

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	29 September 2011
<b>Title:</b>	Statement of Accounts – 2010/11
<b>Reference:</b>	3306
<b>Report From:</b>	County Treasurer

**Contact name:** Anne Hibbert – Head of Finance Corporate Finance

**Tel:** 01962 847533      **Email:** anne.hibbert@hants.gov.uk

## **1. Executive Summary**

- 1.1. The Accounts and Audit Regulations as amended in 2011 require the Authority's Statement of Accounts to be approved by the Treasurer by 30 June and by Members by 30 September following the year end. The Authority has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
- 1.2. The Statements have been audited and the conclusions of the audit are contained within the Audit Commission's Annual Governance Report, which were considered by the Committee within the previous item on the agenda.
- 1.3. This report presents for the Committee's approval the Statement of Accounts 2010/11 and recommends that the County Treasurer be given delegated authority to make any amendments required prior to the issue of the audit opinion.

## **2. Code of Practice on Local Authority Accounting**

- 2.1. The attached Statement of Accounts has been drawn up in the form prescribed by the 2010/11 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Code is updated each year and this year it included the implementation of the International Financial Reporting Standards (IFRS). The Committee has received regular updates over the last year or so setting out the expected changes to the presentation of the accounts and changes in accounting practice. Whilst these changes have a significant impact on the content, format and terminology used in the accounts, they are technical accounting changes that do not have a material practical effect on the financial performance of the council. The main changes are summarised below. In the statements, the figures for 2009/10 and where appropriate for 2008/09 have been restated in accordance with IFRS.

### **Grants and contributions**

- 2.2. Grants and contributions (both revenue and capital) are required to be accounted for in the Comprehensive Income and Expenditure Statement once any conditions have been met, irrespective of whether any corresponding expenditure has been incurred. Previously, UK GAAP only required income to be recognised to offset the corresponding expenditure. Revenue grant and contribution income is recognised in the Comprehensive Income & Expenditure Account against the relevant service, any non-specific grant income and all capital grants and contributions are recognised as taxation and non-specific grant income. Any income recognised which does not offset expenditure incurred in year, is transferred to a useable reserve (revenue grants & contributions unapplied reserve & capital grants and contributions unapplied reserve). The previous balances on the government grants & external contributions deferred account have been transferred to the Capital Adjustment Account.

### **Asset and lease classification**

- 2.3. Where assets previously recognised on the balance sheet meet the criteria to be classified as an asset held for sale, they have been reclassified as such and are shown under current assets on the balance sheet.
- 2.4. The accounting test to determine whether a lease is finance or operating has changed and there is a requirement to split the land and building elements of all property leases in determining this status. The County Council has not taken or granted any material finance leases.

### **Accumulated absences**

- 2.5. There is a new requirement that provisions be made for short-term compensated absences, such as annual leave and flexi leave, which have accumulated but remain untaken at the balance sheet date. An accumulated absences account has been set up, as an unusable reserve, to reverse the affect of these entries on the amount required to be funded from taxation.

### **Cash and cash equivalents**

- 2.6. IFRS introduces the concept of cash equivalents. Balances previously held as investments have been reclassified as cash equivalents if the investment is convertible the same day to known amounts of cash with insignificant risk of change in value.

## **3. Statement of Accounts**

- 3.1. The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in the following paragraphs and in Appendix 1. The full Statement of Accounts is included in Appendix 2.

### **Annual Governance Statement**

- 3.2. The Annual Governance Statement has to be incorporated within the Statement of Accounts. The County Council's Statement has been submitted for approval elsewhere on the agenda for this meeting.

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

- 3.3. This statement records the responsibility:

- of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs, the County Treasurer within this Authority
- of the County Treasurer to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the Authority
- of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the Committee

#### **Movement in Reserves Statement**

- 3.4. A new requirement under IFRS, this statement sets out the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and unusable reserves. Further detail of the unusable reserves is included in note 18 of the Statement of Accounts.
- 3.5. The statement also shows the statutory General Fund Balance before the discretionary transfers to and from earmarked reserves as agreed by Cabinet on 4 July 2011 when it approved the final management accounts for 2010/11.

#### **Comprehensive Income and Expenditure Statement**

- 3.6. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement of Reserves Statement and the difference between them is itemised in note 7 of the Statement of Accounts.
- 3.7. For 2010/11, the cost of services is lower than 2009/10 and overall the Comprehensive Income and Expenditure Statement shows a significant surplus for 2010/11 compared to a deficit in 2009/10. The main reason for this is the large negative expenditure in non-distributed costs arising from the change to the basis on which the Government proposes to determine future pensions increases from RPI to CPI. This reduces the past service costs by approximately £240m, which has the effect of turning what would otherwise have been a small deficit on the provision of services into a surplus of £236 million in 2010/11.
- 3.8. The cost of services shown in the Comprehensive Income and Expenditure Statement is presented in accordance with proper practice. A different presentation is adopted for the Authority's management accounts. Note 20 of the Statement of Accounts reconciles the final outturn position that was reported to Cabinet in early July to the cost of services in the Comprehensive Income and Expenditure Account.
- 3.9. The inclusion of other comprehensive income and expenditure such as net gains on the revaluation of assets and the actuarial loss on pension fund assets and liabilities, creates a bottom line figure on the Comprehensive Income and Expenditure Statement equal to the change in net worth on the Balance Sheet.

