

AUDIT COMMITTEE

25 September 2012

ANNUAL FINANCIAL REPORT 2011/12

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

AUD030: Statement of Accounts 2011/12, 12 March 2012

AUD035: Annual Financial Report 2011/12, 26 June 2012

AUD042: Annual Governance Report 2011/12, 25 September 2012

EXECUTIVE SUMMARY:

Legislation requires that the audited Statement of Accounts is approved by Members, by 30 September each year. At its last meeting the Committee received a presentation on the pre-audit Statement of Accounts which were signed by the Head of Finance and published, as required, by 30 June and were available for public inspection from 12 July 2012 to 8 August 2012. Elsewhere on this agenda the Audit Commission have presented their Annual Governance Report which includes a proposed unqualified audit opinion.

Members received training on 10 September on the role of the Audit Committee in relation to the approval of the Statement of Accounts.

The Annual Financial Report for 2011/12, incorporating the Explanatory Foreword (for noting); the Statement of Accounts and the Annual Governance Statement (for approval) are appended.

The Annual Governance Statement is unchanged for that approved by the Audit Committee in June.

It is important that Members are aware of the key issues contained in the Accounts and the Head of Finance will provide a presentation on the Annual Financial Report at the committee meeting.

RECOMMENDATIONS:

That the Audit Committee:

1. Note the Explanatory Foreword to the Statement of Accounts for 2011/12,
2. Approve the Statement of Accounts for 2011/12, and
3. Approve the Annual Governance Statement for 2011/12.

Appendix - Annual Financial Report 2011/12

**WINCHESTER CITY COUNCIL**

**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**Winchester City Council**  
**Annual Financial Report 2011/12**  
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3	Annual Governance Statement

**WINCHESTER CITY COUNCIL**

**EXPLANATORY FOREWORD**  
**FOR THE YEAR ENDED 31 MARCH 2012**

### 1. Introduction

The purpose of this foreword is to provide a guide to the most significant matters reported in the Statement of Accounts and an explanation in overall terms of the Council's financial position, to assist in the interpretation of the financial statements.

In accordance with the relevant guidance, with effect from 2011/12, the Finance Report has been separated into the following individual parts: Explanatory Foreword, Statement of Accounts, Annual Governance Statement and Appendices. Previously these sections have formed one single document.

### 2. Statement of Accounts

The Council's "Statement of Accounts" has been prepared in accordance with statutory requirements and includes the adoption of the International Financial Reporting Standards (IFRS). The Statement of Accounts includes the following main statements and associated notes:

**Statement of Responsibilities for the Statement of Accounts** – sets out the respective responsibilities of the Council and the Head of Finance in relation to the Statement of Accounts.

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

**Comprehensive Income and Expenditure Statement (CIES)** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

## EXPLANATORY FOREWORD

hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

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

**Statement of Accounting Policies** – explains the basis for the recognition, measurement and disclosure of transactions and other events in the Statement of Accounts.

**Housing Revenue Account Comprehensive Income and Expenditure Statement** – This statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movement on the Housing Revenue Account Balance.

**Collection Fund Account** – is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to other precepting bodies and the Government of council tax and non-domestic rates.

### 3. Annual Governance Statement

In addition to the foregoing, the Council is required by statute to provide an Annual Governance Statement: a formal statement that covers all significant corporate systems, processing and controls, spanning the whole range of its activities. It is approved by the Audit Committee and signed by the Council's Chief Executive and the Leader of the Council.

### 4. Significant Changes to Accounting Policies

#### Adoption of FRS 30 Heritage Assets

The adoption of this Financial Reporting Standard requires the Council to recognise its heritage assets in the balance sheet. Heritage assets are those tangible and intangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held by the Council principally for their contribution to knowledge and culture.

FRS 30 *Heritage Assets* has been applied retrospectively and has resulted in the restatement of the comparative Balance Sheets as at 31 March 2010 and 31 March 2011.

### 5. Significant Events during the year

#### 5.1 Housing Finance Reform

As part of the Government's reform of the Housing Subsidy System, the Council has had to secure specific borrowing to finance the "Self Financing Determination" of £156.722 million allocated to it. In preparation for this, a detailed 30 year business plan and stock survey has been prepared to determine the long term investment needs of the housing stock.

The borrowing has been structured to ensure that the Business Plan is sustainable and also to provide more resources in the early years of the Plan to meet specific repairs backlog and to support a programme to build new Council homes.

#### 5.2 Environmental Services Contract

A partnership between East Hampshire District Council and Winchester City Council to provide environmental services under a new joint contract commenced in October 2011 and is for a minimum period of eight years. Savings in excess of £1 million per annum are anticipated.

#### 5.3 Concessionary Travel Scheme

Responsibility for the concessionary travel scheme transferred to Hampshire County Council with effect from the 1 April 2011 and all final claims for costs up to the 31 March 2011, for which the Council was responsible, were settled during the year.

### 6. Financial position of the Council

At 31 March 2012 the Council had a net worth of £184 million consisting of: a portfolio of council dwellings valued at £285 million; investment properties of £38 million; cash and investments of £14 million; other assets (mainly operational land and buildings) of £70 million; Long Term Borrowing of £159 million, a potential future liability of £53 million in its employee's pension fund; other short-term liabilities of £8 million (creditors and provisions); and developers' contributions of £3 million that could potentially require repayment (in the unlikely event that the terms of the contributions are not met).

The Council's Balance Sheet shows usable reserves of £14 million. However, it is current Council policy to maintain £2 million of this as a General Fund balance to protect against risk to the Council's finances; and the remaining £12 million has been set aside for specific purposes based on agreed spending plans.

### 7. Summary of Revenue Expenditure in the Year

The deficit for the year on the Net Cost of Services (including Trading accounts) was £174.8 million which was £160.9 million more than the budgeted deficit of £13.9 million. This was mainly caused by; the settlement to the Secretary of State in relation to the Housing Reform of £156.7 million and downward property revaluations of £5.7 million, and an under spend on services of £1.5 million.



## EXPLANATORY FOREWORD

Although the Comprehensive Income and Expenditure Account for the year shows a Deficit of £162.6 million on the Provision of Services, this is before adjustments for revaluation losses and the adjustments in the Movement in Reserves Statement for “Adjustments between the Accounting Basis and Funding Basis under Regulations”, totalling £164.1 million are made for the reversal of capital related items (including the Housing reform settlement) and pension costs. After these adjustments, revenue transfers to earmarked reserves amounted to £1.7 million.

2011/12 Original Budget £000		2011/12 Revised Budget £000	2011/12 Outturn £000	Variance favourable / (adverse) £000
14,085	<b>Cost of Services (incl. Trading A/Cs)</b>	13,933	174,862	(160,929)
	<b>Other Operating Income &amp; Expenditure</b>			
2,203	Parish Council Precepts	2,203	2,203	0
	Payments to Government - Housing Capital Receipts Pool		477	(477)
	(Gains)/Losses on Disposal of non-current assets		(429)	429
	<b>Financing &amp; Investment Income &amp; Expenditure</b>			
(184)	Net Interest Receivable and similar income	(198)	(292)	94
70	Minimum Revenue Provision / Voluntary Revenue Contributions	95	96	(1)
	Pension Interest Costs and expected return on pension assets		1,270	(1,270)
	Changes in the fair value of Investment Properties		40	(40)
	<b>Taxation &amp; Non-Specific Grant Income</b>			
(9,129)	Council Tax Income (incl. parish precepts)	(9,129)	(9,169)	40
(5,360)	Non-ringfenced Government Grants incl. Non Domestic Rates	(5,497)	(5,774)	277
	Capital Grants & Contributions		(719)	719
<b>1,685</b>	<b>(Surplus)/Deficit on Provision of Services</b>	<b>1,407</b>	<b>162,565</b>	<b>(161,157)</b>

### 8. Summary of Capital Expenditure and Borrowing in the Year

Capital expenditure is the amount spent on items that have a value to the Council or the community for more than a year, and is generally met from reserves, grants and contributions or the proceeds from the sale of capital assets.

The Council's capital expenditure in 2011/12 was £10.7 million which was £3.2 million less than the planned £13.9 million budget. The variance was caused by unspent budget of £6.2 million, partly offset by unbudgeted expenditure of £2.9 million. The most significant element of unbudgeted expenditure is a consequence of the accounting treatment of embedded finance leases within the Environmental Services contract.

Capital expenditure during the year was financed from capital reserves (£3.5 million); revenue reserves (£1.3 million); grants and contributions (£1.0 million); and capital receipts (£1.0 million).

As the capital programme was not fully matched by capital financing, there was an increase in the Council's capital financing requirement to fund 2011/12 capital expenditure of £1.3 million. This resulted in a charge to the Comprehensive Income and Expenditure Account (a Minimum Revenue Provision) of £96,000 in 2011/12 (£39,000 in 2010/11).

## EXPLANATORY FOREWORD

Additionally the Council has acquired £2.6 million of Vehicles, Plant & Equipment as an embedded finance lease as part of the Environmental Services Contract, (see 5.2). An amortisation charge of £161,000 has been made to the Comprehensive Income and Expenditure Statement in 2011-12 (Nil 2010-11)

Until the 31 March 2012, repairs and enhancements to Council housing have been funded through the national subsidy system and the Major Repairs Allowance (MRA). From 1 April 2012, the Subsidy system has been abolished and the Council will no longer receive the Major Repairs Allowance. All repairs and enhancements, along with the provision of new homes will all be funded directly from Council housing rental income. As part of this process the Council borrowed and paid £156.722 million to Central Government on the 28 March 2012. The interest cost to the Council for the remaining 3 days of 2011-12 was credited to the Council as part of the subsidy system but in future years will be funded directly from Council Housing rental income.

The Council has plans to make significant investment for the future and has a capital programme of £45.2 million (£34.1 m last year) for the three years from 2012/13 to 2014/15. The significant increase is due to the ending of the Housing Revenue Account Subsidy System which will allow the Council to increase expenditure on capital enhancements to current stock and to build new council housing rather than pay a "negative subsidy" to Central Government.

### 9. Investments

At 31 March 2012 Short Term Investments were £9.2 million (£7.2 million at 31 March 2011), and Long Term Investments were £1.0 million (£1.1 million at 31 March 11).

### 10. Future Developments

#### 10.1 2012/13 Budget and Council Tax

The Council approved net expenditure of £15.103 million of which £2.287 million was for Parish Council precepts and £0.873 million for Winchester Town special expenses. After deducting Government grants and collection fund adjustments, £6.975 million was required to be raised from Council Tax. This resulted in an average Council Tax Band D charge of £191.65, of which £126.27 is for District services (i.e. excluding the Parish Council precepts and Winchester Town special expenses). This compares with 2011/12 Band D rates of £190.27 and £126.27 respectively.

The average Band D total for Winchester City Council residents, also including the County Council, the Police Authority and the Fire & Rescue Authority, is £1,437.16, as against £1,435.78 for 2011/12.

#### 10.2 Silver Hill development

The Silver Hill scheme provides for the regeneration of an area of Winchester involving private property and a number of properties owned by the Council, the latter being Coitbury House; Friarsgate multi storey car park; 6, 8 and 10 Middle Brook Street; Kings Walk; and land at Eastgate Street. The developer of the scheme is the Henderson Global Investors UK Property Fund. The scheme requires the use of compulsory purchase powers by the Council to assemble the

land necessary to enable a comprehensive development to take place. The site will be leased to the developer on a geared rent.

The inquiry in to the use of compulsory powers began on 26 June 2012 and the decision of the Secretary of State on whether to confirm the order should be known by the end of the year. The Council's costs in promoting the CPO are covered by the developer under an Indemnity Agreement.

### **10.3 Future of Local Public Audit**

The Department for Communities and Local Government (DCLG) has previously announced plans to disband the Audit Commission and transfer audit work to private sector providers.

In March 2012 the Commission announced the [results of the procurement exercise](#) awarding five-year contracts to four private firms. Around 700 of the Commission's auditors will now transfer to new employers in November 2012.

The Audit Commission will remain in place to oversee the contracts and other statutory functions but will be significantly smaller following the outsourcing. The current team will be completing the audit for 2011/12 and will transfer to their new employer from 1 November 2012; appointments for the 2012/13 audit process will commence from 1 September 2012. The Audit Commission has awarded the contract for the South East to **Ernst & Young LLP**.

## **11. Provisions and Contingencies**

During 2011/12 the Council has provided for an estimated £74,300 of liabilities where the amount and timing is uncertain.

There is also a possible obligation which has been disclosed as a contingent liability in the accounts because settlement is dependant on the unknown outcome of a future event.

The Council has submitted a claim in the High Court for the payment of compound interest in relation to a VAT Claim which was paid by HMRC with simple interest in 2009. The possible asset that may arise from the case is dependant on the outcome of a judgement by the European Court of Justice; so it has not been recognised in the accounts.

## **12. Impact of the Current Economic Climate**

The main impact on the accounts of the current economic climate relates to pressure on income sources. Planning fee income and car parking income are reducing as are specific grants from the government. The historically low interest rate environment has reduced and will continue to reduce interest income levels from the Council's investments. Other impacts include increases in housing benefits payments and the grant income for this, although the overall impact is largely neutral. Debt collection is also becoming more difficult, increasing the levels of allowances made for doubtful debts.

**WINCHESTER CITY COUNCIL**

**ANNUAL STATEMENT OF ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2012**

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**WINCHESTER CITY COUNCIL**  
**STATEMENT OF ACCOUNTS 2011/12**  
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## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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### **The Council's Responsibilities**

#### **The Council is required to:**

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

### **The Responsibilities of the Head of Finance**

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

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

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

The Head of Finance has also: -

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year then ended.

Signature: .....

**Alexis Garlick FCCA**  
**Head of Finance**

Date: September 2012

I certify that the Statement of Accounts for the year ended 31 March 2012 has been approved by a resolution of the Audit Committee at its meeting on the 25 September 2012, and is authorised for issue.

Chair person: .....

**Councillor Lynda Banister**  
**Chair of the Audit Committee**

Date: September 2012

## MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

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

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2011 brought forward</b>	<b>(2,000)</b>	<b>(5,340)</b>	<b>(1,289)</b>	<b>(70)</b>	<b>(2,950)</b>	<b>(808)</b>	<b>(127)</b>	<b>(12,584)</b>	<b>(342,813)</b>	<b>(355,397)</b>
<b>Movement in reserves during 2011/12</b>										
Deficit on provision of services	1,678		160,887					162,565		162,565
Other Comprehensive (Income) and Expenditure								0	8,629	8,629
<b>Total Comprehensive (Income) and Expenditure</b>	<b>1,678</b>	<b>0</b>	<b>160,887</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>162,565</b>	<b>8,629</b>	<b>171,194</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	(3,128)		(161,544)		748	(168)	0	(164,092)	164,092	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(1,450)</b>	<b>0</b>	<b>(657)</b>	<b>0</b>	<b>748</b>	<b>(168)</b>	<b>0</b>	<b>(1,527)</b>	<b>172,721</b>	<b>171,194</b>
Transfers to/(from) Earmarked Reserves (Note 7)	1,450	(915)	(11)	0				524	(524)	0
<b>(Increase)/Decrease in Year</b>	<b>0</b>	<b>(915)</b>	<b>(668)</b>	<b>0</b>	<b>748</b>	<b>(168)</b>	<b>0</b>	<b>(1,003)</b>	<b>172,197</b>	<b>171,194</b>
<b>Balance at 31 March 2012 carried forward</b>	<b>(2,000)</b>	<b>(6,255)</b>	<b>(1,957)</b>	<b>(70)</b>	<b>(2,202)</b>	<b>(976)</b>	<b>(127)</b>	<b>(13,587)</b>	<b>(170,616)</b>	<b>(184,203)</b>



## MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

Comparative numbers for 2010/11 (restated):

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2010</b>	<b>(2,000)</b>	<b>(7,058)</b>	<b>(2,201)</b>	<b>(47)</b>	<b>(4,746)</b>	<b>(826)</b>	<b>(125)</b>	<b>(17,003)</b>	<b>(422,181)</b>	<b>(439,184)</b>
<b>Movement in reserves during 2010/11</b>										
(Surplus) or deficit on provision of services	(4,196)		99,430					95,234		95,234
Other Comprehensive (Income) and Expenditure	0	0	0	0	0	0	0	0	(11,447)	(11,447)
<b>Total Comprehensive (Income) and Expenditure</b>	<b>(4,196)</b>	<b>0</b>	<b>99,430</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>95,234</b>	<b>(11,447)</b>	<b>83,787</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	5,179		(98,541)		1,796	18	(2)	(91,550)	91,550	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>983</b>	<b>0</b>	<b>889</b>	<b>0</b>	<b>1,796</b>	<b>18</b>	<b>(2)</b>	<b>3,684</b>	<b>80,103</b>	<b>83,787</b>
Transfers to/(from) Earmarked Reserves (Note 7)	(983)	1,718	23	(23)				735	(735)	0
<b>(Increase)/Decrease in Year</b>	<b>0</b>	<b>1,718</b>	<b>912</b>	<b>(23)</b>	<b>1,796</b>	<b>18</b>	<b>(2)</b>	<b>4,419</b>	<b>79,368</b>	<b>83,787</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>(2,000)</b>	<b>(5,340)</b>	<b>(1,289)</b>	<b>(70)</b>	<b>(2,950)</b>	<b>(808)</b>	<b>(127)</b>	<b>(12,584)</b>	<b>(342,813)</b>	<b>(355,397)</b>

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2012**

This statement shows the accounting cost to the Council in the year for the provision of services in accordance with International Financial Reporting Standards (IFRS) adapted by the Code of Practice on Local Authority Accounting (the Code). The Total Comprehensive Income and Expenditure represents the total movement on net assets in the Council's balance sheet.

