundation schools (28 in 2010/11).

The fixed assets of Aided schools are vested in the governing bodies of the schools, so the value of the assets has not been included in this Balance Sheet.

On 31 March 2012 there were 55 aided schools (56 in 2010/11).

10f Heritage assets**Land/building heritage assets**

The Authority owns a number of historical buildings and archaeological sites that are classified as heritage assets. These include several archaeological sites of Iron Age and Roman settlements in Hampshire, such as Silchester Roman town.

Operational heritage assets (held within PPE) include the Great Hall, a 13th century hall built as part of Winchester Castle, with the 5.5m medieval Round Table on the west wall. This is also used for operational meetings, exhibitions and wedding ceremonies.

Access to these assets is permitted to members of the public. Sometimes an entrance charge may be payable – the proceeds of this are used to help run and maintain the site and to provide visitor information. Detailed information about opening hours, entrance fees, access and facilities is available through the Authority's website: <http://www.hants.gov.uk/>

Records of these assets form part of the Archaeology & Historic Buildings Record, which is available online and supplemented by a computer database linked to a digital mapping system, and by a paper-based archive which includes fieldwork and survey reports, articles, images, and aerial photographs.

There have been no material acquisitions, disposals or impairments of heritage assets in the past two years. It is not practicable to provide information for accounting periods before then.

Museum collections**Archaeology**

The archaeology collections consist of excavation and fieldwork archives from around the county. The largest collection is the Danebury collection, which relates to the Danebury Hill Fort and is the main source of exhibits for the Museum of the Iron Age in Andover. Notable pieces in the archaeology collection include the Alton buckle, a decorative Anglo-Saxon belt buckle and the Selbourne cup, a Roman enamelled bronze vessel.

Art and design

The art and design collections comprises of more than 100,000 items. Historic dress and textiles are well represented, with embroideries from the 17th century and dress and accessories from the 18th century onwards. A significant display of these items is at the Red House Museum.

The art and design collections also contain many examples from the decorative arts, including around 8,500 ceramic items dating from 1250 onwards, many of which are on display at the Allen Gallery in Alton. There are also printed maps, topographical pictures and many local photographs.

Social and industrial history

The social and industrial history collections contain items that provide material evidence of everyday life and work in Hampshire, from 1500 to the present day. The collection consists of military, social and domestic items, transport, technology and rural life material. The collection forms one of the core elements of the Milestones Museum displays. Material is also on display throughout local Community Museums in Hampshire.

Natural science

The biology collection consists of approximately 125,000 specimens of preserved plants and animals, mainly from the British Isles. These date from 1737 onwards, although most were collected in the past 150 years. They provide important supporting evidence for the biodiversity of the county

The geology collection consists of over 25,000 Hampshire rocks and fossils (mainly collected in the past 50 years). It also includes numerous rocks, minerals and fossils from elsewhere in the British Isles and a comprehensive library containing books, publications, borehole logs, maps, site plans and photographs. Important geological material is on display in a special gallery at Gosport Discovery Centre.

Records, access and collecting policy

When an item is accepted into a museum collection, it is logged onto the accessions register. The record is entered onto a database, and will contain a detailed physical description, deposit information and collections management details. Some of this information is also accessible through the Authority's website as online searchable databases at <http://www3.hants.gov.uk/museum/collections-2>

A significant proportion of the Authority's museum collection is on display at various museums and other community sites across Hampshire. The Museums Service also organises touring exhibitions and may loan items to other museums. Items not currently on display are stored at Chilcomb House in Winchester, and may be viewed for research purposes by appointment.

The collection and disposal policy is available through the Authority's website: <http://www3.hants.gov.uk/museums-collecting-policy.pdf>

Archives

The Archives and Local Studies service at Hampshire Record Office in Winchester collects, preserves and makes accessible archives and local studies material relating to Hampshire and Hampshire families, and film and sound archives relating to central southern England. The collections held date from the 12th century to the present and comprise nearly 8 miles of shelving.