### **Balance Sheet**

- 3.10. This shows the value of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by reserves; either usable (£0.2bn) or unusable (£2.3bn).
- 3.11. The majority of the County Council's net worth is tied up in the value of its fixed assets, primarily the replacement value of land and buildings, which to the extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become usable if the County Council was to dispose of all its fixed assets at their balance sheet value.
- 3.12. Unusable reserves are reduced by the pension reserve. This reserve was introduced a few years ago as a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under IAS19 (previously FRS17) without requiring the liability to be recognised in setting council tax. The County Council's pension net liability has decreased during 2010/11, from £963 million to £754 million mainly as a result of the reduced past service cost following the change in linking pension increases to CPI rather than RPI.

### **Cash Flow Statement**

- 3.13. The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.

### **Notes to the accounts**

- 3.14. These comprehensive notes incorporate information to give the reader information to support the accounts. The accounting policies are now incorporated within the notes.

### **Hampshire Pension Fund**

- 3.15. The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of £57 million, that net investment income totalled £67 million, and that the market value of investments increased by £197 million, increasing the net assets of the fund by £321 million from £3.2bn to £3.5bn.

## **4. Next steps**

- 4.1. The County Council is required to publish its Statement of Accounts by 30 September 2011. Should any minor amendments to the Statements be required prior to the issue of the audit opinion and to the publication of the Statement of Accounts, it is recommended that the County Treasurer be authorised to make any such amendment. The published Statement of Accounts, together with a short summary, will be made available to all members of the County Council, either in electronic form or by circulation of a printed document if preferred.

**5. Recommendations**

- 5.1. That the Statement of Accounts for 2010/11 as set out in Appendix 2, be approved.
- 5.2. That the County Treasurer be given delegated authority to approve any minor amendments to the Statement of Accounts.

**Appendix 1**

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

**This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:**

It relates to the effective Governance of the County Council.

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

1.1. This report does not have any impact on equality objectives.

### **2. Impact on Crime and Disorder:**

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change



## 1 The cost of Hampshire County Council services

The Comprehensive Income and Expenditure Statement sets out the cost of running Hampshire County Council's services in 2010/11 and where the money came from to pay for them.

	2010/11 £000	2010/11 £000	2010/11 £000
	Expenditure	Income	Net Exp
<b>Operating income and expenditure</b>			
Cultural, environmental and planning services	134,892	-28,113	106,779
Education and children's services	1,297,818	-1,029,284	268,534
Highways and transport services	97,829	-17,473	80,356
Adult social care	421,487	-105,381	316,106
Other services, corporate and non-distributed costs*	-65,455	-109,388	-174,843
<b>Total operating income and expenditure</b>	<b>1,886,571</b>	<b>-1,289,639</b>	<b>596,932</b>
<b>Taxation and non-specific grant income</b>			
Non-ringfenced government grants			-87,790
Non domestic rates			-128,217
Council tax income			-527,421
Capital grants and contributions			-89,432
<b>Taxation and non-specific grant income</b>			<b>-832,860</b>
<b>Surplus on the provision of services</b>			<b>-235,928</b>

\* The surplus on other services, corporate and non-distributed costs is mostly due to a reduction in the valuation of pension fund liabilities related to past service. This results from the Government's decision taken in June 2010 to base statutory pension increases in future on the increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

## 2 Impact on the General Fund balance

The Comprehensive Income and Expenditure Statement is drawn up in accordance with international accounting standards. However, the Government has stipulated that certain costs that form part of the Comprehensive Income and Expenditure Statement need not be included in the General Fund for the purpose of setting council tax. These costs are mainly associated with the depreciation of assets and the accrual of retirement benefits, which do not necessarily lead to cash flows in the short and medium term. Consequently, these costs are transferred to the balance sheet and replaced with the annual repayment of loans for capital expenditure and the employer's pension contribution. This net adjustment is £200.6 million. The impact on the General Fund balance is shown in the Movement in Reserves Statement which is summarised below.

	£000
<b>General Fund balance at 31 March 2010</b>	-36,930
Surplus on the provision of services	-235,928
Net adjustment between accounting basis and funding basis	200,644
Balance before transfers to earmarked reserves	-72,214
Transfers to earmarked reserves	51,183
<b>General Fund balance at 31 March 2011</b>	<b>-21,031</b>

### 3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2011 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2010/11 £'000	2010/11 £'000
Land, buildings, vehicles, equipment and infrastructure		3,803,769
Money owed to the Council:		
Within 12 months	313,448	
After 12 months	47,753	
Money owed by the Council		
Within 12 months	-320,437	
After 12 months	-512,192	
Net borrowing		-471,428
Pension fund net liability		-753,960
<b>Total net assets</b>		<b>2,578,381</b>
<b>Financed by:</b>		
Cash-backed reserves		-235,360
Non-cash-backed reserves *		-2,343,021
<b>Total net worth</b>		<b>-2,578,381</b>

\* includes the asset revaluation reserve than can only be realised when assets are sold and the adjustment accounts required to replace the accounting costs (principally for depreciation and retirement benefits) included in the Income and Expenditure Statement with the costs to be funded by the General Fund (principally loan repayments and employer's pension contributions).

### 4 Capital expenditure

Capital expenditure is money the Council spent on purchasing and improving assets such as buildings, roads and equipment. The Council receives the benefit from such capital expenditure over many years.