The statement includes some costs and income that are not allowed, by statute, to be funded from taxation. The comprehensive income and expenditure is adjusted for these items in order to set the level of Council Tax. This taxation position is shown in the Movement in Reserves Statement.

	Note	2011/12			Restated 2010/11		
		Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
Corporate and democratic core		2,755	(4)	2,751	2,727	(5)	2,722
Central services to the public		7,919	(6,043)	1,876	8,475	(6,389)	2,086
Cultural and related services		4,286	(999)	3,287	4,701	(721)	3,980
Environment & regulatory		6,006	(928)	5,078	7,036	(943)	6,093
Planning & development		4,399	(1,709)	2,690	6,040	(2,276)	3,764
Highways, roads and transport		3,823	(5,655)	(1,832)	6,575	(5,694)	881
Local authority housing (HRA)		24,090	(25,482)	(1,392)	23,803	(23,850)	(47)
Property revaluation (HRA)		5,726	0	5,726	104,046	0	104,046
Housing finance reform (HRA)	44	156,722	0	156,722	0	0	0
Other housing services		27,856	(26,806)	1,050	25,986	(24,871)	1,115
Non distributed costs		271	0	271	(13,555)	0	(13,555)
<b>Cost Of Services</b>		<b>243,853</b>	<b>(67,626)</b>	<b>176,227</b>	<b>175,834</b>	<b>(64,749)</b>	<b>111,085</b>
Surplus on trading accounts	29			(1,365)			(1,364)
Other Operating Income and Expenditure	8			2,251			3,376
Financing and Investment Income and Expenditure	9			1,114			(1,090)
Taxation and Non-Specific Grant Income	10			(15,662)			(16,773)
<b>(Surplus) or Deficit on Provision of Services</b>				<b>162,565</b>			<b>95,234</b>
(Surplus) or deficit on revaluation of Non Current Assets				(1,071)			(7,119)
(Surplus) or deficit on revaluation of available for sale financial assets				0			(49)
Actuarial (gains) / losses on pension assets / liabilities				9,700			(4,279)
<b>Other Comprehensive (Income) and Expenditure</b>				<b>8,629</b>			<b>(11,447)</b>
<b>Total Comprehensive (Income) and Expenditure</b>				<b>171,194</b>			<b>83,787</b>

## BALANCE SHEET AS AT 31 MARCH 2012

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the Council's reserves. There are two types of reserve shown in the Balance Sheet. The first category of reserves is 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). The second category of reserves is those that the council is not able to use to provide services. This category includes reserves that contain unrealised gains and losses, where amounts would only become available to provide services if the assets are realised. They also include reserves that hold timing differences and adjustments between the accounting basis and funding basis under regulations.

	Note	31 Mar 12 £000	Restated 31 Mar 11 £000	Restated 31 Mar 10 £000
Property, Plant & Equipment	11	346,652	351,015	447,368
Heritage Assets	12	2,750	1,695	1,645
Investment Property	13	37,739	35,926	33,957
Intangible Assets	14	923	1,037	1,129
Long Term Investments	15	1,017	1,089	1,182
Long Term Debtors	15	153	132	146
<b>Long Term Assets</b>		<b>389,234</b>	<b>390,894</b>	<b>485,427</b>
Short Term Investments	15	9,159	7,237	13,722
Inventories	16	29	36	20
Short Term Debtors	17	4,937	4,484	5,828
Cash and Cash Equivalents	18	3,754	6,077	4,357
<b>Current Assets</b>		<b>17,879</b>	<b>17,834</b>	<b>23,927</b>
Short Term Borrowing	15	(357)	0	0
Short Term Creditors	20	(7,343)	(6,292)	(7,865)
Provisions	21	(74)	(1,914)	(212)
<b>Current Liabilities</b>		<b>(7,774)</b>	<b>(8,206)</b>	<b>(8,077)</b>
Long Term Borrowing	15	(158,840)	0	0
Pension Scheme Liability	39	(53,080)	(42,590)	(58,939)
Grants and Contributions in Advance	34	(3,216)	(2,535)	(3,154)
<b>Long Term Liabilities</b>		<b>(215,136)</b>	<b>(45,125)</b>	<b>(62,093)</b>
<b>Net Assets</b>		<b>184,203</b>	<b>355,397</b>	<b>439,184</b>
Usable reserves	22	13,587	12,584	17,003
Unusable Reserves	23	170,616	342,813	422,181
<b>Total Reserves</b>		<b>184,203</b>	<b>355,397</b>	<b>439,184</b>

## **CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012**

The Cash Flow Statement shows the changes in the Council's cash and cash equivalents during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities.

	<b>Note</b>	<b>2011/12 £000</b>	<b>Restated 2010/11 £000</b>
Net (surplus) or deficit on the provision of services		162,565	95,234
Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	(11,361)	(99,955)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		281	324
Net cash flows from Operating Activities	25	151,485	(4,397)
Investing Activities	26	10,525	673
Financing Activities	27	(159,687)	2,004
Net (increase) or decrease in cash and cash equivalents		2,323	(1,720)
Cash and cash equivalents at the beginning of the reporting period	18	(6,077)	(4,357)
Cash and cash equivalents at the end of the reporting period		(3,754)	(6,077)

## **1. Accounting Policies**

### **2. General Principles**

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

The Statement of Accounts has been prepared on a going concern basis. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible non-current assets and financial instruments.

#### **1.2 Accruals of Income and Expenditure**

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

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

#### **1.3 Cash and Cash Equivalents**

**Cash** comprises cash in hand and demand deposits.

**Cash Equivalents** are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Council has decided to include the following as Cash Equivalents:

- Instant Access/ One Day Call Accounts

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

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- Instant Access Short Term Funds
- Deposits with one day to maturity

All other deposits are included in Investments

### 1.4 Exceptional Items

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

### 1.5 Prior Period Adjustments; Changes in Accounting Policies and Estimates; and Errors

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

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

*Material errors* discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. The nature of the error is also disclosed.

### 1.6 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 1.7 Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries; paid annual leave and paid sick

leave; bonuses; and non-monetary benefits (e.g. cars) for current employees. They are recognised as an expense for services in the year in which employees render service to the Council. Where material, an accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date; or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

#### Post Employment Benefits

Most employees of the Council are members of The Local Government Pension Scheme, administered by Hampshire County Council. The scheme provides members with defined benefits (retirement lump sums and pensions) earned by employees whilst working for the Council; and is accounted for as a defined benefits scheme where:

- The liabilities of the Hampshire County Council Pension Fund attributable to the Winchester City 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, etc; and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate of 4.7% for funded liabilities and 4.6% for unfunded liabilities (the variance is due to the different duration of the liabilities). The discount rate is based on the indicative rate of return on high quality corporate bonds – for 2011/12 this used the Aon Hewitt UK Corporate AA Curve – Swaps Extrapolation curve.
- The assets of the Hampshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value: quoted securities at current bid price; unquoted securities at professional estimate; unitised securities at current bid price; and property at market value.
- The change in the net pensions liability is analysed into seven components:
  - *Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

- *Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.
- *Interest cost* – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- *Expected return on assets* – the annual investment return on the fund assets attributable to the Council; based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- *Gains or losses on settlements and curtailments* – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.
- *Actuarial gains and losses* – 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 – this is debited to the Pensions Reserve.
- *Contributions paid to the Hampshire pension fund* – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits; and replace them with debits for the cash paid to the pension fund and pensioners (and any such amounts payable but unpaid at the year-end). The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### ***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 are accrued in the year that the decision to make the award is made. It is accounted for using the same policies as are applied to the Local Government Pension Scheme.

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

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.



- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

## **1.9 Financial Instruments**

A financial instrument is 'Any Contract which gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity'.

### Financial Liabilities

A Financial Liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially favourable to the Council.

The Council's borrowing portfolio is measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement.

The Council also has deferred liability commitments in the form of embedded finance leases in relation to the vehicles used in the performance of the joint Environmental Services Contract.

### Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council, represented by cash or other instruments, or a contractual right to receive cash or another financial asset.

The two classifications for financial assets relevant to the Council as defined within the Code of Practice are:

1. Loans and Receivables – includes the Council's fixed term deposits, and money market funds. Loans and Receivables are measured at amortised cost. Trade receivables are also classed as Loans and Receivables but are measured at cost on the Balance Sheet.

Available for Sale – includes money market funds and call accounts. These are included under cash and cash equivalents within the Balance Sheet as they represent highly liquid investments that are readily convertible to known amounts of cash with an insignificant risk of change in value.

Within the Loans and receivables the Council has loans to a voluntary organisation at less than market rate. These are classified as "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 to be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable from the voluntary organisations, 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.

### ***Transaction Costs***

Measurement at amortised cost permits transaction cost to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure over the life of the instrument. Where these are considered not to be material they can be charged in full to the Comprehensive income and Expenditure Statement in the financial year in which they are incurred. The Council has adopted the later approach for 2011/12.

## **1.10 Government Grants and Other Contributions**

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

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

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

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

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

### ***Area Based Grant***

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

### ***Business Improvement Districts***

There are two Business Improvement Districts (BID), the schemes apply across the whole of the Council. The schemes are funded by a BID levy paid by non-domestic ratepayers.

The Council acts as principal under one scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

The Council acts as a recipient in the other scheme which covers an overlapping area of both Winchester City Council (17.4%) and Fareham Borough Council (82.6%). Fareham Borough Council act as the Principal; accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

### **1.11 Heritage Assets**

Heritage Assets are those assets which are intended to be preserved, in trust, for future generations because of their cultural, environmental or historical associations and which are held principally for that purpose. Where assets are principally operational in nature they are accounted for within Property, Plant and Equipment (see 1.17 ).

Heritage Assets can be Tangible or Intangible (e.g. recordings of significant events) in nature and are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

#### **Archaeology**

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection, due to the diverse nature of the assets held and lack of comparable market values, with the exception of one item (a marble head).

The Council does not normally make purchases of archaeological items but acts as a repository of materials excavated by external contractors and normally only accept these where the total excavation archive, including documentation is available. The collection is normally confined to the boundaries of Winchester District; however, in exceptional cases consideration will be given to material from outside the District.

#### **Local History, Photographic materials, Numismatics, Ethnography, Foreign Archaeology**

The Council considers that the cost of obtaining valuations for these collections would involve a disproportionate cost in comparison with the benefits to the users of the Council's Statement of Accounts. This is due to the diverse nature of the assets held and the lack of comparable values.

Acquisition has mainly been through donation, dispersals are considered where collections would be better maintained in a more specialised collection.

#### **Topographical Art and Portraits (art Collection), Civic Items**

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation.

The assets within these collections are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Valuations are carried out as required for insurance purposes.

### **Structures and Monuments**

There is no recognition of these items on the Balance Sheet. The assets are unique and therefore, have no ready market for acquisition / disposal. It is difficult for any meaningful valuation to be attributed to these assets.

### **Heritage Assets – General**

Where Heritage assets have indefinite lives they are not subject to depreciation or amortisation, they are however, subject to review. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets. For example where an item has suffered physical deterioration or damage or where doubts have arisen as to the assets authenticity.

Any impairment is recognised and measured in accordance with the Council's general policies on impairment (at Accounting Policy 1.17).

Any assets out on loan are valued on a three year cycle in keeping with any loan agreements.

The management of the museum will occasionally organise the dispersal of heritage assets which do not fit in with the collection policy; have doubtful provenance; unsuitable for public display; or where they are best suited to another collection. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the Statement of Accounts and are accounted for in accordance with the statutory accounting requirements relating to capital expenditure and capital receipts (see accounting policies 1.17 and 1.2 ).

### **1.12 Intangible Assets**

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the 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.

### **1.13 Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first-in-first-out (*FIFO*) costing formula.

### **1.14 Investment Property**

Investment properties are those that are held 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 is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued 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 in the Comprehensive Income and Expenditure Statement 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.

### **1.15 Leases**

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### *The Council as Lessee*

##### ***Finance Leases***

Property, plant and equipment which is financed by a finance lease is recognised on the Balance Sheet at the commencement of the lease at fair value, which is measured at the inception of the lease (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### ***Operating Leases***

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### ***The Council as Lessor***

#### ***Finance Leases***

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by 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 over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **1.16 Overheads and Support Services**

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

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

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

## **1.17 Property, Plant and Equipment**

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

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment, which exceeds the de-minimus of £10,000, is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

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

Where decreases in value are identified, they are accounted for based on the presence of a balance in the Revaluation Reserve:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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



### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for based on the presence of a balance in the Revaluation Reserve:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation between 5 – 60 years

Where a significant item of Property, Plant and Equipment (valued over £1.5 million) has major components (over 20% of the total value) with materially different useful lives the components are depreciated separately.

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

Depreciation charged in year is based on the opening gross book values of the assets. It does not include any revaluations or additions in year. A full year of depreciation is charged in the year of disposal

### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **1.18 Jointly Controlled Operations and Jointly Controlled Assets**

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

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

### **1.19 Provisions, Contingent Liabilities and Contingent Assets**

#### Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

#### Contingent Assets

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

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

### **1.20 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year and included in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net additional charge against council tax for the expenditure in that year.

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 Council – these reserves are explained in the relevant policies.

### **1.21 Revenue Expenditure Funded from Capital under Statute**

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

### **1.22 VAT**

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

## **3. Accounting Standards that Have Been Issued but Have Not Yet Been Adopted**

The Code requires the Council to identify any accounting standards that have been issued but have yet to be adopted.

Amendments to IFRS 7 – Financial Instruments: Disclosures (transfers of Financial Assets, Issued October 2010) becomes effective from 1 April 2012. The amendments to the standard are designed to enhance de-recognition disclosures relating to the transfers of financial assets. The Council has not transferred any of its financial assets. It is thought to be unlikely that this standard will have a material impact on the financial statements.