The archives have been designated by the Museums, Libraries and Archives Council as an outstanding collection of national and international importance. Their scope and importance is summarised in the following document: <http://www.hants.gov.uk/rh/archives/designation-statement.pdf>. The Winchester Bishopric Pipe Rolls are on the UNESCO UK Memory of the World Register. Many of the items in the archives are not owned by the Authority, but have been deposited with the Record Office by a range of public bodies and private institutions and individuals.

Accessions, cataloguing and conservation data about the collections are maintained on a database; public online access to the catalogue is provided via the website. Signed deposit agreement/ gift forms are maintained. The deposit agreement form is accessible on the website: <http://www3.hants.gov.uk/archives/hals-deposit-conditions.htm>

The Authority takes all reasonable precautions to preserve the assets from loss, theft or damage, but does not insure its archive collection. Insurance for any items deposited in the Record Office is the responsibility of the owner. It is the Authority's policy not to value these items, due to their unique and irreplaceable nature.

Access to the records is available at the Record Office, which is open six days a week: <http://www3.hants.gov.uk/archives/visiting-hals.htm>. Access to particularly fragile, and to sensitive archives is restricted.

Hampshire Record Office's policies, including Collecting, Appraisal, Preservation, and Access and Learning, are accessible via the Authority's website: <http://www3.hants.gov.uk/archives/hro-policies.htm>

A list of new accessions is sent annually to The National Archives who publish this on their website. The latest complete list for is for 2010: <http://www.nationalarchives.gov.uk/accessions/2010/10returns/10ac41.htm>

11 Investment properties

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

	2010/11 £000	2011/12 £000
Rental income from investment property	-969	-913
Direct operating expenses arising from investment property	390	389
Net (gain)	-579	-524

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

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

	2010/11 £000	2011/12 £000
Balance at start of the year	42,032	46,168
Additions:		
- purchases	-	-
- construction	-	-
- subsequent expenditure	507	116
Disposals	-1,875	-420
Net gains/losses from fair value adjustments	5,504	772
Transfers:		
- to/from Inventories	-	-250
- to/from Property, Plant and Equipment	-	-186
Balance at end of the year	46,168	46,200

12 Financial instruments

The term 'financial instrument' covers both financial assets and liabilities and includes debtors, creditors, the Council's borrowings, PFI liabilities and investment transactions. The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

		Long term		Current	
	see note	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Loans and receivables at amortised cost:					
Long-term debtors	12a	1,438	1,456	-	-
Debtors	12b	-	-	77,472	82,188
Short-term investments	12c	-	-	171,171	194,736
Long-term investments	12c	10,000	65,000	-	-
Loans and receivables at amortised cost		11,438	66,456	248,643	276,924
Financial liabilities at amortised cost:					
Long-term borrowing	12d	-365,895	-376,155	-	-
Short-term borrowing	12e	-	-	-36,313	-48,052
Developers' contributions	12f	-44,937	-46,184	-	-
Deposits	12h	-	-	-679	-881
Creditors	12i	-	-	-173,881	-165,385
Receipts in advance	12j	-	-	-96,068	-60,845
PFI & finance lease liabilities	30	-88,544	-96,991	-5,935	-6,211
Financial liabilities at amortised cost		-499,376	-519,330	-312,876	-281,374

All financial instruments are carried in the Balance Sheet at amortised cost, although the fair value of investments and borrowings are included in disclosure notes 12c, 12d and 12e.

12a Long-term debtors

	31 March 2011 £000	31 March 2012 £000
Car loans to staff	961	916
Other	477	540
	1,438	1,456
Transferred debt	36,315	36,344
	37,753	37,800

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. These are not financial instruments and are shown at the book value of the amount outstanding. £33 million remains to be repaid by the cities of Portsmouth and Southampton, £1.7 million by Hampshire Police Authority and, £1.6 million by colleges of further education, magistrates' courts and the probation service.

The other long-term debtors figure of £1.5 million (£1.4 million in 2010/11) is classified as a loans and receivables financial instrument.