	2010/11 £'000
Adult Services	3,077
Children's Services	94,571
Environment	76,795
Policy and Resources	13,924
Culture, Communities and Rural Affairs	7,965
<b>Total</b>	<b>196,332</b>
<b>Financed by:</b>	
Capital receipts	-13,030
Grants and other income	-102,717
Loans	-64,478
Revenue (main contribution)	-10,636
Revenue (reserves)	-5,471
	<b>-196,332</b>

## 5 Pension Fund

The County Council administers the Pension Fund that is open to all non-teaching employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire and 198 other scheduled and admission bodies. A summary of the pension fund accounts is given below.

	2010/11
	£'000
Pension contributions	232,873
Transfers in from other pension funds	21,788
Benefits paid	-181,765
Payments to and on account of leavers	-13,224
Administrative expenses	-2,621
<b>Net additions from dealings with members and employers</b>	<b>57,051</b>
Returns on investments	275,352
Investment management expenses and taxes on income	-11,518
<b>Increase in the net assets available for benefits during the year</b>	<b>320,885</b>
Add opening net assets of the Fund	3,237,535
<b>Closing net assets of the Fund</b>	<b>3,558,420</b>



**Statement of Accounts 2010/11**

<b>Contents</b>	<b>Page</b>
Explanatory Foreword	1 - 8
Statement of responsibilities for the Statement of Accounts	9
Movement on Reserves	10
Income and Expenditure Account	11
Balance Sheet	12
Cash flow statement	13
Notes to the Core Financial Statements	14 - 104
Pension Fund Accounts	105 - 130



## **Explanatory Foreword**

### **1. Introduction**

1.1. This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2011. The pattern of presentation of the statement is laid down by a code of practice, which the County Council is legally required to follow.

1.2. This foreword gives:

- a summary of the various statements that make up the County Council's 2010/11 accounts
- a broad picture of where the money comes from and what it is spent on
- a summary of revenue expenditure on services and capital expenditure on new assets over the course of the year.

### **2. Summary of Statement of Accounts**

2.1. The accounts for 2010/11 are set out on pages 9 to 130.

2.2. They consist of:

- Annual Governance Statement
- Statement of responsibilities for the Statement of Accounts
- Movement in reserves statement – analyzes the change in net worth between the general fund, other useable reserves and unusable reserves
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation
- Balance sheet – this sets out assets and liabilities at 31 March 2011 compared with 31 March 2009 and 2010
- Cash flow statement – this summarises the movement in cash and cash equivalents during the course of the year
- Notes to the accounts
- Pension Fund accounts - these are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

### **3. Where the money comes from**

3.1. Since the introduction of the new schools funding arrangements in 2006/07, most of the County Council's income comes from Specific Government grants and the council tax. A new general grant was introduced in 2008/09, the area based grant, from the amalgamation of a number of grants previously paid as specific government grants. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances. Government Grant and external contributions applied to finance capital expenditure have been excluded from the table below.

3.2. The proportion of the Council's income obtained from these sources is as follows:

	2009/10	2010/11
	%	%
Council tax	28	27
National business rates	7	7
General Government grant	1	1
Area based grant	3	4
Fees, charges and interest	14	16
Specific Government grants	47	45
	<b>100</b>	<b>100</b>

In 2010/11 there was no significant change in the balance of income obtained from the various funding sources.

#### 4. What the money is spent on

##### 4.1. Type of expenditure

	2009/10	2010/11
	%	%
Staff costs	57	58
Running expenses	38	38
Capital financing	5	4
	<b>100</b>	<b>100</b>

##### 4.2 Service shares of gross revenue expenditure

	2009/10	2010/11
	%	%
Children's services and education	64	66
Adult social care	22	21
Highways, roads And transport	5	5
Cultural, environmental and planning services	7	7
Other services	2	1
	<b>100</b>	<b>100</b>

The service shares of gross expenditure in 2010/11 were similar to those in 2009/10, but reflect the continued priority given to school budgets in 2010/11.

## 5. Employees

- 5.1. At 31 March 2011, the County Council employed 41,585 people, making the Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (fte) terms, the total number of employees was 28,328 at 31 March 2011, 650 lower than at 31 March 2010. School-based staff were 83 higher than at 31 March 2010, but there were reductions of 733 FTEs across all other departments as a result of the recruitment controls introduced during 2010/11 to facilitate the achievement of substantial budget reductions in 2011/12.

### Full-time equivalent employees

	March 2010	March 2011
School - based	17,544	17,627
Other children's services	3,252	2,893
Adult Services	3,359	3,198
Environment	796	749
Culture, Communities and Rural affairs	1,017	896
Central services and internal trading units	3010	2,965
	<b>28,978</b>	<b>28,328</b>

## 6. Summary of the year – Revenue account

- 6.1. 2010/11 was a transitional year for the County Council. It was the last year of the three year grant settlement approved in 2007 prior to the crisis in the international financial system in 2008. Despite the deterioration in the public finances since 2007, the Government decided to leave the original provisional grant settlement for 2010/11 unchanged. The County Council as a floor authority received the lowest grant increase for upper tier authorities of 1.5%.
- 6.2. After the UK general election in May 2010, the new Government presented an Emergency Budget in June 2010 incorporating some reductions in specific and area based grants already allocated in 2010/11, particularly affecting Children's Services. The financial envelope for the Spending Review announced in October 2010 was also set in the June budget, indicating the likelihood of significant reductions in Government grant to local authorities.
- 6.3. The County Council approved an Expenditure Reduction and Efficiencies programme in July 2010, leading to the establishment of a series of corporate efficiency workstreams. Recruitment controls were also introduced designed to achieve savings in advance of 2011/12 which could then be used to finance costs associated with restructuring the County Council's services. Though Children's Services were faced with having to achieve significant savings in 2010/11 to compensate for in year reductions in Government grant, for other services plans were developed designed to achieve underspendings against the approved

2010/11 budget.