## **4. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

- Impairment of investments - the Council had an investment of £1 million with Heritable Bank Ltd which was placed into administration in October 2008. Whilst in Administration, Heritable will continue to manage its current loan book and the Joint Administrators will be seeking to find purchasers for, and will continue to manage, the remainder of Heritable's business and loan book to maximise recovery for creditors. At 31 March 2012 the Council had received dividends of £0.68 million and has assumed that payments will continue to be received in accordance with the Administrator's forecasts up to a total of 88% recovery by April 2013.
- Lease classifications - The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken "in the round" and a decision has been made. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.
- Asset reclassifications - The Council has made judgements on whether assets are classified as Investment Property, Heritage Assets 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, if held principally to be preserved, in trust, for future generations because of their cultural, environmental or historical associations, this would indicate a Heritage Asset. The classification determines the valuation method to be used.
- Contractual arrangements - The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

### **5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The financial statements contain estimated figures based on assumptions by the Council concerning future events that are 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £64,000 for every year that useful lives had to be reduced.
Pensions 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 Fund 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 assumptions would result in a decrease in the pension liability of £9.13 million. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability had increased by £0.86 million as a result of estimates being corrected as a result of experience; and increased by £7.22 million attributable to updating of the assumptions.
Arrears / debt impairment	At 31 March 2012, the Council had a balance of sundry debtors of £1,840,853. A review of debtors, profiled by the age of the debt, suggested that an impairment of doubtful debts of 19.0% (£349,676) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, and an increase of 5% was attributed to each category of aged debt, an additional impairment charge of £92,043 would need to be set aside as an allowance.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

**6. Events after the Balance Sheet Date**

The Statement of Accounts was authorised for issue on 25 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. The financial statements and notes have not been adjusted for the following events which took place after 31 March 2012 as they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date:

Housing Finance Reform – On 1 April 2012 the reform of the national housing subsidy system takes effect. The Council retains all of the rental income collected from Council tenants for investment in, council housing, services to tenants and the servicing of the new housing debt. The debt of £156.722 million was incurred on 28 March 2012 in order to make settlement to Central Government

**7. Adjustments between Accounting Basis and Funding Basis under Regulations**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

2011/12	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Movement in Grants Unapplied £000	Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(2,148)	(3,947)	0	0	0	6,095
Revaluation losses on Property Plant and Equipment	(84)	(5,726)	0	0	0	5,810
Movements in the market value of Investment Properties	(40)	0	0	0	0	40
Amortisation of intangible assets	(367)	(4)	0	0	0	371
Capital grants and contributions	584	0	0	0	0	(584)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(105)	(249)	0	0	0	354
HRA Financing Settlement	0	(156,722)	0	0	0	156,722
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	258	0	0	0	0	(258)
Capital expenditure charged against the General Fund and HRA balances	0	532	0	0	0	(532)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	150	633	(783)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,055	0	0	(1,055)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	(5)	5	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(476)	0	476	0	0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash	0	0	(5)	0	0	5
<b>Adjustment involving the Major Repairs Reserve</b>						
Reversal of Major Repairs Allowance credited to the HRA	0	3,572	0	(3,572)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,404	0	(3,404)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(42)	264	0	0	0	(222)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 39)	(2,940)	(350)	0	0	0	3,290
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 39)	2,042	458	0	0	0	(2,500)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	40	0	0	0	0	(40)
<b>Total Adjustments</b>	<b>(3,128)</b>	<b>(161,544)</b>	<b>748</b>	<b>(168)</b>	<b>0</b>	<b>164,092</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

2010/11 Restated	Usable Reserves					Movement in
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(1,716)	(3,693)	0	0	0	5,409
Revaluation losses on Property Plant and Equipment	(2,264)	(104,046)	0	0	0	106,310
Movements in the market value of Investment Properties	1,336	1,505	0	0	0	(2,841)
Amortisation of intangible assets	(348)	0	0	0	0	348
Capital grants and contributions	742	0	0	0	0	(742)
Revenue expenditure funded from capital under statute	(74)	0	74	0	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	(613)	0	0	0	613
HRA Financing Settlement	0	0	0	0	0	0
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	39	0	0	0	0	(39)
Capital expenditure charged against the General Fund and HRA balances	0	672	0	0	0	(672)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure statement	2	0	0	0	(2)	0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	70	1,272	(1,342)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,059	0	0	(1,059)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	(3)	3	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(2,007)	0	2,007	0	0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash	0	0	(5)	0	0	5
<b>Adjustment involving the Major Repairs Reserve</b>						
Reversal of Major Repairs Allowance credited to the HRA	0	3,479	0	(3,479)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,497	0	(3,497)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	3	260	0	0	0	(263)
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 39)	7,526	2,084	0	0	0	(9,610)
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 39)	1,918	542	0	0	0	(2,460)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(48)	0	0	0	0	48
<b>Total Adjustments</b>	<b>5,179</b>	<b>(98,541)</b>	<b>1,796</b>	<b>18</b>	<b>(2)</b>	<b>91,550</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 8. Transfers to/from Earmarked Reserves

This note sets out the amounts set-aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans; and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure 2010-11 & 2011-12

	Balance at 1 Apr 10	Transfers out 10/11	Transfers in 10/11	Balance at 31 Mar 11	Transfers Out 11/12	Transfers in 11/12	Balance at 31 Mar 12
	£000	£000	£000	£000	£000	£000	£000
<u>General Fund</u>							
Major Investment	(3,636)	906	0	(2,730)	385	(1,320)	(3,665)
Bapsy Bequest (interest)	(611)	624	(13)	0	0	0	0
Car Park Property	(377)	241	0	(136)	110	(205)	(231)
Community Grants	(30)	1	0	(29)	16	0	(13)
Community Safety Partnerships	(70)	20	0	(50)	50	0	0
ICT Strategy	0	0	0	0	60	(60)	0
Insurance	(38)	0	(2)	(40)	0	0	(40)
Local Authority Business Growth Incentive	(811)	299	0	(512)	309	0	(203)
Local Development Framework	(133)	0	(40)	(173)	0	0	(173)
Museums Acquisitions	(14)	0	0	(14)	0	0	(14)
Museums Publications	(7)	0	(30)	(37)	40	(23)	(20)
Non-Operational Property Repairs	(65)	0	0	(65)	65	0	0
Planning Deposits (interest)	(343)	53	(107)	(397)	93	(25)	(329)
Property Condition Surveys	(20)	20	0	0	0	0	0
Property Repairs and Renewals	(582)	51	0	(531)	137	(165)	(559)
Sewage Works Replacement Contributions	(11)	0	0	(11)	11	0	0
Town Twinning	(11)	11	0	0	0	0	0
Choice Based Lettings Contributions	(83)	0	0	(83)	4	0	(79)
Arts & Health Project	(21)	6	0	(15)	15	0	0
Homelessness Prevention	0	0	(210)	(210)	0	(201)	(411)
Municipal Mutual Insurance	(185)	0	0	(185)	0	0	(185)
Land Charges - New Burdens	0	0	0	0	0	(34)	(34)
Building Control	0	0	0	0	0	(117)	(117)
	(7,048)	2,232	(402)	(5,218)	1,295	(2,150)	(6,073)
Winchester Town Reserve	(10)	0	(112)	(122)	0	(60)	(182)
<b>Total General Fund</b>	<b>(7,058)</b>	<b>2,232</b>	<b>(514)</b>	<b>(5,340)</b>	<b>1,295</b>	<b>(2,210)</b>	<b>(6,255)</b>
<u>Housing Revenue Account</u>							
Insurance	(47)	0	(23)	(70)	0	0	(70)
<b>Total Earmarked Reserves</b>	<b>(7,105)</b>	<b>2,232</b>	<b>(537)</b>	<b>(5,410)</b>	<b>1,295</b>	<b>(2,210)</b>	<b>(6,325)</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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**9. Other Operating Expenditure**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Parish council precepts	2,204	2,098
Payments to the Government Housing Capital Receipts Pool	476	2,007
(Gains)/losses on the disposal of non current assets	<b>(429)</b>	<b>(729)</b>
Total	<u>2,251</u>	<u>3,376</u>

**10. Financing and Investment Income and Expenditure**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Interest payable and similar charges	85	91
Pensions interest cost and expected return on pensions assets	1,270	1,970
Interest receivable and similar income	<b>(281)</b>	<b>(310)</b>
Changes in the fair value of investment properties	40	<b>(2,841)</b>
Total	<u>1,114</u>	<u><b>(1,090)</b></u>

**11. Taxation and Non Specific Grant Income**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Non domestic rates	<b>(3,543)</b>	<b>(6,124)</b>
Non-ringfenced government grants	<b>(2,231)</b>	<b>(931)</b>
Capital grants and contributions	<b>(719)</b>	<b>(744)</b>
Total Non Specific Grant Income (see note 34)	<u><b>(6,493)</b></u>	<u><b>(7,799)</b></u>
Council tax income	<b>(9,169)</b>	<b>(8,974)</b>
Total Taxation and Non Specific Grant Income	<u><b>(15,662)</b></u>	<u><b>(16,773)</b></u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

**12. Property, Plant and Equipment (PP&E)**

**Movements in 2011/12**

	<b>Council dwellings</b>	<b>Other land and buildings</b>	<b>Vehicles, plant, furniture &amp; equipment</b>	<b>Infrastructure assets</b>	<b>Community assets</b>	<b>Surplus Assets</b>	<b>Assets under construction</b>	<b>Total Property, Plant and Equipment</b>
<u>Cost or Valuation</u>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 April 2011</b>	<b>290,717</b>	<b>53,868</b>	<b>9,999</b>	<b>3,822</b>	<b>663</b>	<b>0</b>	<b>481</b>	<b>359,550</b>
Additions	4,372	639	2,920	68	0	0	468	8,467
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(218)	0	0	0	0	0	(218)
Revaluation Increases /(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,296)	(25)	0	0	(151)	0	0	(9,472)
Derecognition - Disposals	(248)	(25)	(25)	(2)	0	0	0	(300)
Other movements in Cost or Valuation	(300)	(2,110)	478	0	(14)	1,759	(478)	(665)
<b>At 31 March 2012</b>	<b>285,245</b>	<b>52,129</b>	<b>13,372</b>	<b>3,888</b>	<b>498</b>	<b>1,759</b>	<b>471</b>	<b>357,362</b>
<u>Accumulated Depreciation and Impairment</u>								
<b>At 1 April 2011</b>	<b>0</b>	<b>0</b>	<b>(7,243)</b>	<b>(1,083)</b>	<b>(209)</b>	<b>0</b>	<b>0</b>	<b>(8,535)</b>
Depreciation charge	(3,572)	(1,501)	(794)	(192)	(8)	(28)	0	(6,095)
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,572	10	0	0	80	0	0	3,662
Impairment losses /(reversals) recognised in the Revaluation Reserve	0	234	0	0	0	0	0	234
Derecognition - Disposals	0	0	25	0	0	0	0	25
<b>At 31 March 2012</b>	<b>0</b>	<b>(1,257)</b>	<b>(8,012)</b>	<b>(1,275)</b>	<b>(137)</b>	<b>(28)</b>	<b>0</b>	<b>(10,709)</b>
<u>Net Book Value</u>								
<b>At 31 March 2012</b>	<b>285,245</b>	<b>50,872</b>	<b>5,360</b>	<b>2,613</b>	<b>361</b>	<b>1,731</b>	<b>471</b>	<b>346,653</b>
<b>At 31 March 2011</b>	<b>290,717</b>	<b>53,868</b>	<b>2,756</b>	<b>2,739</b>	<b>454</b>	<b>0</b>	<b>481</b>	<b>351,015</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

<b>Movements (Restated) in 2010/11</b>	<b>Council dwellings</b>	<b>Other land and buildings</b>	<b>Vehicles, plant, furniture &amp; equipment</b>	<b>Infrastructure assets</b>	<b>Community assets</b>	<b>Surplus Assets</b>	<b>Assets under construction</b>	<b>Total Property, Plant and Equipment</b>
<u>Cost or Valuation</u>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 April 2010</b>	<b>394,422</b>	<b>45,902</b>	<b>10,150</b>	<b>3,761</b>	<b>663</b>	<b>0</b>	<b>573</b>	<b>455,471</b>
Additions	4,133	3,282	125	67	0	0	433	8,040
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	5,713	0	0	0	0	0	5,713
Revaluation Increases /(decreases) recognised in the Surplus/Deficit on the Provision of Services	(107,525)	(2,401)	0	0	0	0	0	(109,926)
Derecognition - Disposals	(613)	0	0	0	0	0	0	(613)
Other movements in Cost or Valuation	300	1,372	(276)	(6)	0	0	(525)	865
<b>At 31 March 2011</b>	<b>290,717</b>	<b>53,868</b>	<b>9,999</b>	<b>3,822</b>	<b>663</b>	<b>0</b>	<b>481</b>	<b>359,550</b>
<u>Accumulated Depreciation and Impairment</u>								
<b>At 1 April 2010</b>	<b>0</b>	<b>(479)</b>	<b>(6,537)</b>	<b>(895)</b>	<b>(192)</b>	<b>0</b>	<b>0</b>	<b>(8,103)</b>
Depreciation charge	(3,479)	(955)	(764)	(194)	(17)	0	0	(5,409)
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,479	137	0	0	0	0	0	3,616
Impairment losses /(reversals) recognised in the Revaluation Reserve	0	1,356	0	0	0	0	0	1,356
Other movements in Depreciation and Impairment	0	(59)	58	6	0	0	0	5
<b>At 31 March 2011</b>	<b>0</b>	<b>0</b>	<b>(7,243)</b>	<b>(1,083)</b>	<b>(209)</b>	<b>0</b>	<b>0</b>	<b>(8,535)</b>
<u>Net Book Value</u>								
At 31 March 2011	290,717	53,868	2,756	2,739	454	0	481	351,015
At 31 March 2010	394,422	45,423	3,613	2,866	471	0	573	447,368

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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Depreciation and estimated useful lives

Depreciation on HRA dwellings is an amount equivalent to the Major Repairs Allowance element of the Housing Subsidy. For other types of assets the following useful lives have been used in the calculation of depreciation:

Other land & buildings	5 – 60 years
Vehicles, plant, furniture & equipment	4 – 18 years
Infrastructure	5 – 51 years
Community assets	5 – 60 years

There were no significant changes to the asset lives and depreciation methods used to calculate the charges during the year.

Capital Commitments

As at 31 March 2012, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years. The total commitment at 31 March 2012 was £90,000 (similar commitments at 31 March 2011 were £0.464 million) and is made up as follows:-

	<b>31 Mar 12</b>
	<b>£000</b>
Depot	<u>90</u>

Revaluations and Impairments

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years.

During 2011/12 all Council Dwellings; HRA garages; Investment Properties; and two other General Fund operational properties (which underwent significant changes during the year) were valued internally for financial reporting purposes as at 31 March 2012, by B Bottriell BSc MRICS, the Council's Senior Estates Surveyor.

During 2010/11 most of the general fund freehold and leasehold assets which comprise the Council's property portfolio were valued for financial reporting purposes as at 31 March 2012, in accordance with the RICS Valuation Standards (6th Edition) and UK Practise Statement 1.12, Local Authority Asset Valuations by external valuers Jones Lang LaSalle, a firm of property consultants who are regulated by the RICS. The valuations have been carried out in accordance with RICS Valuation Standards and the specific sections that relate to the IFRS based Code on Local Authority Accounting which were written in conjunction with CIPFA.

The basis of valuations used for non-dwelling assets are either Market Value or Existing Use Value as defined in the Valuation Standards. In carrying out the valuation the majority of values were determined by reference to market based evidence, however for some assets, such as those assets that are highly specialised as a result of their location or specification, or are rarely if ever sold on the open market, the Depreciated Replacement cost method has been utilised.

The valuation figures incorporated in the accounts are the aggregate of separate individual asset valuations of the portfolio, produced for financial reporting purposes only, and not a valuation or apportioned valuation of the portfolio valued as a whole

Valuations of vehicles, plant, furniture and equipment are based on historic cost. The following table shows for each category of property, plant and equipment, those assets

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

that are valued at historic cost and those which are re-valued (including the year in which the revaluations were completed).

	Dwellings	Operational Land & Buildings	Operational Vehicles Plant & Equipment	Infra-structure	Communi-ty Assets	Surplus Assets	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Historic Cost	0	121	5,360	2,613	361	0	471	8,926
Valuation 31/3/11	0	40,532	0	0	0	1,731	0	42,263
Valuation 31/3/12	285,245	10,219	0	0	0	0	0	295,464
	285,245	50,872	5,360	2,613	361	1,731	471	346,653

### 13. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council

	Art Collection	Civic regalia	Archaeology	Total
	£000	£000	£000	£000
<b>Balance as 1 April 2010</b>	<b>220</b>	<b>1,075</b>	<b>350</b>	<b>1,645</b>
Revaluation	0	0	50	50
<b>Balance as at 31 March 2011</b>	<b>220</b>	<b>1,075</b>	<b>400</b>	<b>1,695</b>
Revaluation	630	425	0	1,055
<b>Balance as at 31 March 2012</b>	<b>850</b>	<b>1,500</b>	<b>400</b>	<b>2,750</b>

#### Archaeology

The Archaeology collection has relatively little financial value, apart from the marble head which is on loan to the British Museum, but is of scientific value.

The collection was last valued on 23 April 2010 by the British Museum as part of the loan agreement, this is renewed / reviewed every three years as part of the museums procedures.

#### Art Collection (Topography of Art and Portraits)

The Authority undertook an external valuation of its art work with an independent auction house (Andrew Smith & Son) as at 14 October 2011. This was a full market valuation of the collection for insurance purposes, based on commercial markets including recent transaction information from auctions where similar types of painting are regularly being purchased. Due to the majority of the art collection consisting of prints and original works by local amateur artists the individual artworks attract a nominal financial value

The art collection includes the following works: John Opie's *Lady Elizabeth Woodville Pleading for her Children before Edward IV*, 1798 which is on loan and displayed at the University of Winchester, *King Charles II* by Peter Lely, Cromwell's troops entering Winchester by George Arnold which are both on display in the Guildhall and *Drawings of Wren's Design For the Kings House*. by Nicholas Hawksmoor which is held in storage at this time.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

### **Civic Regalia**

An external valuation of the civic regalia was carried out as at 15 June 2011, by an independent auction house (Andrew Smith & Son). This was a full market valuation of the collection for insurance purposes.

A selection of the Civic Silver collection is on display in the Guildhall, other items which form part of the civic regalia are used in ceremonial duties.

### **Museum Collection Additions**

There were several additions/donations to the museum collections during the year, none of which has a significant monetary value. The additions include:

Donations of

nine small scale archaeological interventions

six local history objects

nine pieces of art

644 original format photographs

a silver plate bull given by 11 Light Brigade (Civic Regalia)

Acquisitions of

A local history item

two art purchases

A group of coins purchased under the British Museum/Portable Antiquities Scheme and Treasure Act 1996

### **Disposals**

There have been no disposals during this period.