By value, the majority of these loans are for a period of less than five years and attract a market rate of interest. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

12b Debtors

Debtors, classified as a loans and receivables financial instrument, are due within one year without interest so the fair value of these receivables equals the original invoice amount.

	31 March 2011 £000	31 March 2012 £000
Government departments	10,976	11,373
Other local authorities	14,842	15,847
NHS bodies	-	3,420
Sundry debtors	51,654	51,548
	77,472	82,188
Payments in advance	9,337	7,120
Total debtors and prepayments	86,809	89,308

12c Investments

Surplus cash balances are lent to borrowers on the Council's approved list. Short term investments are due to be repaid within a year and so their amortised cost in the Balance Sheet is a reasonable assessment of their fair value. Long term investments are not due to be repaid until after a year from the Balance Sheet date. The fair value of the Council's long term investments are as follows:

	31 March 2011		31 March 2012	
	Amortised cost £000	Fair value £000	Amortised cost £000	Fair value £000
Market investments	10,000	10,059	65,000	66,381

The fair value is more than the amortised cost as the Council's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is higher than the rates that would be achieved on the balance sheet date.

12d Long term borrowing

Long-term borrowing is carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using premature repayment interest rates from the Public Works Loan Board (PWLB). For market loans, in the absence of information requested from the lender, the Council's Treasury Adviser calculated the fair value based on equivalent swap rates at the Balance Sheet date.

	31 March 2011		31 March 2012	
	Amortised cost £000	Fair value £000	Amortised cost £000	Fair value £000
Public Works Loan Board	-292,583	-328,894	-302,967	-377,478
Market loans	-73,312	-77,564	-73,188	-89,596
	-365,895	-406,458	-376,155	-467,074

The fair value is more than the amortised cost because the Council's portfolio of loans includes a number of fixed-rate loans where the interest rate payable is higher than the rates that would be applied to calculate the premiums if the loans were repaid on the Balance Sheet date. This commitment to pay interest above the current market rates increases the amount that the County Council would have to pay if it repaid the loans early.

12e Borrowing repayable within one year

Long-term borrowing repayable within one year is shown at its fair value, which is assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using premature repayment interest rates from the Public Works Loan Board (PWLB). For all other loans due to be repaid within a year, their amortised cost in the Balance Sheet is a reasonable assessment of their fair value

	31 March 2011		31 March 2012	
	Amortised cost £000	Fair value £000	Amortised cost £000	Fair value £000
Long-term borrowing repayable within one year	-10,936	-11,271	-12,314	-12,910
Other short-term borrowing	-25,377	-25,377	-35,738	-35,738
	-36,313	-36,648	-48,052	-48,648

12f Developers' contributions

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also Section 278 of the Highways Act 1980 if a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore the carrying amount is a reasonable assessment of the fair value of the financial liability.

	2010/11			2011/12		
	Highways £000	Other £000	Total £000	Highways £000	Other £000	Total £000
Balance at 1 April	-33,172	-1,051	-34,223	-39,496	-5,441	-44,937
Income	-13,727	-5,441	-19,168	-8,935	-6,044	-14,979
Contributions applied	7,403	1,051	8,454	7,068	6,664	13,732
Balance at 31 March	-39,496	-5,441	-44,937	-41,363	-4,821	-46,184

12g Short-term creditors

Short-term creditors includes deposits, creditors and receipts in advance as detailed below.

12h Deposits

	31 March 2011 £000	31 March 2012 £000
Capital deposits and unapplied contributions	-424	-695
Other	-255	-186
	-679	-881

12i Creditors

The County Council's policy is to pay creditors within 30 days of the date shown on the invoice. Therefore, the invoice amount is a reasonable assessment of the fair value of the financial liability.