6.4. The main components of the 2010/11 budget, revised budget and actual income and expenditure are set out below:

<b>Budget</b>	Original budget	Revised budget	Actual	Variation from revised
	£million	£million	£million	£million
<b>Cost of services</b>	<b>853.4</b>	<b>569.4</b>	<b>558.6</b>	<b>-10.8</b>
(Surpluses)/ deficits on trading units	0.4	0.4	-2.6	-3.0
Net interest payable and investment property income	0	24.1	21.8	-2.3
Investment property gains/ losses	0	-5.5	-5.5	0
Loss/(gain) on disposal of assets	0	-4.5	-4.5	0
Pension interest cost and expected return on pensions assets	61.1	29.1	29.1	0
<b>Net operating and financing expenditure</b>	<b>914.9</b>	<b>613.0</b>	<b>596.9</b>	<b>-16.1</b>
<b>Amount to be met from non-specific Government grant and local taxpayers</b>				
Council tax precept income	-525.3	-527.4	-527.4	0
General Government grant (including Area based grant)	-93.1	-87.8	-87.8	0
Non domestic rates	-128.2	-128.2	-128.2	0
Capital grants and contributions	-106.7	-89.4	-89.4	0
	<b>-853.3</b>	<b>-832.8</b>	<b>-832.8</b>	<b>0</b>
<b>(Surplus)/ Deficit on the provision of services</b>	<b>61.6</b>	<b>-219.8</b>	<b>-235.9</b>	<b>-16.1</b>
<b>Adjustments between accounting and funding basis under regulations</b>				
Contribution to capital	29.7	31.5	16.1	-15.4
Excess of depreciation, impairment net of grant over statutory provision for debt repayment	-42.3	-52.5	-52.0	0.5
Actuarial loss on pension fund assets and liabilities	0	18.7	18.7	0
Contribution to pensions reserve	-39.9	209.4	209.4	0
Net cost of soft loans, reversal of	0	8.4	8.4	0

disposal gain, collection fund and compensated absences adjustment				
Contribution to/(from) earmarked reserves	-0.8	20.2	51.2	31.0
<b>Movement in General Fund Balance</b>	<b>8.3</b>	<b>15.9</b>	<b>15.9</b>	<b>0</b>

#### General Fund Balance

Brought forward 1 April 2010	29.8	36.9	36.9	0
Carried forward 31 March 2011	21.5	21.0	21.0	0

- 6.5. The budget requirement for 2010/11 was set at £672.1 million ( net of area based grant of £74.5 million), an increase of 2.3% on the adjusted budget for 2009/10. The budget strategy continued to be based on setting a Council tax in the lower quartile for County Councils, while providing high performing services by delivering value for money. The budget recognized the continuing demographic pressures affecting social care services by providing additional funding of £8.3m above inflation. In the light of the anticipated much tougher financial situation from 2011/12 onwards, the County Council included in its medium term financial strategy allowance for achieving corporate efficiency savings of £15m per annum in 2011/12 and 2012/13 and the 2010/11 budget included provision for achieving corporate efficiency savings of £8.6m in advance of 2011/12. Underspendings achieved in earlier years enabled a contribution from balances of £8.3m to be made in 2010/11 to limit the increase in council tax to 1.9%, while enabling a further contribution from balances to be planned in 2011/12. The General Fund balance at 31 March 2011 was estimated at £21.5m
- 6.6. In July 2010 the final accounts for 2009/10 were reported to the Cabinet. Service cash-limited spending was £0.3 million lower than budgeted. Further savings of £9.7million in net operating expenditure were achieved mainly as a result of lower interest costs, lower fire insurance reinstatement, higher trading unit surpluses and savings on the waste management contract. These were partly offset by higher expenditure on highways winter maintenance and revenue contributions to capital. £3.9million of these savings were transferred to earmarked reserves, resulting in an underspend of £6.1million against the General Fund compared with the revised budget. The General Fund balance therefore increased to £36.9million at 31 March 2010. Reporting of the final accounts for 2009/10 coincided with the announcement of in year grant reductions in 2010/11 and of the overall levels of planned public spending for 2011/12 and later years. In view of the potential budget gaps in 2011/12 and 2012/13, it was agreed that the underspending of £6.1m in 2009/10 be transferred to the Corporate Policy reserve in 2010/11.
- 6.7. Children's Services were faced with having to plan immediate substantial reductions in spending in 2010/11 as a result of in year grant reductions of £4.9 million and budget pressures affecting services for looked after children and home to school transport. The Cabinet agreed to provide cash flow support in 2010/11 providing the required savings were achieved by March 2011. When

services revised their budgets in the autumn, Children's Services forecast that restructuring costs of £3.7 million would not be able to be accommodated within the cash limit and corporate support at this level was agreed. Following the Cabinet's decision to introduce an enhanced voluntary redundancy scheme to facilitate the achievement of staffing reductions on a voluntary basis, an organisational change reserve was established with a transfer of £10 million from the corporate policy and invest to save and modernisation reserves. £2.2 million was also set aside for anticipated higher spending on winter maintenance as a result of the heavy snow in December 2010. The additional allocations of £5.9 million for Children's Services and highway winter maintenance were largely offset by lower capital financing costs of £5.3 million, reducing the General Fund balance by £0.6 million to a forecast level of £21 million at 31 March 2011.