## **14. Investment Properties**

The following items of income and expenditure have been accounted for in the following Comprehensive Income and Expenditure Statement lines:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<u>Surplus on trading accounts</u>		
Rental income from investment property	(2,845)	(2,576)
Direct operating expenses of investment property	936	615
	<u>(1,909)</u>	<u>(1,961)</u>
<u>Financing and Investment Income and Expenditure</u>		
Net (gain) / loss on revaluation of investment property	40	(2,841)
Net (gain) / loss on investment properties	<u>(1,869)</u>	<u>(4,802)</u>

The Council's investment properties were revalued as part of the exercise undertaken by an internal valuer and detailed in note 11.

There are no restrictions on the Council's ability to realise the value inherent in its General Fund investment property or on the Council's right to the remittance of income and the proceeds of disposal. However, disposal of Housing Revenue Account investment properties are subject to a requirement to pay 50% to Central Government under the pooling regulations. The Council has no contractual obligations to repairs, maintenance or enhancement of investment property.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	2011/12	2010/11
	£000	£000
Balance at start of the year	35,926	33,957
<u>Additions:</u>		
- Subsequent expenditure	1,187	0
Net gains/losses from fair value adjustments	(40)	2,841
<u>Transfers:</u>		
To/(from) Property, Plant and Equipment	665	(872)
Balance at end of the year	37,738	35,926

### Capital Commitments

As at 31 March 2012, the Council had entered into a number of contracts for the construction or enhancement of Investment Properties in 2012/13 and future years. The total commitment at 31 March 2012 was £0.267 million (similar commitments at 31 March 2011 were £nil) and is made up as follows:

	31 Mar 12
	£000
Hyde House	267

## 15. Intangible Assets

Intangible assets consist of purchased software and software licences. They are capitalised at cost and amortised on a straight-line basis to revenue over the estimated life of the asset which is between 4 – 10 years.

The amortisation cost in 2011/12 totalled £371,000, 88% (£327,000) of this was charged to central support services and the IT Administration cost centre. This was then apportioned as an overhead across all the service headings in the Net Expenditure of Services. The remaining 12% (£44,000) was charged direct to the relevant service.

The movement on intangible asset balances during the year is as follows:

	2011/12	2010/11
	£000	£000
Balance at start of year:		
Gross carrying amounts	2,855	2,599
Accumulated amortisation	(1,818)	(1,470)
Net carrying amount at start of year	1,037	1,129
<b>Additions:</b>		
Purchases	336	256
Other disposals	(79)	0
Amortisation for the period	(371)	(348)
Net carrying amount at end of year	923	1,037
 <u>Comprising:</u>		
Gross carrying amounts	3,112	2,855
Accumulated amortisation	(2,189)	(1,818)
	923	1,037

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### Capital Commitments

As at 31 March 2012, the Council had entered into a number of contracts for the construction or enhancement of Intangible Assets in 2012/13 and future years. The total commitment at 31 March 2012 was £86,000 (similar commitments at 31 March 2011 were £nil) and is made up as follows:

	<b>31 Mar 12</b> <b>£000</b>
ICT - E-Governance	15
Housing System Upgrade	20
Asset Management Solution	51
	86

### **16. Financial Instruments**

Financial instruments are contractual arrangements that give rise to a financial asset in one entity and a financial liability in another. Until the 27 March 2012 this primarily related to financial assets in the form of investments and debtors; and financial liabilities in the form of borrowing and creditors. On this date the Council took on £156.722 million of housing debt as a consequence of the Housing Finance Reform

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

	<u>Long-term</u>			<u>Current</u>		
	31 Mar 12	31 Mar 11	31 Mar 10	31 Mar 12	31 Mar 11	31 Mar 10
	£000	£000	£000	£000	£000	£000
<u>Investments</u>						
Loans and receivables	54	127	269	9,159	7,237	13,722
Available-for-sale financial assets	963	962	913	0	0	0
Cash & Bank	0	0	0	3,754	6,077	4,357
Total investments	1,017	1,089	1,182	12,913	13,314	18,079
<u>Debtors</u>						
Loans and receivables	153	132	146	0	0	0
Financial assets carried at contract amounts	0	0	0	4,550	4,173	5,411
Total Debtors	153	132	146	4,550	4,173	5,411
<u>Borrowings</u>						
Financial Liabilities at Amortised Cost	(156,722)			(57)		
<u>Other Liabilities</u>						
Finance Lease Liabilities	(2,118)			(300)		
Total Long Term Borrowing	(158,840)	0	0	(357)	0	0
<u>Creditors</u>						
Financial liabilities carried at contract amount				(7,343)	(6,292)	(7,865)
Total Creditors	0	0	0	(7,343)	(6,292)	(7,865)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

The following table reflects the composition of borrowings recorded on the Balance Sheet.

<b>Borrowing</b>	<b>Long Term 31 Mar 12 £000</b>
Nominal Amount	156,722
Accrued interest	57
Total Amortised Cost	156,779

The income, expense, gains and losses recognised in the Comprehensive Income and Expenditure Statement for the different categories of financial instruments are as follows:-

<u>2011/12</u>	<b>Financial liabilities at amortised cost £000</b>	<b>Financial Assets: Loans and receivables £000</b>	<b>Financial Assets: Available for sale assets £000</b>	<b>Total £000</b>
Interest expense	22	78	0	100
Interest income	0	(217)	(63)	(280)
Reversal of impairment losses	0	(15)	(1)	(16)
Net (gain)/loss for the year	22	(154)	(64)	(196)

<u>2010/11</u>	<b>Financial liabilities at amortised cost £000</b>	<b>Financial Assets: Loans and receivables £000</b>	<b>Financial Assets: Available for sale assets £000</b>	<b>Total £000</b>
Interest expense	2	0	0	2
Interest income	0	(287)	(67)	(354)
Reversal of impairment losses	0	0	0	0
Net (gain)/loss for the year	2	(287)	(67)	(352)

The Council has no material soft loans.

### Fair Value of Assets and Liabilities

The 2011/12 Code of Practice requires the fair values of Financial Assets and Liabilities to be disclosed for comparison purposes. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is generally the transaction price. The Council's debt outstanding at 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB). The PWLB has published the Fair Value amounts in relation to the Council's debt portfolio on its website [www.dmo.gov.uk](http://www.dmo.gov.uk). The PWLB has assessed the fair values by calculating the amounts the Council would have the pay to extinguish the loans on this date.

The Council's fair values calculated are as follows:

	<b>31 Mar 12 Carrying Value £000</b>	<b>Fair Value £000</b>
Long Term Creditors	156,722	164,354

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

The Council's investment portfolio at the Balance Sheet date consisted almost entirely of term deposits

### **17. Inventories**

<b>2011/12</b>	<b>Guildhall £000</b>	<b>Museums £000</b>	<b>Tourism £000</b>	<b>Other £000</b>	<b>Total £000</b>
Opening Balance	12	10	7	7	36
Purchases	162	1	19	103	285
Recognised as an expense in the year	(164)	(2)	(22)	(104)	(292)
Written off balances	0	0	0	0	0
Closing Balance	10	9	4	6	29

<b>2010/11</b>	<b>Guildhall £000</b>	<b>Museums £000</b>	<b>Tourism £000</b>	<b>Other £000</b>	<b>Total £000</b>
Opening Balance	0	9	8	3	20
Purchases	133	2	29	98	262
Recognised as an expense in the year	(121)	(1)	(30)	(94)	(246)
Written off balances	0	0	0	0	0
Closing Balance	12	10	7	7	36

### **18. Debtors**

	<b>31 Mar 12 £000</b>	<b>31 Mar 11 £000</b>	<b>31 Mar 10 £000</b>
Central government bodies	1,018	1,948	1,951
Council Tax	152	158	167
Housing Rents	206	307	232
NHS bodies	100	29	0
Other entities and individuals	1,679	1,192	2,633
Other local authorities	1,395	526	428
Prepayments	387	311	417
Public corporations and trading funds	0	13	0
Total	4,937	4,484	5,828

### **19. Cash and Cash Equivalents**

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

	<b>31 Mar 12 £000</b>	<b>31 Mar 11 £000</b>	<b>31 Mar 10 £000</b>
Cash held by the Authority	330	487	327
Bank Accounts	2,924	4,590	3,030
Short-term deposits	500	1,000	1,000
Total Cash and Cash Equivalents	3,754	6,077	4,357

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 20. Assets Held for Sale

The Council had no assets that were held for sale at 31 March 2012 or 31 March 2011.

### 21. Creditors

	31 Mar 12	31 Mar 11	31 Mar 10
	£000	£000	£000
Amounts Received in Advance	(1,048)	(1,050)	(1,056)
Central government bodies	(1,328)	(593)	(962)
NHS bodies	(2)	(1)	0
Other	(634)	(510)	(658)
Other local authorities	(1,667)	(890)	(2,139)
Public corporations and trading funds	0	(596)	0
Trade Creditors	(2,664)	(2,652)	(3,050)
Total	<u>(7,343)</u>	<u>(6,292)</u>	<u>(7,865)</u>

### 22. Provisions

	Total
	£000
<b>Balance at 1 April 2010</b>	<b>(212)</b>
Additional provisions made in 2010/11	(1,833)
Amounts used in 2010/11	103
Unused amounts reversed in 2010/11	28
<b>Balance at 1 April 2011</b>	<b>(1,914)</b>
Additional provisions made in 2011/12	(44)
Amounts used in 2011/12	1,884
<b>Balance at 31 March 2012</b>	<b>(74)</b>

The 2011/12 provision consists of a provision for insurance representing the excesses payable in respect of liabilities existing at the balance sheet date.

### 23. Usable Reserves

Movements in usable reserves are detailed in the Movement in Reserves Statement.

#### General Fund

This is the resources available to meet the future running costs of Council services. The balance is maintained at £2 million by transferring annual surpluses or deficits to earmarked reserves. The primary earmarked reserve is the Major Investment Reserve which holds the funds to finance future capital and revenue expenditure.

#### Housing Revenue Account (HRA)

The HRA is a record of revenue expenditure and income relating to the Council's housing stock. Its purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. It is ring-fenced from the rest of the General Fund to ensure that rents cannot be subsidised from council tax (or vice versa).

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

### Capital Receipts Reserve

This reserve holds the proceeds from the sale of non-current assets. The funds are available to finance the Council's future capital investment.

### Major Repairs Reserve

This statutory reserve is used to control the application of the Major Repairs Allowance (MRA).

### Capital Grants Unapplied

This reserve holds capital grants that have been received; do not have outstanding conditions; but which have not yet been used to finance expenditure.

## **24. Unusable Reserves**

The unusable reserves contain unrealised gains and losses, where amounts would only become available to provide services if the assets are realised. They also include reserves that hold timing differences and adjustments between the accounting basis and funding basis under regulations.

	<b>31 Mar 12</b>	<b>Restated 31 Mar 11</b>	<b>Restated 31 Mar 10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revaluation Reserve	(20,466)	(19,862)	(13,182)
Available for Sale Financial Instruments Reserve	0	0	87
Capital Adjustment Account	(203,090)	(365,658)	(468,314)
Financial Instruments Adjustment Account	185	407	632
Pensions Reserve	53,080	42,590	58,939
Deferred Capital Receipts Reserve	(298)	(303)	(308)
Collection Fund Adjustment Account	(27)	13	(35)
<b>Total Unusable Reserves</b>	<b>(170,616)</b>	<b>(342,813)</b>	<b>(422,181)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and recognition of Heritage Assets at valuation. The balance is reduced when assets with accumulated gains are: re-valued downwards or impaired and the gains are lost; used in the provision of services and the gains are consumed through depreciation; or disposed of and the gains are realised. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(19,862)	(13,182)
Upward revaluation of assets	(1,350)	(10,783)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	279	3,664
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,071)	(7,119)
Difference between fair value depreciation and historical cost depreciation	467	437
Accumulated gains on assets sold or scrapped	0	2
Amount written off to the Capital Adjustment Account	467	439
Balance at 31 March	(20,466)	(19,862)

### Available for sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are: re-valued downwards or impaired and the gains are lost; or on disposal when the gains are realised.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	0	87
Upward revaluation of investments	0	(49)
Accumulated loss written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income as deferment of loss is no longer available under SI2009/321	0	(38)
Balance at 31 March	0	0

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(365,658)	(468,314)
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Charges for depreciation and impairment of non current assets	6,095	5,409
Revaluation losses on Property, Plant and Equipment	5,810	106,310
Amortisation of intangible assets	371	348
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	354	613
HRA Financing Settlement	156,722	0
	169,352	112,680
Adjusting amounts written out of the Revaluation Reserve	(467)	(439)
	168,885	112,241
<u>Capital financing applied in the year:</u>		
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,055)	(1,059)
Use of the Major Repairs Reserve to finance new capital expenditure	(3,404)	(3,497)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(524)	(735)
Application of grants to capital financing	(584)	(742)
Statutory provision for the financing of capital investment	(258)	(39)
Capital expenditure charged against the General Fund and HRA balances	(532)	(672)
	(6,357)	(6,744)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	40	(2,841)
Balance at 31 March	(203,090)	(365,658)



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	407	632
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(222)	(225)
Balance at 31 March	<u>185</u>	<u>407</u>

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	42,590	58,939
Actuarial gains or losses on pensions assets and liabilities	9,700	(4,279)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,290	(9,610)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,500)	(2,460)
Balance at 31 March	<u>53,080</u>	<u>42,590</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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Deferred Capital Receipts Reserve

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(303)	(308)
Transfer to the Capital Receipts Reserve upon receipt of cash	5	5
Balance at 31 March	<u>(298)</u>	<u>(303)</u>

Collection Fund Adjustment Account

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	13	(35)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(40)	48
Balance at 31 March	<u>(27)</u>	<u>13</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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**25. Cash Flow Statement – Adjustments to Net surplus or deficit on the provision of services for Non-cash movements**

	2011/12	Restated 2010/11
	£000	£000
Amortisation of intangible assets	(371)	(348)
Depreciation of Property, Plant & Equipment	(6,094)	(5,409)
Amortisation of assets under Finance Lease	(161)	0
Depreciation written out to the Surplus/ Deficit on the Provision of Service	3,662	3,616
Revaluation of Property Plant & Equipment	(9,472)	(109,926)
Other movements in depreciation and impairment	0	5
Net (gain)/loss on revaluation of investment property	(40)	2,841
Pension Fund adjustments	480	11,440
Collection fund adjustment	40	(48)
Statutory Provision for the financing of Capital	(96)	(39)
(Increase)/Decrease in allowances for doubtful debts	6	97
Other	(32)	(44)
Impairment of Investments	14	(11)
<b>Items on an accruals basis</b>		
(Increase)/Decrease in grants and contribution receipts in advance	(532)	(672)
(Increase)/Decrease in Provision	1,840	(1,702)
(Increase)/Decrease in Debtors	453	(1,344)
(Increase)/Decrease in Creditors	(1,051)	1,573
(Increase)/Decrease in Inventories	(7)	16
	<u>(11,361)</u>	<u>(99,955)</u>

**26. Cash Flow Statement – Operating Activities**

	2011/12	2010/11
	£000	£000
Interest Paid	102	82
Interest Received	(383)	(406)
	<u>(281)</u>	<u>(324)</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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**27. Cash Flow Statement – Investing Activities**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Purchase of property, plant and equipment	9,654	8,040
Purchase of Intangible assets	337	256
Other payments for investing activities	1,342	371
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(808)	(1,342)
Proceeds from short-term and long-term investments	0	(6,652)
Net cash flows from investing activities	<u>10,525</u>	<u>673</u>

**28. Cash Flow Statement – Financing Activities**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Cash receipts of short and long-term borrowing	(159,292)	0
Other receipts from financing activities	(2,598)	(354)
Other payments for financing activities	2,203	2,358
Net cash flows from financing activities	<u>(159,687)</u>	<u>2,004</u>

**29. Reconciliation with Amounts Reported to Internal Management**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice 2011/12. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across the corporate outcomes. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation is charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and only charged to services at the year end.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

The income and expenditure of the Council's outcomes recorded in the budget reports for the 2011/12 year is as follows:

	Active Communities	Prosperous Economy	High Quality Environment	Efficient & Effective	Total
	£000	£000	£000	£000	£000
<u>Expenditure:</u>					
Employees	4,355	1,590	4,186	6,174	16,305
Premises	5,453	415	2,138	925	8,931
Transport	369	69	87	266	791
Supplies & Services	818	920	930	2,599	5,267
Third Party Payments	1,085	340	4,644	159	6,228
Transfer Payments	9,867	0	0	30,711	40,578
Depreciation & Impairment Losses	10,974	480	781	747	12,982
Housing Finance Reform	156,722	0	0	0	156,722
Support Services	2,015	508	1,677	(4,251)	(51)
	191,658	4,322	14,443	37,330	247,753
Income	(26,646)	(2,282)	(9,055)	(34,908)	(72,891)
<b>Net Cost of Services</b> (per management accounts)	165,012	2,040	5,388	2,422	174,862
Add back Trading Accounts (note 29)					1,365
<b>Net Cost of Services (page 6)</b>					176,227

The restated income and expenditure of the Council's outcomes recorded in the budget reports for the 2010/11 year is as follows:

	Active Communities	Prosperous Economy	High Quality Environment	Efficient & Effective	Total
	£000	£000	£000	£000	£000
<u>Expenditure:</u>					
Employees	2,351	1,864	4,436	(4,840)	3,811
Premises	5,506	510	2,220	864	9,100
Transport	418	82	35	293	828
Supplies & Services	679	845	1,062	2,198	4,784
Third Party Payments	2,631	504	4,969	458	8,562
Transfer Payments	9,132	0	0	28,891	38,023
Depreciation & Impairment Losses	109,444	225	2,013	1,965	113,647
Support Services	2,471	993	2,235	(5,737)	(38)
	132,632	5,023	16,970	24,092	178,717
Income	(25,417)	(2,458)	(8,311)	(32,810)	(68,996)
<b>Net Cost of Services</b> (per management reporting)	107,215	2,565	8,659	(8,718)	109,721
Add back Trading Accounts (note 29)					1,364
<b>Net Cost of Services (page 6)</b>					111,085

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Included in the Depreciation and Impairment losses heading is a charge arising from the review of the South East Social housing factor, by the Department of Communities and Local Government (DCLG). The factor is applied to the vacant possession value of a property in calculating the property valuation for inclusion within the Balance Sheet. The Social Housing factor changed in 2010/11 from 45% to 32% generating a decrease of 13% in values disclosed in the statement of accounts.