	31 March 2011 £000	31 March 2012 £000
HM Revenue and Customs and Government departments	-23,627	-22,242
NHS Bodies		-7,098
Other local authorities	-14,917	-17,169
Sundry creditors	-135,337	-118,876
	-173,881	-165,385

12j Receipts in advance

	31 March 2011 £000	31 March 2012 £000
Grants (see note 26 for breakdown)	-79,038	-50,601
Other receipts and contributions	-17,030	-10,244
	-96,068	-60,845

12k Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

Credit risk: the possibility that banks and financial institutions will fail to meet their contractual obligations, causing a loss to the Council

Liquidity risk: Liquidity risk is the possibility that the Council will be unable to raise funds to meet its payment commitments as they fall due.

Market risk: The possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

Credit risk

The Council manages credit risk by ensuring that investments are placed with the UK Government's Debt Management Office, other local authorities, AAA-rated money market funds or banks and building societies having sufficiently high credit worthiness as set out in the Council's Annual Investment Strategy. A maximum investment limit of £60 million is placed on the amount of money that can be invested with a single counterparty. No more than £120 million in total can be invested for a period longer than 364 days, although the maximum investment being placed with one institution will be restricted to £20 million. The Council has no historical experience of counterparty default.

It should be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Annual Investment Strategy for 2011/12, approved by Full Council on 24 February 2011.

Until February 2012, the minimum criteria for new investments was a long term rating of A+. Following downgrades to a number of systemically important financial institutions in autumn 2011, a lower minimum credit rating criteria of A- was adopted by the Council once the revised Treasury Strategy was approved by Full Council.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2012, excluding accrued interest of £2.2 million, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met when investment placed?	Credit rating criteria met on 31 March 2012?	Balance invested as at 31 March 2012				Total
	Yes/No	Yes/No	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	
			£000	£000	£000	£000	£000
Banks - UK	Yes	Yes	45,000	77,500	-	15,000	137,500
Building Societies - UK	Yes	Yes	-	45,000	-	-	45,000
Other local authorities	Yes	Yes	-	20,000	5,000	50,000	75,000
Call accounts	Yes	Yes	62,450	-	-	-	62,450
Total			107,450	142,500	5,000	65,000	319,950

Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. A provision of £4.9 million (£2.2 million in 2010/11) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2012	Individually assessed impairment	Collectively assessed impairment	Total provision
	£000	£000	£000	£000
2011/12	15,166	0	1,737	1,737
2009/10 & 2010/11	2,431	789	1,395	2,184
before 2009/10	949	237	712	949
	18,546	1,026	3,844	4,870

Liquidity risk

As the Council has ready access to borrowing through the Public Works Loan Board, other local authorities and commercial banks, there is no perceived risk that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council lessens this risk by its strategy of taking out its long-term borrowing requirements reasonably evenly from one year to the next.

The maturity analysis of the nominal value of the Council's debt at 31 March 2012 was as follows:

	Outstanding 31 March 2011 £000	Outstanding 31 March 2012 £000
Between one and two years	-6,097	-10,526
Between two and five years	-29,105	-38,267
Between five and 10 years	-43,753	-48,284
Between 10 and 15 years	-42,308	-44,308
Between 15 and 20 years	-54,308	-58,308
Between 20 and 25 years	-99,351	-107,462
More than 25 years	-90,973	-69,000
Total	-365,895	-376,155

Range of interest rates payable	Source of loan		
2.19% - 9.875%	Public Works Loan Board	-292,583	-302,967
3.89% - 5.0%	Market loans	-73,312	-73,188
		-365,895	-376,155

Market risk**Interest rate risk**

The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of £780 million on external debt that can be subject to variable interest rates. At 31 March 2012, £417.3 million of the debt portfolio was held in fixed rate instruments, and £110.1 million in variable rate instruments.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is a greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

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

	£000
Increase in interest payable on variable rate borrowing	1,168
Increase in interest receivable on variable rate investments	-3,516
Net cost/(saving)	-2,348

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The Council does not invest in equity shares and has no shareholdings in joint ventures or local industry. There is, therefore, no exposure to price risk.

Foreign exchange risk

The Council has no material financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.