6.8. When the accounts for 2010/11 were finalised, service cash limited expenditure was £9.8m lower than budgeted as a result of savings achieved in advance of 2011/12 to assist in financing restructuring and other costs associated with the County Council's Efficiencies and Expenditure reduction programme. Further savings of £3.6m were achieved, mainly as a result of lower net interest and fire insurance reinstatement costs, savings on the waste management contract and higher business unit surpluses. These savings were offset by a higher corporate provision for voluntary redundancy costs due to the progress made in agreeing planned staffing reductions in advance of 2011/12 and increased revenue contributions to capital, financed from trading unit reserves.. In addition in order to maximise budgetary flexibility in 2011/12, the planned revenue contribution to capital in 2010/11 of £17.6 million was transferred to the capital reserve. After allowing for transfers to earmarked reserves, there was a net underspending of £1.1million, which has been transferred to the insurance reserve in accordance with the recommendations of an actuarial review of the Council's potential liabilities. As a result the general fund balance at 31 March 2011 is as budgeted in the revised budget at £21million.

6.9. The table below analyses the main factors in the final accounts:

	Over/ under(-) spending £million	Contribution to/from(-) reserves £million	Net over/ under(-) spending £million
Service cash-limited spending	-9.8	9.8	0
Corporate provision made for additional cost of voluntary redundancy scheme	3.1	-3.1	0
Capital financing/ interest costs	-1.8	0	-1.8
Insurance provision	-2.6	2.6	0
Waste management contract contingency	-1.9	1.9	0
Planned revenue contributions to capital transferred to the capital reserve	-17.6	17.6	0

Additional revenue contributions to capital financed from trading unit and other reserves	2.2	-2.2	0
Higher trading unit net surpluses	-3.0	3.0	0
Highways winter maintenance	-0.1	0	-0.1
Provision for doubtful debts	0.7	0	0.7
Other variations	-0.2	0.3	0.1
Underspending transferred to the insurance reserve	0	1.1	1.1
	<b>-31.0</b>	<b>31.0</b>	<b>0</b>

## 7. Summary of the year – capital expenditure

- 7.1. In 2010/11 the County Council spent £196.3million on capital projects, £1.5 million less than the revised budget. Capital receipts of £13.0m were received, very close to the estimated £13.1m.
- 7.2. The 2010/11 budget contained provision for revenue contributions to capital of £17.6m in addition to revenue contributions in respect of school capital repairs financed by Dedicated Schools Grant. The Cabinet however agreed to make an equivalent contribution to the capital reserve instead and to finance £17.6m of capital expenditure from unsupported borrowing, as a contingency measure to provide additional flexibility within the financial strategy for 2011/12.
- 7.3. Spending financed from supported borrowing amounted to £35.3 million, and new unsupported borrowing net of repayments amounted to £14.4m inclusive of the additional borrowing of £17.6m to replace revenue contributions to capital. In addition, £14.7m of capital expenditure on street lighting column replacement was financed through the Private Finance initiative.
- 7.4. Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £710.5 million at 31 March 2011, together with extra debt of £37.1 million for services transferred to the unitary and other authorities. The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances. Internal resources were higher in 2010/11 than in the previous year, so that net of temporary investments, £284.3 million (a reduction of £58.4 million on the previous year) was owed to external lenders at 31 March 2011.

## 8. Pension Fund liability

- 8.1 The County Council's net pension liability has reduced from £963.3million at 31 March 2010 to £754.0 million at 31 March 2011. The reduction in the net liability is mainly the result both of improved investment performance in 2010/11 and of the effect on the valuation of the fund's liabilities related to past service of the Government's decision taken in June 2010 to base statutory pension increases in future on the increase in the Consumer Price Index (CPI)

rather than the Retail Price Index (RPI).

## **9. Changes**

- 9.1 There were no significant changes to the County Council's range of functions in 2010/11. However the implementation of International Financial Reporting Standards ( IFRS) in 2010/11 has a significant impact on the format of the statements and on the extent of the disclosures required.
- 9.2 One of the main changes, to the accounting treatment of PFI and related contracts, was implemented in 2009/10. The other change, implemented in 2010/11, which has the most significant impact on the statements is to the treatment of capital grants and contributions. These were previously retained on the balance sheet and discharged to the income and expenditure account over the life of the asset they had been used to finance, irrespective of whether there was any potential liability to repay any of the grant or contribution. The revised practice is only to recognize a continuing liability on the balance sheet if a repayment condition exists, resulting in a restatement of the 31 March 2010 balance sheet which adds £517m to the net worth of the County Council. This change in practice also affects the presentation of the Comprehensive Income and Expenditure Statement, with capital grants and contributions that have been applied or could have been applied for capital purposes being added to general funding in the income and expenditure statement. The impact on the general fund is neutralized by making contributions either to the capital adjustment account or the capital grants unapplied reserve, but the effect is to reduce the likelihood of a significant deficit being reported on the provision of services in the Comprehensive Income and Expenditure Statement.
- 9.3 The change to the basis on which the Government proposes to determine future pensions increases from RPI to CPI has a major impact on the Comprehensive Income and Expenditure Statement in 2010/11, resulting in a past service credit of approximately £240m, which has the effect of turning what would otherwise have been a small deficit on the provision of services into a surplus of £236m in 2010/11.