### 30. Trading Operations

The Council has two trading units that operate in a commercial environment and are required to generate income from other parts of the Council or other organisations.

	<b>2011/12</b>
	<b>£000</b>
General fund property management	(1,909)
Guildhall	545
	(1,365)

#### General Fund Property Management trading account

The Council has a portfolio of industrial and commercial properties located in various parts of the district. The rental income and expenditure associated with the maintenance and servicing of these properties is accounted for in this trading account, which also includes the income and costs associated with the provision of the market and the farmers' market.

	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover	(2,845)	(2,576)	(2,589)
Expenditure	936	615	1,137
Surplus	(1,909)	(1,961)	(1,452)

#### The Guildhall trading account

The Council manages the Guildhall, providing a high quality venue for events, functions and activities to improve the quality of life in the local community. The income and expenditure associated with the hire of the venue and the use of the eighteen71 café are recorded in this trading account. The Guildhall is managed in such a way as to maximise the usage of the venue whilst achieving the financial operating targets set by the Council.

The Guildhall underwent major capital works costing over £3 million during 2010/11. Whilst every effort was made to minimise the disturbance on bookings during this period, it was recognised that there would be an impact on the trading result for the year. In 2011/12, turnover has been affected by reductions in public sector bookings for the Guildhall as a direct consequence of the pressures on public sector spending.

	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover	(1,005)	(1,024)	(1,095)
Expenditure	1,550	1,621	1,227
Deficit	545	597	132

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement and the balances disclosed separately as part of the Surplus or Deficit on Provision of Services.

### **31. Agency Services**

The Council undertakes some highways work (including grass cutting, tree and shrub maintenance, temporary road closures, replacement signs, traffic management and development control on highways) on an agency basis for Hampshire County Council.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Expenditure incurred in providing services to Hampshire County Council	409	404
Management fee payable by Hampshire County Council	<b>(409)</b>	<b>(404)</b>
Net surplus arising on the agency arrangement	<u>0</u>	<u>0</u>

During 2011/12 the Council commenced to act as agent to provide Local Planning Authorities (LPA) services to South Downs National Park Authority (SDNPA)

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Expenditure incurred in providing services to South Downs National Park	554	0
Management fee payable by South Downs National Park	<b>(554)</b>	0
Net surplus arising on the agency arrangement	<u>0</u>	<u>0</u>

The Council undertakes to process Green Waste income on behalf of East Hampshire District Council as part of the Joint Environmental Contract. This is not material.

### **32. Members' Allowances**

The payments made directly to members under the Council's Members' Allowance Scheme during 2011/12 totalled £450,108 (£433,112 in 2010/11). In addition to these payments, the Council also paid some Members an allowance for the use of broadband internet - this totalled £516 in 2011/12 (£3,309 in 2010/11). The Mayor and Deputy Mayor also received allowances for their additional mayoral duties - these totalled £6,045 in 2011/12 (£4,521 in 2010/11).

A detailed breakdown of amounts paid to individual Councillors and co-opted Members can be found on the Council's website [www.winchester.gov.uk](http://www.winchester.gov.uk).

### **33. Officers' Remuneration**

#### Employees' remuneration

Information relating to employees' remuneration is required to be published under the Accounts and Audit Regulations 2011. The following note shows the number of employees whose total remuneration exceeded £50,000 in 2011/12. For this purpose, remuneration includes gross pay, all taxable benefits and redundancy payments but excludes employer pension contributions.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

<u>2010/11</u>			Remuneration Band	<u>2011/12</u>		
Ongoing Employee	Employees left in year	Total Employees		Ongoing Employee	Employees left in year	Total Employee
8	0	8	£50,000 - £54,999	6		6
8	0	8	£55,000 - £59,999	11	1	12
4	1	5	£60,000 - £64,999	2		2
1	0	1	£65,000 - £69,999	1	1	2
0	1	1	£70,000 - £74,999	0		0
0	0	0	£75,000 - £79,999	0		0
1	0	1	£80,000 - £84,999	1		1
0	1	1	£85,000 - £89,999	0		0
0	0	0	£90,000 - £94,999	0		0
2	0	2	£95,000 - £99,999	2		2
0	0	0	£100,000 - £104,999	0		0
0	1	1	£105,000 - £109,999	0		0
0	1	1	£110,000 - £114,999	0		0
<b>24</b>	<b>5</b>	<b>29</b>		<b>23</b>	<b>2</b>	<b>25</b>

The Council shares its Head of Revenues with Test Valley Borough Council. The full cost of this post is included above as the officer is employed by Winchester City Council. During 2011/12 Test Valley Borough Council contributed £35,800 towards this post (£40,000 in 2010/11).

The Council shares its Head of Information Management and Technology with Test Valley Borough Council. As the officer is employed by Test Valley Borough Council the figures are not included above. During 2011/12 Winchester City Council contributed £39,400 towards this post (£10,000 in 2010/11 – part year).

The Council shares an Internal Audit Manager with Havant Borough Council and Test Valley Borough Council. The post holder is employed by Havant Borough Council so is not included in the figures above. Winchester City Council's contribution towards this post in 2011/12 was £22,900 (£22,700 in 2010/11).

The remuneration of the Corporate Director (Governance) includes payments that this officer receives in his capacity as Returning Officer. These totalled £14,000 for elections conducted during 2011/12 (£17,000 in 2010/11).

The note above includes costs for five redundancies made during 2010/11. The banding note also includes the senior officer posts detailed below.

Senior officers' remuneration

Information relating to individual senior employees' remuneration is required to be published under the Accounts and Audit Regulations 2011. This note gives the details of salary, allowances, benefits in kind and pension payments for senior employees whose salary exceeded £50,000 in 2011/12.

2011/12	Salary £000	Taxable		Total Remuneration £000
		Expenses and Benefits £000	Pension Payments £000	
Chief Executive	94	2	12	108
Director of Governance	94	3	12	109
Director of Operations	80	2	10	92
Head of Finance	63	5	8	76



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

2010/11	Salary	Taxable Expenses and Benefits	Compens- ation for loss of office	Pension Payments	Total remuneration
	£000	£000	£000	£000	£000
Chief Executive	94	4		18	117
Corporate Director (Governance)	96	3		18	118
Corporate Director (Policy)	20	8	71	4	104
Corporate Director (Operations)	79	3		15	97
Head of Finance	62	5		12	78

The remuneration of the Corporate Director (Governance) shown above includes payments that this officer receives in his capacity as Returning Officer. These totalled £17,000 (including pension payments) for elections conducted during 2011/12 (£20,000 in 2010/11).

The Director of Policy post was made redundant and the officer left the council with effect from 3 July 2010.

### 34. External Audit Costs

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

	2011/12	2010/11
	£000	£000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	114	122
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	19	37
Fees payable in respect of other services provided by the Audit Commission during the year	1	1
<b>Total</b>	134	160

The fees for other services payable in 2011/12 and 2010/11 were in relation to the National Fraud Initiative.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Distribution from Non Domestic Rates Pool	(3,543)	(6,124)
Revenue Support Grant	(1,095)	(889)
Developers' Contributions (Capital)	(719)	(30)
New Homes Bonus	(588)	0
Preventing Homelessness	(375)	0
Council Tax Freeze Grant	(173)	0
Bapsy Bequest	0	(710)
Area Based Grants	0	(40)
Performance Reward Grant	0	(6)
<b>Total</b>	<b>(6,493)</b>	<b>(7,799)</b>

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Service Specific Revenue Grant included in Cost of Service (page 6)</b>		
Rent Allowance	(14,135)	(13,164)
Rent Rebates	(11,456)	(10,531)
Council Tax Benefits	(5,319)	(5,296)
Benefit Administration	(538)	(576)
Hampshire Supporting People	(509)	(502)
Developers' Contributions (Revenue)	(495)	(332)
Disabled Facilities	(414)	(382)
Leader Project Funding	(371)	(470)
Other Contributions	(261)	(340)
Other Grants & Reimbursements	(257)	(97)
Hampshire County Contributions	(225)	(197)
NNDR Collection Allowance *	(194)	(189)
Developers' Contributions - General	(50)	(150)
Lottery Grants	(14)	(106)
Concessionary Fares	0	(269)
Preventing Homelessness	0	(255)
Other	(202)	(225)
<b>Total</b>	<b>(34,440)</b>	<b>(33,081)</b>

\* National Non Domestic Rates [NNDR]

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	<b>31 Mar 12</b>	<b>31 Mar 11</b>	<b>31 Mar 10</b>
<u>Grants and Contributions in Advance</u>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Developers' Contributions Open Spaces	(1,312)	(1,292)	(1,112)
Developers' Contributions Social Housing	(792)	(242)	(122)
Developers' Contributions West of Waterlooville	(387)	(48)	(36)
Developers' Contributions Whiteley	(386)	(475)	(573)
St Catherines Hill Nature Reserve	(176)	(188)	(186)
Open Spaces Commuted Payments	(163)	(290)	(415)
Bapsy Bequest	0	0	(710)
<b>Total</b>	<b>(3,216)</b>	<b>(2,535)</b>	<b>(3,154)</b>

### **36. Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates; provides the majority of its funding in the form of grants; and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Details of funding transactions with Government departments in the form of grants and contributions are set out in Note 34.

Members of the Council have direct control over the Council's financial and operating policies. The payments made to members in 2011/12 (and 2010/11) are shown in Note 31. During 2011/12 (and 2010/11) there were no material transactions with any members. Any written declarations of interest are recorded in the Register of Members' Interests, which is open to public inspection. Declarations made at meetings are recorded in the minutes of that meeting.

Chief officers have the ability to influence the council. During 2011/12, there were no material transactions between the Council and chief officers.

The Council provides material financial assistance to a number of organisations (mainly arts or voluntary community bodies) although it does not exercise any form of control over these organisations.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 37. Capital Expenditure and Capital Financing

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

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Opening Capital Financing Requirement	4,154	2,602
<u>Capital Expenditure</u>		
Housing Revenue Account Financing Settlement	156,722	0
Operational Assets	8,467	7,569
Non-operational Assets	1,187	471
Intangible Assets	336	256
Capital Grants	705	1,579
	167,417	9,875
<u>Sources of finance</u>		
Capital Receipts	(1,055)	(1,041)
Government Grants and other contributions	(1,045)	(1,227)
HRA Major Repairs Reserve	(3,404)	(3,497)
HRA Revenue Provision	(532)	(672)
GF Reserves	(770)	(1,847)
	(6,806)	(8,284)
Capital Financing Requirement Movement in Year	160,611	1,591
Statutory provision for the financing of capital investment	(96)	(39)
Amortisation of embedded lease operational assets	(161)	0
	164,508	4,154
<u>Explanation for Movement in year</u>		
HRA Financing Settlement	156,722	0
Increase in underlying need to borrow (Unsupported by Government Financial Assistance)	1,319	1,591
Environmental Services Contract Embedded Lease	2,570	0
	160,611	1,591

### 38. Leases

#### Council as Lessee

##### *Finance leases*

The Council has identified an embedded lease within the joint environmental services contract. This is where there are assets utilised for the specific use of the contract and paid for as part of the contractual payments for the services provided. These assets include refuse, recycling, grounds maintenance and street cleansing vehicles and are split from the contractual payments to be disclosed in the statements as finance leases.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

The assets are included within Property, Plant and Equipment as follows:

	<b>2011/12</b>
	<b>£000</b>
Vehicles, Plant, Furniture and Equipment	2,410

The Council is committed to make payments under the Environmental services contract and can be analysed as follows:

	<b>2011/12</b>
	<b>£000</b>
Finance Lease Liabilities (Net Present Value of minimum lease payments)	
- Current	300
- Non- Current	2,118
Finance costs payable in future years	203
Minimum Lease payments	2,621

The Minimum Lease payments are payable over the following periods

	<b>Minimum Lease payments 2011/12 £000</b>	<b>Finance Lease Liability 2011/12 £000</b>
Not later than one year	349	300
Later than one but not later than five years	1,398	1,268
Later than five years	874	850
	2,621	2,418

### ***Operating Leases***

The Council has acquired the use of some properties (including car parks, storage facilities and open spaces) vehicles and equipment under operating leases. The total amount paid under operating leases in 2011/12 was £756,200 (£707,000 in 2010/11).

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>2011/12 £000</b>	<b>2010/11 £000</b>
Due within one year	470	406
Due later than one year and not later than five years	648	440
Due after five years	610	676
Total future minimum lease rentals payable	1,728	1,522

### **Council as Lessor**

The Council leases out its investment property under operating leases for the purpose of generating income. It also leases out property for the purpose of the provision of community services such as leisure facilities and community centres; and for economic development purposes - to provide suitable affordable accommodation for local businesses.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Due within one year	1,957	1,855
Due later than one year and not later than five years	6,416	6,150
Due after five years	73,752	73,056
Total future minimum lease rentals receivable	82,125	81,061

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £779,400 of contingent rents were receivable by the Council.

### **39. Termination Benefits and Exit Packages**

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £141,100 (£691,100 in 2010/11). Of this there were 9 employees who were /are to be compensated for loss of office and enhanced pension benefits of £86,400, a further amount was negotiated and paid in compensation above that estimated at the end of 2010/11.

#### **Exit packages agreed during 2011/12**

<b><u>Packages</u></b>	<b><u>Compulsory Redundancy</u></b>	<b><u>Other termination</u></b>	<b><u>Amount Paid</u></b>
			<b><u>£</u></b>
0-20,000	1	8	86,400
40,001-60,000		1	54,700
Total	1	9	141,100

#### **Exit packages agreed during 2010/11**

<b><u>Packages</u></b>	<b><u>Compulsory Redundancy</u></b>	<b><u>Other termination</u></b>	<b><u>Amount Paid</u></b>
			<b><u>£</u></b>
0-20,000	8	5	78,400
21,000-40,000	3		74,800
40,001-60,000	1	4	228,400
60,001-80,000	2		135,100
80,000+	2		215,200
Total	16	9	731,900

The Council also has some shared services with other Councils, where employees are employed by one Council but work for two or more Council's. During 2011/12 an employee who worked under a shared service agreement took voluntary redundancy from Eastleigh Borough Council, during 2010/11 there were some redundancies in relation to the Environmental Services Contract with East Hampshire Council. These are not reflected in the termination or exit package information, but included in full in the Council's reporting where the employee contract was employed

**40. Defined Benefit Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

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

The Council has also awarded discretionary post retirement benefits upon early retirement. This is also through the Local Government Pension Scheme but as an unfunded defined benefit arrangement. The liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash is paid to the scheme to meet actual pensions payments as they eventually fall due.