## **10. Further information**

You can get more information about the accounts from  
The County Treasurer, Hampshire County Council, The Castle, Winchester,  
SO23 8UB,  
telephone (01962) 847533,  
e-mail [budget@hants.gov.uk](mailto:budget@hants.gov.uk).

# Statement of Responsibilities for the Statement of Accounts

## 1 The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. In this Council, that officer is the County Treasurer
- manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- approve the Statement of Accounts.

## 2 The County Treasurer's responsibilities

1. The County Treasurer is responsible for preparing the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.
2. In preparing this Statement of Accounts, the County Treasurer has:
  - selected suitable accounting policies and applied them consistently
  - made judgements and estimates that were reasonable and prudent
  - complied with the Code of Practice.
3. The County Treasurer has also:
  - kept proper accounting records which are up to date
  - taken reasonable steps to prevent fraud and other irregularities.

## 3 The County Treasurer's statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.



Carolyn Williamson  
County Treasurer and Section 151 Officer  
20 September 2011

## 4 The Chairman's statement

I certify that the Statement of Accounts for 2011/10 was considered and approved by the Audit Committee on 29 September 2011.

Councillor Keith Evans  
Chairman of Audit Committee  
29 September 2011











## 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 to fund capital expenditure or repay debt). The second category of reserves are 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 are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 09	31 March 10	See note		£'000	31 March 2011 £'000
2,915,577	3,005,305		Land and buildings	3,132,183	
56,986	56,905		Vehicles, plant and equipment	54,824	
447,308	469,382		Infrastructure assets	512,705	
11,958	13,424		Community assets	14,254	
41,914	32,936		Assets under construction	37,035	
13,028	10,942		Surplus assets	6,600	
<b>3,486,771</b>	<b>3,588,894</b>	11a	<b>Property, Plant &amp; Equipment</b>	<b>3,757,601</b>	
37,781	42,032	12	Investment property	46,168	
<b>3,524,552</b>	<b>3,630,926</b>		<b>Total non-current assets</b>	<b>3,803,769</b>	
0	0	13c	Long-term investments	10,000	
40,788	39,289	13a	Long-term debtors	37,753	
<b>3,565,340</b>	<b>3,670,215</b>		<b>Total long-term assets</b>		<b>3,851,522</b>
			<b>Current assets</b>		
8,902	8,432	16	Current assets held for sale	13,766	
147,804	146,504	13c	Short-term investments	171,171	
3,245	3,369	15	Inventories	2,956	
72,189	89,900	13b	Short-term debtors	86,809	
52,996	43,709	14	Cash and cash equivalents	38,746	
<b>285,136</b>	<b>291,914</b>		<b>Total current assets</b>	<b>313,448</b>	
			<b>Current liabilities</b>		
-17,124	-15,400		Bank overdraft	-7,561	
-219,624	-242,824	13g	Short-term Creditors	-270,628	
-99,841	-89,888	13e	Short-term borrowing	-36,313	
-3,197	-3,454		Deferred liability repayable within one year	-5,935	
<b>-339,786</b>	<b>-351,566</b>		<b>Total current liabilities</b>	<b>-320,437</b>	
<b>-54,650</b>	<b>-59,652</b>		<b>Net current liabilities</b>		<b>-6,989</b>
<b>3,510,690</b>	<b>3,610,563</b>		<b>Total assets less current liabilities</b>		<b>3,844,533</b>
-5,215	-5,188	17	Provisions	-12,816	
-336,996	-336,556	13d	Long-term borrowing	-365,895	
-85,525	-82,071	31	Deferred liabilities	-88,544	
-33,404	-34,223	13f	Developers' contributions	-44,937	
<b>-461,140</b>	<b>-458,038</b>		<b>Total long term liabilities</b>		<b>-512,192</b>
<b>-727,570</b>	<b>-963,330</b>	32	Net liability related to defined benefit pension schemes		<b>-753,960</b>
<b>2,321,980</b>	<b>2,189,195</b>		<b>Total net assets</b>		<b>2,578,381</b>
			<b>Financed by:</b>		
			<b>Usable reserves</b>		
-34,512	-36,930	8	General Fund	-21,031	
-161,937	-155,670	9	Earmarked reserves	-204,277	
-5,143	-10,797		Capital Grants unapplied reserve	-10,052	
<b>-201,592</b>	<b>-203,397</b>		<b>Total usable reserves</b>	<b>-235,360</b>	
<b>-2,120,388</b>	<b>-1,985,798</b>	18	<b>Unusable reserves</b>	<b>-2,343,021</b>	
<b>-2,321,980</b>	<b>-2,189,195</b>		<b>Total net worth</b>		<b>-2,578,381</b>



<b>Cash Flow Statement</b>	2009/10	2010/11
	£'000	£'000
Net surplus (-) or deficit (+) on the provision of services	86,021	-235,928
Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 19a)	-152,461	126,785
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 19a)	-17,381	-21,673
Net cash inflow from Operating Activities	<u>-83,821</u>	<u>-130,816</u>
Investing Activities (Note 19b)	58,181	56,169
Financing Activities (Note 19c)	33,203	71,771
Net increase (-) or decrease (+) in cash and cash equivalents	<u>7,563</u>	<u>-2,876</u>
Cash and cash equivalents at the beginning of the reporting period	-35,872	-28,309
<b>Cash and cash equivalents at the end of the reporting period (note 14)</b>	<b><u>-28,309</u></b>	<b><u>-31,185</u></b>



## Notes to the accounts

### 1. Accounting Policies

#### 1.1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. 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 2010/11 and the Best Value Accounting Code of Practice 2010/11. 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 2011 is estimated at £3.5 million (£3.6 million in 2009/10).
- electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

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. 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. lease 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 HCC staff work under 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 council's 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 council's 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 to the services that the employees provide.
- **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.
- **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.
- **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 Account 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.