Transactions relating to post employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge against council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the accounts during the year:

**Transactions relating to post employment benefits**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<u>Included in the Cost of Services</u>		
Current service cost	1,820	2,110
Past service cost	200	(13,690)
<u>Included in Financing and Investment Income and Expenditure</u>		
Interest costs	5,540	5,980
Expected return on assets in the scheme	(4,420)	(4,010)
<u>Included in Other Comprehensive Income and Expenditure</u>		
Actuarial gain / (loss) on Pension Fund assets and liabilities	9,700	4,279
Total included in Comprehensive Income and Expenditure	<u>12,840</u>	<u>(5,331)</u>
<u>Included in the Movement in Reserves</u>		
Removal of notional charges made for retirement benefits	(3,290)	9,610
Inclusion of actual employer's contributions payable	2,500	2,460
Total included in the Movement in Reserves	<u>(790)</u>	<u>12,070</u>
<u>Actual employer's contributions charged against Council Tax</u>		
Normal funded contributions	1,810	2,152
Lumps sums for early retirements	490	108

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £64.614 million.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### Assets and liabilities in relation to post employment benefits

The movement in scheme liabilities was:

	2011/12 funded liabilities £000	2011/12 unfunded liabilities £000	2010/11 funded liabilities £000	2010/11 unfunded liabilities £000
Opening present value of liabilities	(103,180)	(2,770)	(116,590)	(3,190)
Current service cost	(1,820)	0	(2,110)	0
Interest cost	(5,540)	(150)	(5,820)	(160)
Contributions by scheme participants	(730)	0	(780)	0
Actuarial gains / losses on liabilities	(8,080)	(200)	4,720	100
Net benefits paid out	3,960	200	4,030	200
Past service cost	(200)	0	13,370	280
Closing present value of liabilities	<u>(115,590)</u>	<u>(2,920)</u>	<u>(103,180)</u>	<u>(2,770)</u>

The movement in the fair value of the scheme assets was:

	2011/12 £000	2010/11 £000
Opening fair value of assets	63,360	60,880
Expected return on assets	4,420	4,010
Contributions by scheme participants	730	780
Contributions by the employer	2,300	2,260
Actuarial gains / losses on assets	(1,420)	(540)
Net benefits paid out	(3,960)	(4,030)
Closing fair value of assets	<u>65,430</u>	<u>63,360</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in 2011/12 was £3.0 million (£3.47 million in 2010/11).

### Scheme history

The Council's share of assets and liabilities in the pension fund was:

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Fair value of assets in the Fund	57,720	45,870	60,880	63,360	65,430
Present value of liabilities in the Fund	(82,860)	(86,980)	(119,780)	(105,950)	(118,510)
Net surplus / (deficit) in the Scheme	<u>(25,140)</u>	<u>(41,110)</u>	<u>(58,900)</u>	<u>(42,590)</u>	<u>(53,080)</u>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £53.08 million as at the 31 March 2012 (£42.59 million as at 31 March 2011) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance for 2011/12 of £184.2 million (£355.40 million in 2010/11).



## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the pension scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Also, finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the scheme by the Council in the year to 31 March 2013 is £2.38 million (£2.17 million for funded benefits and £0.21 million in respect of unfunded early retirements).

### Basis for estimating assets and liabilities

The latest actuarial valuation of the Council's liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent actuary, Aon Hewitt Limited, on an actuarial basis using the projected unit credit method. The principle assumptions used by the actuary in updating the valuation for the fund were:

	<b>Funded benefits</b>		<b>Unfunded benefits</b>	
	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>
<u>Principle financial assumptions</u>				
Rate for discounting scheme liabilities	4.7%	5.4%	4.6%	5.5%
RPI inflation rate	3.5%	3.7%	3.4%	3.6%
CPI inflation rate	2.5%	2.8%	2.4%	2.7%
Rate of increase to pensions in payment	2.5%	2.8%	2.4%	2.7%
Rate of increase to deferred pensions	2.5%	2.8%	-	-
Rate of general increases in salaries	5.0%	5.2%	-	-
<u>Mortality assumptions</u>				
Future lifetime from 65 for current pensioners				
Males	23.9	23.8	23.9	23.8
Females	24.9	24.8	-	-
Future lifetime from 65 for future pensioners				
Males	25.6	25.6	24.9	24.8
Females	26.8	26.7	-	-
<u>Take up of option to commute pension to lump sum</u>				
Pre-2008 service	25%	25%	-	-
Post-2008 service	75%	75%	-	-
<u>Expected return on assets</u>				
Equities	8.1%	8.4%	-	-
Property	7.6%	7.9%	-	-
Government bonds	3.1%	4.4%	-	-
Corporate bonds	3.7%	5.1%	-	-
Cash	1.8%	1.5%	-	-
Other assets	8.1%	8.4%	-	-

The scheme assets consist of the following categories, by proportion of total assets held:

	<b>2011/12</b>	<b>2010/11</b>
Equities	55.1%	63.4%
Property	7.7%	7.3%
Government bonds	27.0%	23.3%
Corporate bonds	1.5%	1.7%
Cash	4.1%	4.3%
Other	4.6%	0.0%
	<b>100.0%</b>	<b>100.0%</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Winchester City Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return on each asset class over the actual asset allocation from the Fund as at 31 March 2012.

### History of experience gains and losses

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

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Experience gains/(losses) on assets	(3.89)	(34.10)	20.60	(0.90)	(1.42)
Experience gains/(losses) on liabilities	0.23	(0.50)	1.00	3.80	(0.86)

### **41. Contingent Liabilities**

The Council is aware of a potential liability arising from its previous arrangement with the Municipal Mutual Insurance Company. The company is winding down, and have applied and received judgement from the Supreme Court in the Employers' Liability Policy Trigger relating to mesothelioma claims. The Supreme Court found against the company and the Board of Directors are now seeking legal, financial and actuarial advice to determine the full implications. It has been indicated that "run-off projections do not show a break-even point" and under the terms of the original arrangement, if a solvent run-off cannot be achieved, due to further insurance claims, then the cost of claims can be passed on the Councils who were members of the Company. The estimated liability for Winchester City Council, if the company becomes insolvent is £185,000. There is no possibility of reimbursement from third parties.

### **42. Contingent Assets**

The Council has submitted a claim in the High Court for the payment of Compound Interest in relation to a VAT Claim which was paid by HMRC with Simple Interest in 2009. The High Court claim was made in March 2010 and now stands with a number of other similar claims, behind the lead case involving Littlewoods. A number of questions relating to this lead case have recently been referred to the European Court of Justice and we now await a hearing and judgement in that case. Resolution of this issue may not be forthcoming for another 12-24 months.

### **43. Nature and Extent of Risks Arising from Financial Instruments**

The Council's activities expose it to a variety of financial risks. These include credit risk (the possibility that other parties might fail to pay amounts due to the Council); liquidity risk (the possibility that the Council might not have funds to meet its commitments); and market risk (the possibility that losses might arise due to changes in interest rates and market prices).

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. The Head of

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

Finance is responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### Credit risk

Is the possibility that one party to a financial instrument will fail to meet its contractual obligations causing a loss for the other party. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet pre-specified minimum credit criteria. The Annual Investment Strategy also imposes a maximum sum to be invested with each financial institution and with each category. Counterparties are monitored daily against criteria by the Council's external Treasury Management Consultants and are added / removed as changes in circumstances are advised.

The Council's maximum exposure to credit risk in relation to its investments of £29 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. There is a risk of irrecoverability in relation to any of the Council's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

The Council does not generally allow credit for customers. For those debtors that the Council assess as being open to credit risk, the amount due, before any impairment, can be analysed by age as follows:

	<b>31 Mar 12</b>	<b>31 Mar 11</b>
	<b>£000</b>	<b>£000</b>
Less than three months	1,425	556
Three months to one year	316	458
More than one year	539	529
	<u>2,280</u>	<u>1,543</u>

Liquidity risk is the possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council may be bound to take out borrowings at a time of unfavourable interest rates.

The maturity analysis of financial liabilities is as follows:

	<b>31 Mar 12</b>
	<b>£000</b>
11-20 years	65,000
21-30 years	35,000
31-40 years	20,000
41-50 years	36,722
	<u>156,722</u>

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

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

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

### *Interest rate risk*

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the Council. For example, a rise in interest rates would have the following effects:

borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

Changes in interest receivable on variable rate investments are recognised in the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price are reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk, including fixed rate borrowing, to take advantage of historically low interest rates. As interest rates rise these may be repaid at a discount. As a result of the current heightened credit risk investments are short term in nature to react to changes in the market allowing the Council to benefit as interest rates rise.

The treasury management officers have an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is monitored throughout the year. The analysis helps advise whether new borrowing should be fixed or variable.

According to this assessment strategy, at 31 March 2012, if interest rates had been 0.5% higher with all other variable held constant, the financial effect would be a gain of:-

	<b>£000</b>
Increased interest receivable on variable rate investments	(116)
Increase in government grant receivable for financing costs	(49)
Impact on Surplus or Deficit on Provision of Service	<u>(165)</u>
Share of overall impact credited to the HRA	<u>(18)</u>

The impact of a 0.5% fall in interest rates would be a loss the opposite of the above

### *Price risk*

The Council does not generally invest in equity shares but does have shareholdings to the value of £1 million in the Local Authority Mutual Investment Trust (LAMIT). The Council is consequently exposed to losses arising from movements in the prices of the shares. This investment was impaired in 2008-09 and during 2009-10 and 2010-11 has almost fully

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

recovered in value. The impairment reversal gain recognised in Other Comprehensive Income and Expenditure was £634 for 2011/12

### *Foreign exchange risk*

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

### **44. Group Accounts**

During 2011/12 Winchester City Council (WCC) and East Hampshire District Council (EHDC) agreed to undertake a joint venture for the supply of environmental services being the provision of waste and recycling, grounds maintenance, street cleansing and public conveniences. EHDC are the administering authority. The contracts with the third parties have been in place since 1 October 2011 and are in place until 30 September 2019.

This venture has resulted in the recognition of the following in the Balance Sheet of a Finance Lease, more details are in note 37.

	<b>31 Mar 12</b>
	<b>£000</b>
Fixed Assets	2,410
Liabilities within one year	300
Liabilities after more than one year	2,118

The joint venture does not create a group and therefore, consolidation for group accounts

### **45. Exceptional Items**

During 2011/12 there was one material accounting transaction that the Council has deemed to be exceptional.

#### Housing Finance Reform

As part of the Government's reform of the Housing subsidy system, the Council has a charge in its Comprehensive Income and Expenditure statement (£156.722 million) for the settlement made to the Secretary of State in accordance with the determination.

### **46. Heritage Assets: five year summary of transactions**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Value of Heritage Assets					
Archaeology	125	350	350	400	400
Art Collection	220	220	220	220	850
Civic Regalia	1,075	1,075	1,075	1,075	1,500

## **47. Heritage Assets further information on the collections**

### **Structures and Monuments**

This includes a variety of assets including parts of the City Wall; archaeological remains at St Mary's passage; Roman wall display in the weirs; St Maurice church tower; King Alfred's statue; partial remains of medieval buildings once part of Hyde Abbey; and a plague monument in Upper High Street.

All of these objects can be seen around Winchester, though not all historic structures and monuments belong to the Council some are maintained privately and others by Hampshire City Council.

### **The Museum's Collections**

#### **Archaeology**

The bulk of the archaeological collection derive from excavations beginning in the 1960's, though important earlier material is held. The work was carried out in a controlled way resulting in most of the archives (the artefacts and their associated documentation) being data rich. The collection, though not the largest, is one which provides the most comprehensive overview of the character and development of any European city.

To build on this Winchester acts as a repository for archaeological material of all periods and types excavated by external contractors in order to provide as complete a research resource as possible for the study of the area. This material is normally only accepted where there is documentation and where title can be obtained. Winchester currently charge £25 per box received to contribute to the storage cost of the items.

The Archaeological collection contains over one million objects with many pieces being on public display at the City Museum and Westgate. The greater part of the collection is held in store and is available to view by appointment. Some material is on loan to other museums: for example the 3<sup>rd</sup> century AD marble portrait head of Herodes Atticus, tutor to the Roman emperor Marcus Aurelius, which is on loan to the British Museum.

#### **Local History**

This is material collected because of its direct relevance to Winchester and its surrounding area. The collection contains over 9000 objects. Particular strengths of the existing collections are in material manufactured by local firms and craftsmen, material relating to local retailers and industries and material relating to civic and social history and institutions.

Some material is acquired because it helps to interpret or amplify an area of strength within the collections for example advertising ephemera used in local shops.

Winchester has focused on city and village life due to the strong agricultural expertise in the County Museums Service. There are also a number of other organisations that collect or hold local history relating to the district (Twyford Waterworks Trust, Watercress Line Railway Museum, Balfour Museum of Red Cross history, English Heritage and National Trust).

Some major pieces from the collection are on public display on the ground floor of the City Museum, including three reconstructed shops with original fittings: Hunts the Chemist, Foster's tobacconist shop and Bosley's general store.

### **Photographic Material**

Winchester has the largest collection of historical photographic material in Hampshire with over 45,000 objects. The major acquisition to this collection was the transfer, in 1974, of the photographs held by Winchester Library to Winchester Museums. Subsequently acquisition has been through donation. The main emphasis of the collection is to represent the change and development as well as people and events associated with the area.

The collection includes photographs from 1870 to the present day and also includes cine film, video and audio tape.

Part of the collection includes a complete set of Mayoral portraits from 1848 to the present day. This is on permanent display in the Guildhall.

Where donation of important photographic material cannot be agreed, the museum encourages the deposition of digital images, copy negatives or prints for public reference.

Due to lack of storage and display space, when opportunities of acquisition arise, the object's rarity, quality and contribution to the collection are taken into account. Specifically large collections will only be taken in their entirety in exceptional circumstances.

Prints of some of the historical photographs are displayed in two replica Victorian albums in the City Museum. Images are frequently used in temporary exhibitions at City Space and elsewhere and are often reproduced in commercial publications when a reproduction fee is payable to the Council.

### **Topographical Art and Portraits (Art Collection)**

This collection of over 1,700 pictures forms a comprehensive selection of works that illustrate the character and development of the city and district between the 18<sup>th</sup> – 20<sup>th</sup> centuries and to a lesser extent the people associated with that history.

The collection has been developed by donation and acquisition. Some of the art works are on permanent display at the Guildhall and at Abbey House. A temporary exhibition of selected works is held at least once a year in City Space at the Winchester Discovery Centre.

The criteria for the artwork is that it should provide; interesting or previously undocumented information; or the work is by an artist working in or associated with the Winchester area; or that the work shows a person or event associated with Winchester.

Some of the works in the collection do not meet the criteria set, though will be kept for historic or civic reasons; however, relocation to an appropriate Registered or Accredited museum will be considered. There is one artwork – Tanquerary Island, Kent by W. Sidney Cooper (1903) an oil painting of a rural scene depicting a group of cattle which is being considered for sale to enable the conservation of other artworks, specifically *'The Children of the Thirteenth Marquess of Winchester'* (c1812) by Thomas Stewardson. This is displayed on the front stairs in the Guildhall along with a portrait of the Marquess and one of his wife by the same artist.

Other works of interest include a painting by John Opie, *Lady Elizabeth Woodville Pleading for her Children before Edward IV*, this is on loan to the University of Winchester where the public have occasional access. Other works include King Charles II by Peter Lely, Cromwell's troops entering Winchester by George Arnold which are both on display in the

Guildhall and Drawings of Wren's Design For the Kings House by Nicholas Hawksmoor which is held in storage at this time

### **Civic Regalia**

This is a collection of over 130 objects. The collection is mainly of donations from civic dignitaries, official visitors to the city or private individuals. Criteria for the collection whether by donation or acquisition is that the objects must relate to Winchester and surrounding area.

There are 14 civic regalia items on permanent display in the Guildhall and civic regalia items are often displayed in the temporary exhibition display case, also in the Guildhall. The largest of the maces ranks second largest in size in the country.

### **Numismatics**

This collection of over 7,600 objects comprises a range of pre-Roman, Roman, Saxon, medieval and post medieval coins from the area; more than 200 medieval jettons comprising French, Anglo-Gallic and German issues; and 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> century tokens mainly issued by the traders, merchants and corporations of Winchester and Hampshire.

The collection has been built up through archaeological investigation, supplemented by purchase following specialist advice. The collection will continue to expand through excavations, donation, acquisition or loan where it contributes to completing the collection or has particular archaeological significance. Coins, tokens and jettons from the collection are displayed at the City Museum and Westgate Museum. Those not on display are held in the F2 store where they are available for study by appointment.

### **Ethnography**

The museum has a small collection of approximately 280 objects containing material derived from the world's inhabited continents. The items collected in the 19<sup>th</sup> and early 20<sup>th</sup> centuries include arms, armour, costume, jewellery, musical instruments and religious artefacts, such as the Indo-Tibetan 'durga', a bronze statuette of the Hindu goddess Parvati.

Winchester no longer collects this material but facilitates and encourages users of this collection. Consideration is being given to the dispersal or sale of items. The collection is held at the F2 store.

### **Foreign Archaeology**

The museum has a collection of approximately 500 items brought back by local people following travels abroad in earlier years. Half of the collection consists of ancient Egyptian antiquities the remainder includes pieces from the Mediterranean, Middle East and the Americas. The collection is in store at F2 but elements, such as the Egyptian antiquities are occasionally used in temporary exhibitions at City Space, the museum's temporary exhibition gallery at the Winchester Discovery Centre.

Winchester no longer collects this material but facilitates and encourages users of this collection. The museum is to retain this collection in order to understand the museum's development and because its importance at Winchester is published or well documented.



### **Preservation and Management**

There is a nominal budget for conservation of material in the collections and the museum has been successful in past years in attracting grant-aid from various sources to undertake conservation projects.

And, as mentioned above, the oil painting, *'Tanquerary Island, Kent'* by W. Sidney Cooper is being considered for sale with proceeds ring-fenced to enable the conservation of other artworks, specifically *'The Children of the Thirteenth Marquess of Winchester'* (c1812) by Thomas Stewardson.

Each of the collections is managed by a curator who reports to the Head of Museums. Regular reports are also received by members and Cabinet. The curators manage the collection in accordance with policies that are approved by the Authority. Further information is provided in the Museum's *Collections Management Policy* which has been produced in accordance with national guidelines and is available on the Council's website. This is reviewed every five years; the latest review was approved at Cabinet in November 2011.

The publication sets out that the assets in the collection are only disposed of in accordance with the Museums Association's ethical guidelines and with the authority of the museum's governing body.

Acquisitions are generally made by donation. However, where a particularly important asset is available for purchase the Authority will undertake to purchase the object provided it lies within the museum's collecting policy.

Assets are collated, preserved and managed in accordance with the aforementioned guidelines. The register for its collections records the nature, provenance, condition and current location of each asset. The Museum catalogues on Modes XML museum cataloguing software, to date some 150,000 individual digital records have been created, the majority from the old paper based cataloguing system. New acquisitions have been catalogued directly on to computer since Modes was first introduced in 1988 and the process of transferring paper records continues.

Heritage assets not managed by the Museum include the King Alfred statue on Broadway, Butter Cross on the High street, City Bridge parapets and plague monument on upper high street

### **48. Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom and correction of errors**

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets, held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

#### **Heritage Assets**

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it is not possible to obtain cost information on the assets. Community Assets (that are now classified as heritage assets) that were

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

donated to the authority were held at valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (see notes 1.11 and 1.17)

In applying the new accounting policy, the Council recognise £2.75 million of Heritage assets at 31 March 2012. This is matched by a liability in the Revaluation Reserve. The 1 April 2010 and the 31 March 2011 Balance Sheets and the 2010/11 Comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new accounting policy.

### **Correction of Errors**

Errors are not a change in accounting estimate but where an incorrect calculation or value was included in a previous Statement of Accounts. During 2011/12 the valuation of the Council's housing stock was valued based on the prior Social housing discount factor of 45% which had been applied to the vacant possession value of the property. The social housing discount factor changed at the year end by 13% to 32%, this impacts on the valuation of the housing stock by £117.9 million

Included within the Property Plant and Equipment were three operating leases. These assets are removed from Property Plant and Equipment and the operating rental charged to the CIES, disclosure is also included within the operating lease disclosure. (Note 37)

### **Restated Statements**

The fully restated 1 April 2010 Balance sheet is provided on page 12. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

#### **Effect on the Opening Balance Sheet 1 April 2010**

	<b>Opening balance as at 1 April 2010</b>	<b>Restatement</b>	<b>Restatement required to opening balances as at 1 April 2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, Plant and equipment	449,639	447,368	(2,271)
Heritage Assets	0	1,645	1,645
Long Term Assets	486,053	485,427	(626)
<b>Total Net assets</b>	<b>439,810</b>	<b>439,184</b>	<b>(626)</b>
Unusable Reserves	422,807	422,181	(626)
<b>Net Worth / Total Reserves</b>	<b>439,810</b>	<b>439,184</b>	<b>(626)</b>

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

There has been no restatement to the Comprehensive Income and Expenditure Statement for 2009/10

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As previously stated	As Restated	Restatement
	31 Mar 11	31 Mar 11	2011
	£000	£000	£000
<b>Balance as at the end of the previous reporting period – 31 March 2010</b>	<b>(422,807)</b>	<b>(422,181)</b>	<b>626</b>
(Surplus) or Deficit on the Provision of Services	0	0	0
Other Comprehensive Income and Expenditure	(15,138)	(11,447)	3,691
Adjustments between the accounting basis and the funding basis under regulations	(23,414)	91,550	114,964
Increase / Decrease in the year	(39,287)	79,368	118,655
<b>Balance at the end of the current reporting period 31 March 2011</b>	<b>(462,094)</b>	<b>(342,813)</b>	<b>119,281</b>

The resulting restated Balance Sheet for 31 March 2011 is provided on page 12. The adjustments that have been made to the Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	As previously stated	As Restated	Restatement
	31 Mar 11	31 Mar 11	2011
	£000	£000	£000
Property, Plant and Equipment	471,991	351,015	(120,976)
Heritage Assets	0	1,695	1,695
Long-Term Assets	510,175	390,894	(119,281)
<b>Total Net Assets</b>	<b>474,678</b>	<b>355,397</b>	<b>(119,281)</b>
Unusable Reserves	462,094	342,813	(119,281)
<b>Net Worth / Total Reserves</b>	<b>474,678</b>	<b>355,397</b>	<b>(119,281)</b>

### Effect on Balance Sheet 31 March 2011

The effect of the change in accounting policy in 2010/11 has been that Heritage Assets are recognised at £1.695 million on the Balance Sheet, resulting in an increase to the Revaluation Reserve of £1.695 million.

The impact from the correction of errors included £117.9 million in relation to the revaluation of Council Dwellings to reflect the latest Social Housing factor applied to the vacant possession valuation and £3.054 million for the reclassification of Property, Plant and Equipment to operating leases.

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**HOUSING REVENUE ACCOUNT COMPREHENSIVE INCOME AND EXPENDITURE  
STATEMENT FOR THE YEAR ENDED 31 MARCH 2012**

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		2011/12	Restated 2010/11
	Note	£000	£000
<u>Income</u>			
Dwelling Rents		(22,008)	(20,537)
Non-Dwelling Rents		(1,038)	(1,038)
Charges for Services & Facilities		(2,436)	(2,049)
Total Income		(25,482)	(23,624)
<u>Expenditure</u>			
Repairs & Maintenance		3,769	3,984
Supervision & Management		5,993	6,369
Rents, Rates, Taxes & Other Charges		412	358
Negative Housing Revenue Account Subsidy Payable	<b>H1</b>	9,866	9,132
Depreciation and Impairment of Non-Current Assets	<b>H6</b>	3,947	3,693
Revaluation Losses on Property, Plant and Equipment	<b>H6</b>	5,726	104,046
Amortisation of Intangible Assets	<b>H6</b>	4	0
Debt Management Costs		99	43
Self Financing Settlement Payment		156,722	0
Total Expenditure		186,538	127,625
<b>Net Cost of HRA Services per Authority Income &amp; Expenditure Statement</b>		161,056	104,001
HRA Services Share of Corporate & Democratic Core		131	132
HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		26	(2,539)
<b>Net Cost of HRA Services</b>		161,213	101,594
Net Gain on Sale of HRA Fixed Assets		(383)	(659)
Changes in Fair Valuations on Investment Properties		0	(1,505)
External Interest Payable		57	0
<b>Deficit for year on HRA Services</b>		160,887	99,430

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**STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE  
FOR THE YEAR ENDED 31 MARCH 2012**

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This reconciliation statement summarises the differences between the deficit on the Comprehensive Income and Expenditure Statement and the Housing Revenue Account Balance.

	Note	2011/12		Restated 2010/11	
		£000	£000	£000	£000
Deficit for the year on the Housing Revenue Account			160,887		99,430
<u>Adjustments between accounting basis and funding basis under statute:</u>					
Reversal of Self Financing Settlement Payment	(156,722)			0	
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute		264		260	
Reversal of items relating to retirement benefits and Employer's pensions contributions and direct payments to pensioners payable in the year	<b>H2</b>	108		2,626	
Reversal of revaluation losses on Property, Plant and Equipment and movements in the market value of Investment Properties		(5,726)		(102,541)	
Net Gain on sale of Fixed Assets		384		659	
Capital Expenditure funded from the HRA		532		672	
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals		(5)		(3)	
Charges for depreciation and impairment of non-current Assets		(3,947)		(3,693)	
Amortisation of intangible assets		(4)		0	
Reversal of Major Repairs Allowance credited to the HRA		<u>3,572</u>		<u>3,479</u>	
			<u>(161,544)</u>		<u>(98,541)</u>
Net (increase) / decrease in HRA Balance before transfers to or from reserves			(657)		889
Transfer to or from Reserves			<u>(11)</u>		<u>23</u>
(Increase)/Decrease in HRA Balance			(668)		912
Housing Revenue Account Surplus Brought Forward			<u>(1,289)</u>		<u>(2,201)</u>
Housing Revenue Account Surplus Carried Forward			<u>(1,957)</u>		<u>(1,289)</u>

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**NOTES TO THE HOUSING REVENUE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2012**

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### H1. Housing Subsidy

The HRA subsidy can be broken down as follows in accordance with the elements set out in the general formula in paragraph 3.1 of the general determination of Housing Revenue Account Subsidy for the year.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Management & maintenance allowance	(7,707)	(7,491)
Major repairs allowance	(3,572)	(3,479)
Charges for capital	(402)	(270)
Notional rent	21,619	20,384
	<u>9,938</u>	<u>9,146</u>
Previous year adjustment	(72)	(13)
	<u>9,866</u>	<u>9,132</u>

### H2. IAS 19 Employee Benefits

In accordance with the requirements of IAS 19 and the statutory regulations regarding the Housing Revenue Account, the account has been charged with an allocation of its share of the current and past service costs. This adjustment is then reversed out of the Housing Revenue Account via the Statement of Movement on the HRA Balance, so its effect on the account is neutral.

### H3. Major Repairs Reserve

This is a statutory reserve used to fund the Housing Revenue Account (HRA) capital expenditure and it is financed by depreciation to the limit of the major repairs allowance (MRA), within the housing subsidy. Adjustments are made between the HRA and this reserve when depreciation either exceeds or is less than the MRA, so that any charge on the HRA is exactly offset by the MRA subsidy income. Movements in the year were as follows:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
HRA depreciation	(3,951)	(3,693)
HRA depreciation in excess of MRA	379	214
Net Charge to HRA	<u>(3,572)</u>	<u>(3,479)</u>
HRA capital financed	3,404	3,497
Movement in year	(168)	18
Balance brought forward at 1 Apr	<u>(808)</u>	<u>(826)</u>
Balance carried forward at 31 Mar	<u>(976)</u>	<u>(808)</u>

**NOTES TO THE HOUSING REVENUE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2012**

**H4. Housing Stock**

The number and types of dwelling in the Council's housing stock as at 31 March were made up as in the following table.

	<b>31 Mar 12</b>	<b>31 Mar 11</b>
	Number	Number
Houses	2,285	2,289
Bungalows	862	862
Flats & Maisonettes	1,932	1,933
Shared ownership	13	14
	<u>5,092</u>	<u>5,098</u>

The Balance Sheet value of land, housing and other property within the HRA as at 31 March is given below.

	<b>31 Mar 12</b>	<b>Restated 31 Mar 11</b>	<b>Restated 31 Mar 10</b>
	£000	£000	£000
<u>Operational assets</u>			
Dwellings	285,245	290,717	394,422
Other Land & Buildings	8,419	8,200	8,033
Infrastructure	2,390	2,478	2,563
Community Assets	14	14	14
Plant & Equipment	77	7	18
	<u>296,145</u>	<u>301,416</u>	<u>405,050</u>
<u>Non-operational assets</u>			
Investment Properties	4,224	3,924	2,419
	<u>300,369</u>	<u>305,340</u>	<u>407,469</u>

In arriving at the Balance Sheet value of Dwellings, the vacant possession value of a property is multiplied by a Government recommended percentage to arrive at the value for social housing. The figure for both 2011/12 and 2010/11 was 32% and 2009/10 was 45%

The valuation for existing use for social housing, which is the value held in the Statement of Accounts, was £285 million at 31 March 2012 and £290 million at 31 March 2011. The vacant possession values were £891 million and £908 million respectively.

In calculating the notional rent element in the subsidy calculation the Government uses the capital value of dwellings as one of the components. By using a lower than open market vacant possession valuation, the total notional rent is therefore less. As this element is deducted from other elements in the subsidy calculation, the net subsidy from the Government is increased as a result. Details of the subsidy elements are set out in Note H1 to the Housing Revenue Account.

**NOTES TO THE HOUSING REVENUE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2012**

**H5. Capital Expenditure and Receipts**

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
<u>Capital Expenditure</u>		
Self Financing Settlement	156,722	0
Dwellings	4,372	4,133
Other Land & Buildings	173	0
Vehicles Plant & Equipment	75	0
Infrastructure	68	66
Intangibles	54	0
Expenditure in year	<u>161,464</u>	<u>4,199</u>
Financed by:		
Capital receipts	(730)	(66)
Major repairs reserve	(3,404)	(3,497)
Contributions from revenue	(531)	(636)
Other Contributions	(77)	0
	<u>(4,742)</u>	<u>(4,199)</u>
Additional Capital Financing Requirement	156,722	0
Capital Financing Requirement B/F	10,131	10,131
Capital Financing Requirement C/F	<u>166,853</u>	<u>10,131</u>
<u>Capital Receipts</u>		
Operational Assets		
Dwellings	(633)	(1,271)
Mortgages	(3)	(5)
Total	<u>(636)</u>	<u>(1,276)</u>

**H6. Depreciation & Impairment**

	<b>2011/12</b>	<b>Restated 2010/11</b>
	<b>£000</b>	<b>£000</b>
<u>Depreciation</u>		
Dwellings	3,572	3,479
Operational Land & Buildings	217	51
Infrastructure	153	152
Plant & Equipment	5	11
Intangibles	4	0
	<u>3,951</u>	<u>3,693</u>
<u>Revaluation below Historic Cost</u>		
Dwellings	5,726	104,046
Total	<u>9,677</u>	<u>107,739</u>



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**NOTES TO THE HOUSING REVENUE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2012**

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As at the 1 April 2007 a new fixed assets accounting system was adopted by local government and property values at that date were deemed to be historic cost. In 2008/09, the market value of the properties dropped below the 1 April 2007 values resulting in costs being charged to the comprehensive income & expenditure statement in line with standard accounting practice. During 2010/11 Dwelling market values increased but Central Government reduced the percentage to be applied to valuing social housing from 45% to 32%, see note H4, resulting in a downward revaluation of £104.0 million. During 2011-12 the social housing percentage has remained at 32% but value of Dwellings has fallen with a further charge of £5.7 million being made to the comprehensive Income and expenditure statement (I&E). Should Dwelling values rise in the future the charges made to I&E will be reversed until values reach what they were in 1 April 2007, after which a revaluation reserve will be created

**H7. Rent Arrears**

	<b>31 Mar 12</b>	<b>31 Mar 11</b>	<b>31 Mar 10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Rent Arrears	446	417	458
Provision for Bad Debts	(240)	(238)	(315)
Anticipated Collectable Arrears	<u>206</u>	<u>179</u>	<u>143</u>

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## COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2012

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This account reflects the statutory requirements for the Council, as a billing Council, to maintain a separate Collection Fund. It summarises income from non-domestic rates and Council Tax and shows its distribution to precepting authorities, the Council's General Fund and Central Government.

		2011/12		2010/11	
	Note	£000	£000	£000	£000
<u>Income</u>					
Net Council Tax	<b>C1</b>	(64,064)		(63,199)	
Non-Domestic Rates	<b>C2</b>	(46,246)		(44,082)	
Council Tax Benefits		(5,254)		(5,263)	
			(115,564)		(112,544)
<u>Expenditure</u>					
Hampshire County Council Precept		49,798		49,499	
Winchester City Council Demand		9,129		8,983	
Hampshire & Isle of Wight Police Authority Precept		7,017		6,975	
Hampshire Fire & Rescue Authority Precept		2,945		2,927	
Payment to National Pool		46,053		43,893	
Business Rate Cost of Collection Allowance		194		189	
Movement in Provision for Council Tax Bad Debt		(51)		(24)	
Council Tax Written Off		183		175	
			115,268		112,617
<u>Adjustments for previous years</u>					
Distribution of previous year's estimated Council Tax Surplus	<b>C3</b>		0		293
(Surplus)/Deficit for year			(296)		366
(Surplus)/Deficit brought forward			96		(270)
(Surplus)/Deficit carried forward	<b>C4</b>		(200)		96

## COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2012

### C1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands, using 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund for the forthcoming year and dividing this by the Council Tax base.

The tax base is arrived at by adjusting the total number of properties in each band by a proportion to convert the number to a band D equivalent, which is then adjusted for discounts and collection rate. The basic amount of tax for a band D property, which will vary according to Parish (average for district £1,436) is then multiplied by the proportion specified for the particular band to give an individual amount due.