## 1.5. 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

## 1.6. 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 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.

#### **1.7. 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 Account 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 donator.

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 posted 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.

#### **1.8. 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 County Council does not have any material intangible assets. Capital expenditure on immaterial intangible assets is classified as furniture and equipment.

#### **1.9. Interests in companies and other entities**

The council does not have any material controlling interests in other entities, so group accounts are not required.

#### **1.10. 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 £1.3 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.

#### **1.11. 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.

### 1.12. 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.

### 1.13. 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 materiality level is used equivalent to the triviality level used by the council's external auditors (currently £330,000). 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 council's 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 (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals 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 Account. Credits are made on a straight-line basis over the life of the lease.

#### **1.14. 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 Best Value Accounting 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 Account, as part of the cost of services.

### 1.15. 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.

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.

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.

However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

### **Depreciation**

Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land and community assets) assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period. 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 \*

- Furniture and equipment 10 years
- Vehicles between five and 10 years

Roads and bridges – reflect an assessment of the useful economic lives of different parts of road structures

New and improved highways:

- major schemes 50 years
- minor schemes 40 years

Structural maintenance:

- principal roads 20 years
- non-principal 50 years
- Area strategies and improvements for safety 25 years
- Pedestrian facilities, street lighting and cycling facilities 20 years
- Traffic calming 10 years

\* the useful life of a building is the weighted average of all its components. When one or more components are replaced or enhanced incurring capital expenditure in excess of £350,000, all assets on the site are revalued and the useful life of each asset is reassessed to ensure an appropriate rate of depreciation.

Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of 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. 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).

#### **1.16. 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

#### **1.17. 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. In 2010/11, provision has been made for estimated restructuring costs where there is an agreed business case setting out the proposed restructuring.

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.

#### **1.18. 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. 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.

#### **1.19. 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.

## **1.20. 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.

## **1.21. 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.

## **1.22. 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 account 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.

### **1.23. 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 provision. 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.

### **1.24. 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.

### **1.25. Accounting Standards Issued, Not Adopted**

FRS 30 Heritage Assets has been published but has not been incorporated within the 2010/11 Code of Practice. However it has been included in the 2011/12 Code of Practice and so will apply from 1 April 2011.

Heritage assets are those held by the authority for cultural, environmental or historical reasons in relation principally to their contribution to knowledge and culture. These assets will be measured at fair value where practicable or otherwise at historic cost less depreciation, amortisation or impairment.

Where such assets are held currently on the balance sheet they are likely to be classed as Community Assets, which are valued at undepreciated historic cost. Other Community Assets such as museum exhibits, pieces of art, historic records held by Hampshire Record Office and historic monuments are not currently accounted for on the Balance Sheet.

## **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 accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts. 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, including those relating to equal pay, 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 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 2011 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 £154.3 million. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that for funded liabilities, the net pension liability had increased by £26.75 million as a result of estimates being corrected as a result of experience and decreased by £23.0 million attributable to updating of the assumptions.

#### 4. First time adoption of the International Financial Reporting Standards (IFRS)

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts 2009/10.

The material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements are set out below.

##### 4.1. Assets

Under the Code, assets are renamed, reclassified and redefined. Fixed assets are now named long term assets and include two main classifications of assets:

- Property, Plant and equipment covering:
  - Operational land and buildings
  - Surplus land and buildings
  - Community land and buildings
  - Infrastructure assets
  - Vehicles, plant and equipment
  - Assets under construction
- Investment Property

Assets held for sale are now classified as current assets.

The code uses a revised definition of investment property and assets held for sale than that used in previous years. Consequently a number of assets have been reclassified. In addition, the code changes the accounting for revaluation gains and losses on investment properties as these are now recognised as Financing, Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement rather than in the revaluation reserve. Consequently the balance on the investment property revaluation reserves has been transferred to the capital adjustment account. The changes are summarised in the tables below.

Another change relating to impairment of asset values under the Code is that these can now be charged to the revaluation reserve with any excess charged to the Comprehensive Income and Expenditure Statement, whereas, previously, the full amount was charged to the Income and Expenditure Account.

	2009/10 Published accounts £'000	Reclassified Investment Properties £'000	Reclassified assets held for sale £'000	2009/10 restated accounts £'000
<b>Opening balance sheet</b>				
<b>1 April 2009</b>				
Property, plant and equipment	3,533,454	-37,781	-8,902	3,486,771
Investment Property	0	37,781		37,781
Long-term debtors	40,788			40,788
<b>Total long-term assets</b>	<b>3,574,242</b>	<b>0</b>	<b>-8,902</b>	<b>3,565,340</b>
Current assets	274,390		8,902	283,292
Revaluation Reserve	-434,573	6,010		-428,563
Capital Adjustment A/c	-1,952,848	-6,010		-1,958,858
<b>Closing balance sheet</b>				
<b>31 March 2010</b>				
Property, plant and equipment	3,639,358	-42,032	-8,432	3,588,894
Investment Property	0	42,032		42,032
Long-term debtors	39,289			39,289
<b>Total long-term assets</b>	<b>3,678,647</b>	<b>0</b>	<b>-8,432</b>	<b>3,670,215</b>
Current assets	282,744		8,432	291,189
Revaluation Reserve	-563,096	9,647		-553,449
Capital Adjustment A/c	-1,882,356	-9,647		-1,892,003

	2009/10 Published accounts net expenditure £'000	Net revaluations and net income on investment properties £'000	Impairments transferred to net gains on revaluations £'000	2009/10 restated accounts £'000
<b>2009/10 Income and Expenditure Account</b>				
Central services to the public	5,271		-413	4,858
Cultural, environmental & planning services	108,588	284	-8,174	100,698
Education and children's services	284,882		-5,882	279,000
Highways, roads and transport services	77,548	97		77,645
Adult Social Care	290,291	-274	-2,330	287,687
Court services	515		-487	28
Non-distributed costs	3,931	62	-2,633	1,360
Total financing and investment income and expenditure	0	-169	-3,637	-3,806
	771,026	0	-23,556	747,470

#### 4.2. Grants and Contributions

Under the Code, revenue and capital grants and contributions are recognised as income when they become receivable and any conditions have been met. Any amounts unapplied are transferred to a usable reserve in the balance sheet. If conditions have not been met, the amount is transferred to receipts in advance on the balance sheet. Previously capital grants and contributions were held as receipts in advance on the balance sheet until they were applied when they were transferred to a grants and contributions deferred account and recognised as income in the income and expenditure account over the life of the asset they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance of deferred grants and contributions has been transferred to the capital adjustment account
- The amount of deferred income recognised in the 2009/10 income and expenditure account is replaced with capital grants applied in 2009/10
- Grants and contributions received in 2008/09 and 2009/10 with outstanding conditions have been recognised as short term liabilities in the balance sheet

- Unapplied grants and contributions received in 2008/09 and 2009/10 with no conditions or none outstanding have been transferred to usable reserves.

	2009/10 Published accounts £'000	Applied grants £'000	Unapplied grants £'000	2009/10 restated accounts £'000
<b>Opening balance sheet 1 April 2009</b>				
Current assets	274,390		1,844	276,234
Current liabilities	-330,852		5,839	-325,013
Long-term liabilities	-933,560	473,118	-698	-461,140
Capital Adjustment A/c	-1,952,848	-473,118		-2,425,966
Usable reserves	-196,897		-6,985	-203,882
	<u>-3,139,767</u>	<u>0</u>	<u>0</u>	<u>-3,139,767</u>
<b>Closing balance sheet 31 March 2010</b>				
Current assets	282,744		738	283,482
Current liabilities	-346,041		12,243	-333,798
Long-term liabilities	-974,015	517,003	-1,026	-458,038
Capital Adjustment A/c	-1,882,356	-517,003		-2,399,359
Usable reserves	-191,442		-11,955	-203,397
	<u>-3,111,110</u>	<u>0</u>	<u>0</u>	<u>-3,111,110</u>
<b>2009/10 Income and Expenditure Account</b>				
Cultural, environmental & planning services	108,588	956	89	109,633
Education and children's services	284,882	9,620	908	295,410
Highways & transport	77,548	12,569	-313	89,804
Adult Social Care	290,291	1,822	-	292,113
Taxation and non specific grant income	-703,733	-68,852	-5,654	-778,239
	<u>57,576</u>	<u>-43,885</u>	<u>-4,970</u>	<u>8,700</u>

#### 4.3. Cash and cash equivalents

Very short term investments are deemed to be equivalent to cash under the code. Consequently investments that mature the same day as the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value have been reclassified in the balance sheet as follows:

	2009/10 Published	Cash equivalents	2009/10 restated accounts
	£'000	£'000	£'000
<b>Opening balance sheet 1 April 2009</b>			
Short term investment	195,209	-47,405	147,804
Cash and cash equivalents	5,591	47,405	52,996
<b>Closing balance sheet 31 March 2010</b>			
Short term investment	184,584	-38,080	146,504
Cash and cash equivalents	5,629	38,080	43,709

#### 4.4. Employee benefits

The Code introduces the requirement to accrue for employee benefits earned but not taken in the financial year. However, the impact on the general fund is refunded by the Compensated Absences Adjustment Account within the Movement in Reserves Statement. The accrual for 2009/10 was as follows:

	2009/10 Published accounts	Employee benefits accrual	2009/10 restated accounts
	£'000	£'000	£'000
<b>Opening balance sheet 1 April 2009</b>			
Current liabilities	-330,852	-14,773	-345,625
Compensated absences adjustment account	0	14,773	14,773
<b>Closing balance sheet 31 March 2010</b>			
Current liabilities	-346,041	-17,768	-363,809
Compensated absences adjustment account	0	17,768	17,768
<b>2009/10 Income and Expenditure Account</b>			
Education and children's services	284,882	17,768	302,650

## **5 Material items of Income and Expenditure**

The authority terminated, or made provision to terminate, the contracts of a number of employees in 2010/11. Total liabilities of £16.1 million are included within service costs (£1.0 million in 2009/10). This includes the termination benefits paid to senior officers disclosed in note 24b.

## **6 Events After the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the County Treasurer on 20 September 2011. In the period since 31 March 2011 until the date the accounts were authorised for issue, 17 schools have transferred to academy status. The balance sheet at 31 March 2011 included assets and liabilities relating to these schools that will transfer during 2011/12. This includes plant, property and equipment valued at £185.3 million at 31 March 2011 and cash backed reserves of £7 million. However, the actual value of transfers will be agreed as at the date of transfer.