For 2011/12 Council Tax bills were based on the following dwellings and proportions:-

Band	Estimated Number of Taxable Properties after Discounts & Exemptions	Ratio Equivalent	Number of Band D Equivalent Dwellings
Disabled A	2.50	5/9	1.39
A	1,537.19	6/9	1,024.79
B	5,106.08	7/9	3,971.40
C	9,839.70	8/9	8,746.40
D	7,911.47	1	7,911.47
E	7,571.68	11/9	9,254.28
F	5,840.10	13/9	8,435.70
G	4,713.55	15/9	7,855.92
H	557.25	18/9	1,114.50
Ministry of Defence			341.02
	43,079.52		48,656.87
Less adjustment for collection rates			(676.41)
			47,980.46

### C2. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specified an amount (43.3p in 2011/12) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. It also specified for certain businesses with a rateable value of less than £18,000 a small business rate (42.6p in 2011/12). The Council is responsible for collecting rates due from the ratepayers in the area but pays the proceeds into an NNDR pool, administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

The total rateable value at 31 March 2012 was £126.6 million and £129.2 million at 31 March 2011. After relief's and provisions, the NNDR income of £46.2 million (£44.1 million for 2010/11) was based on an average rateable value for the Council's area of £127.9 million for 2011/12 (£117.8 million for 2010/11) and was arrived at as follows:

**COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2012**

	<b>2011/12</b>		<b>2010/11</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross Income - (£120,046,406 x 0.433)	(51,980)		(46,062)	
- (£ 7,842,600 x 0.426)	<u>(3,341)</u>		<u>(2,650)</u>	
		(55,321)		(48,712)
Less/(Plus): Voids and Revised Assessments		<u>2,068</u>		<u>(1,163)</u>
		(53,253)		(49,875)
Less:				
Transitional Reliefs	149		1,532	
Other Reliefs	6,434		4,015	
Interest Arising from Reduced Assessments	47		66	
Write Offs and Provisions for Write Offs	<u>377</u>		<u>180</u>	
		7,007		5,793
Total		<u>(46,246)</u>		<u>(44,082)</u>

**C3. (Contribution) / Distribution of previous year's estimated Council Tax (Deficit) / Surplus**

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Winchester City Council	0	38
Hampshire County Council	0	212
Hampshire and Isle of Wight Police Authority	0	30
Hampshire Fire & Rescue Authority	0	13
	<u>0</u>	<u>293</u>

**C4. Surplus carried forward**

Any surpluses or deficits in respect of Council Tax are distributable to Hampshire County Council, Hampshire and Isle of Wight Police Authority, Hampshire Fire & Rescue Authority and the Council in proportion to the value of the respective precepts and demands made by the Authorities on the Collection Fund. The balance as at 31 March 2012 is made up of the following elements:

	<b>£000</b>
Deficit brought forward at 1 April 2011	96
Distribution made in the year of previous year's estimate	0
Surplus arising in 2011/12	<u>(296)</u>
Surplus carried forward at 31 March 2012	<u>(200)</u>

The net (surplus) / deficit on the collection fund is due (to) / from preceptors as follows:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Winchester City Council	(27)	13
Hampshire County Council	(145)	69
Hampshire and Isle of Wight Police Authority	(20)	10
Hampshire Fire & Rescue Authority	<u>(8)</u>	<u>4</u>
	<u>(200)</u>	<u>96</u>

## GLOSSARY OF TERMS

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**Accounting Policies** – Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

Recognising;  
selecting measurement bases for: and  
presenting

assets, liabilities, gains, losses and changes to reserves. Accounting Policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an example for a particular type of expenditure may specify whether an asset or a loss is to be recognised, the basis on which it is to be measured, and where in the accounts it is to be presented.

**Accruals** – the concept that income and expenditure is recognised as it is earned or incurred, not as money is received or paid.

**Actuarial Gains and Losses (Pensions)** – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or  
the actuarial assumptions have changed.

**Agency Expenditure** – is expenditure relating to functions or activities that the Council is carrying out under delegated powers on behalf of other public sector organisations.

**Allowances for Doubtful Debts** – is the amount of outstanding debt which is not expected to be collected, based on the history of debt collection. It is charged against the income recognised and reduces the outstanding debt. The debt reported in the Statement of Accounts is then the debt expected to be collected.

**Amortisation** – is the writing down of an asset's value over its useful life (similar to depreciation). This is applied to intangible fixed assets and some types of investments.

**Area Based Grants (ABG)** – is a general grant allocated directly to Local Authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than a general formulae. Local Authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.

**Asset Revaluation Reserve** – This is an unusable reserve to reflect movements in Property, Plant and Equipment assets resulting from upward revaluations, and downward revaluations to the extent that there has been a previous upward revaluation, restricted to the amount in the revaluation reserve. All other revaluations are recognised in the Comprehensive Income and Expenditure Account.

**Available for Sale Financial Assets / Instruments** – This is a category of financial instruments (usually investments) that has a quoted market price and/or does not have fixed or determinable payments.

**Budget** – The Council's aims and policies set out in financial terms against which performance is monitored.

## GLOSSARY OF TERMS

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**Capital Adjustment Account (Reserve)** – An unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

**Capital Charges** – Charges to revenue accounts to reflect the cost of long term assets used in the provision of services. The cost includes the cost of borrowing money and the charge for depreciation [see depreciation below]

**Capital Expenditure (Statutory)** – This is expenditure on the acquisition of long term assets, or expenditure which adds to and not merely maintains the value of existing long term assets. The statutory definition also includes capital grants to other bodies and expenditure on the acquisition of some long term investments (e.g. corporate bonds).

**Capital Financing Requirement (CFR)** – This is the Council's underlying need to borrow to finance capital expenditure.

**Capital Investment** –expenditure on long term assets.

**Capital Investments** –are financial instruments that under statute are deemed to count as capital expenditure when acquired and on disposal or maturity gives rise to a capital receipt (e.g. corporate bonds).

**Capital Receipts** –proceeds from the sale of (or reduction in the Council's interest in) long term assets such as property, plant and equipment, investment property and capital investments.

**Capital Receipts Reserve** –is a usable reserve consisting of capital receipts that have not yet been used to finance Capital Investment.

**Cash and Cash Equivalents** –are highly liquid financial instruments (cash and very short term investments) that are repayable without penalty on notice of not more than 30 days and are convertible to known amounts of cash with insignificant risk of change in value.

**Collection Fund** – an account maintained by the Council to record the amounts collected in Council Tax and National Non Domestic Rates and how the amounts have been distributed.

**Community Assets** – a category of long term assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. For example: parks and community buildings.

**Components** – are parts of property assets that have different useful lives to the main asset (e.g. a roof)

**Contingent Assets /Liabilities** – a potential asset / liability that is uncertain because it depends on an outcome of a future event.

**Corporate Bonds** - are financial instruments that re very similar in nature to gilts except rather than being issued by the government they are issued by other organisations e.g. banks and commercial companies in order to raise capital.

## GLOSSARY OF TERMS

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**Corporate and Democratic Core (CDC)** – is defined as comprising two divisions of service: Democratic Representation and Management (DRM) and Corporate Management (CM). If anything does not fall within the definitions given for either DRM or CM, then it cannot be within CDC.

DRM concerns corporate policy making and all other member-based activities. CM concerns those activities and costs that relate to the general running of the council. These provide the infrastructure that allows services to be provided, whether by the authority or not, and the information required for public accountability. Activities relating to the provision of services, even indirectly, are overheads on those services, not CM.

**Council Tax** - a local tax levied by local authorities on its citizens.

**Creditor** –an individual or body to whom, at the Balance Sheet date, the Council owes money.

**Current Asset** – an asset that is realisable or disposable within one year of the Balance Sheet date.

**Current Liability** - a liability that is due to be settled within one year of the Balance Sheet date.

**Current Service Cost (Pensions)** – The value of the standard benefits promised to members over the last accounting period, after offsetting the members' contributions, i.e. it is the Employer's share of the cost

**Curtailement (Pensions)** – an event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:  
    termination of an employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and  
    termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Debtor** –an individual or body whom, at the Balance Sheet date, owes money to the Council.

**Defined Benefit Scheme (Pension)** - is a scheme whereby the employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employees earning history, tenure of service and age, rather than depending on investment returns.

**Depreciated Replacement Cost (DRC)** – a valuation used as a proxy for the market value of a specialised property. It consists of the estimated market value of any land in existing use and the replacement cost of any buildings.

**Depreciation** – is the measure of the wearing out, consumption, or other reduction in value or the useful economic life of a long term asset, whether arising from use, passage of time, obsolescence or other changes.

**Direct Revenue Financing** –is the term used for funding from revenue sources such as earmarked revenue reserves and revenue grants or contributions.

## GLOSSARY OF TERMS

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**Discretionary Benefits (Pensions)** – are retirement benefits for which the employer has no legal, contractual or constructive obligation and to which the Council has restricted powers to make such discretionary awards in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

**Doubtful Debt** – is a debt that the Council is unlikely to recover. An allowance is made in the financial statements for doubtful debts each year based on how long debts have been outstanding.

**Earmarked Revenue Reserves** – are usable reserves consisting of amounts set aside from revenue (General Fund and Housing Revenue Account) to fund future expenditure.

**Effective Interest Rate** – the implied rate of interest in an arrangement calculated by reference to the cash flows within the arrangement as opposed to quoted rates of interest.

**Estimated Market Value / Fair Value** – the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Existing Use Value (EUUV)** – the estimated amount for which a property should exchange on the date of a valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had accepted knowledgeably, prudently, and without compulsion. Assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost

**Existing Use Value Social Housing (EUUV – SH)** - the estimated amount for which a property should exchange on the date of a valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had accepted knowledgeably, prudently, and without compulsion subject to the following further assumptions that:

the property will continue to be let by a body pursuant to delivery of a service for the existing use;

at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;

properties temporary vacant pending re-letting should be valued, if there is letting demand, on the basis that the prospective purchaser intends to re-let them rather than with vacant possession; and

any subsequent sale would be subject to all the above assumptions.

**Expected Rate of Return on Pension Assets (Pension)** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return.



## GLOSSARY OF TERMS

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**Experience Gains / Losses (Pensions)** –shows the impact of actual experience differing from the accounting assumptions, such as pension increases and salary increases differing from those assumed, and unexpected membership movements.

**Fair Value / estimated Market Value** - the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Finance Lease** – a lease where substantially all of the risks and rewards of ownership of a fixed asset are transferred to the lessee. The transfer is presumed to occur at the inception of the lease if the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

**Financial Instruments** - are any contracts that give rise to a financial asset in one entity and a financial liability in another (e.g. borrowings, creditors, debtors and investments)

**Financial Instrument Revaluation Reserve** –is a usable reserve to reflect movements in the market value of available for sale financial instruments.

**Financial Reporting Standards (FRS)** – Accounting Standards issued by the Accounting Standards board (ASB) that the Council is required to follow subject to the requirement to follow International Financial Reporting Standards (IFRS)

**Financing Activity** – This is income and expenditure relating to long term borrowing

**General Fund** –is a statutory division of the Council's accounts covering the cost of services. The general fund is a usable reserve which can apply to the provision of services, either by incurring expenses or undertaking capital investment, whether or not there are particular restrictions on exactly what the resources can be applied to.

**Gilts** – are UK Government sterling denominated bonds issued by HM Treasury. The term gilt (or gilt-edged) is a reference to the primary characteristic of gilts as an investment - their security. They are financial instruments issued in order to finance public expenditure. Gilts are generally issued for a set period and attract a set rate of interest during the agreed investment period. Interest is payable at set agreed periods and the principal is repaid at the end of the period. There are several types of gilts available from the UK Debt Management Office.

**Government Grants** –are government assistance in either the form of cash or transfer of assets. Grants either attract a condition or a restriction. A condition being; stipulations that specify that the future economic benefits or service potential; a restriction specifies the purpose of the grant.

**Grants and Capital Contributions Unapplied (Reserve)** –is a usable reserve consisting of capital grants and contributions that have been received but have yet to be used /applied to finance capital expenditure.

**Grants and Contributions (Receipts in Advance)** –are grants and contributions received which have conditions on their use that might require the Council to return them to the contributor. Examples include time limited developer contributions.

## GLOSSARY OF TERMS

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**Heritage Assets** – are a category of long term assets principally held for their cultural, environmental or historical associations and held in trust for future generations.

**Impairment** – is a reduction in a long term asset below the carrying value in the Balance Sheet.

**Infrastructure Assets** - are a category of long term assets that are inalienable, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Examples of infrastructure assets include highways and footpaths.

**Intangible Assets** – are a category of long term assets that are identifiable, have physical substance and controlled by the council. For example Software licences

**Interest Costs (Pensions)** –represents the unwinding of the discounting on the value placed on the benefits over the period, as they become closer to being paid. For an employer where the net cash-flow over the period is small relative to the defined benefit obligation, the figure will approximate to the product of the ‘discount rate at the start of the period’ and ‘the defined benefit obligation at the start of the period.’

**International Financial Reporting Standard (IFRS)** –govern the accounting treatment and reporting of transactions in an organisation’s accounts.

**Inventories** – are assets in the form of materials or supplies to be consumed in a production process or rendering of services, held for sale or distribution in the ordinary course of operations or in the process of production for sale or distributions.

**Investing Activity** – is expenditure and income relating to long term assets.

**Investment Premiums** – is the amount above the face value that a purchaser pays to obtain a financial instrument and its income.

**Investment property** – a category of long term assets, which is held for its investment potential and not used in the delivery of services.

**Lease (Financing and Operating)** – an arrangement that involves payment or a series of payments of the use of an asset.

**Loans and Receivables** – a category of financial instrument that has fixed or determinable payments but are not quoted on an active market.

**Long Term Assets** –the value of the Council’s property, equipment and other capital assets minus depreciation, which are expected to be useable for more than one year. [Source various internet definitions]

**Long term borrowing** – a loan repayable after one year from the Balance Sheet date

**Long Term Debtor** – an individual or body that owes money to the Council, but which is not due within one year of the Balance Sheet date.

**Long Term Investments** – are financial instruments with a maturity date after one year of the Balance Sheet date.

## GLOSSARY OF TERMS

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**National Non Domestic Rate (NNDR)** – a national tax levied on business premises (also known as business rates)

**Net Assets** – the amount by which the total assets exceed the total liabilities.

**Net Book Value** – this is the cost or valuation of an asset less cumulative depreciation.

**Net Current Replacement Cost** – the cost of replacing or recreating the particular asset in its existing condition and in its existing use (i.e. the cost of replacing an asset with the nearest equivalent assets adjusted to reflect the current condition of the existing asset)

**Non Distributed Costs** – are overheads for which no direct service benefits and which are therefore, not apportioned to services (e.g. past service pension costs).

**Operating Leases** – a lease which does not transfer, substantially all of the risks and rewards of ownership to the lessee.

**Portfolio Services** - groupings of services determined by members of the Council.

**Past Service Cost (Pensions)** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Those decisions may include additional enhanced benefits on retirement or any discretionary benefits granted.

[Source AON Pensions and the Code guidance]

**Pension Scheme Reserve** – an unusable reserve that reflects the net liability/asset in the Council employee's pension fund.

**Post Balance Sheet Events** – event which occur, both favourable and unfavourable, between the Balance Sheet date and the date that the Statement of Accounts is signed by the responsible financial officer.

**Precepts / Preceptors** – amounts levied on the Council, by other Local Authorities (preceptors), which the Council is required to collect and distribute council tax for.

**Prior Period Adjustment** – adjustments to the opening Balance Sheet, as a result of errors or misstatement relating to previous years. Changes may be made to correct and error or to reflect a new Accounting Policy.

**Protected Unit Method (Pensions)** – an accrued benefits method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits for service up to a given point in time, whether vested rights or not.

## GLOSSARY OF TERMS

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**Property, Plant and Equipment (PPE)** – a category of long term assets that are used in the provision of services as opposed to investment property which is used to generate income of for capital growth purposes.

**Provisions** – where the council has a legal or constructive obligation an estimation of that obligation is set aside to meet liabilities.

**Related Parties** – two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

**Related Party Transactions** – is the transfer of assets and liabilities or the performance of services by, to, or for a related party irrespective if whether a charge is made.

**Remuneration** – amounts paid to or receivable by an employee and amounts due by way of expenses allowances (as far as those amounts are chargeable to UK Income Tax) and the money value of any other benefits received other than in cash.

**Residual Value** – is the net realisable value of an asset at the end of its useful life. Residual values are based on process prevailing at the date of the acquisition, or revaluation, of the asset and do not take account of the expected future price changes.

**Retirement Benefits** – all forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either

- an employers decision to terminate an employee's employment before normal retirement date; or
- an employer's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – expenditure which may properly be capitalised in accordance with statutes, but where no tangible long term asset is created and therefore, under IFRS is deemed to be revenue expenditure. For example improvement grants and social housing grants.

**Revenue Expenditure / income** – the cost of income associated with the day-to-day running of the Council's services.

**Revenue Support Grant (RSG)** – a government grant (financial support) that is not ring-fenced (i.e. does not have to be spend on a particular service) It is based on the Government's assessment of the Council's spending need, it's receipt from NNDR and its ability to generate income from council tax.

## GLOSSARY OF TERMS

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**Scheme Liabilities (Pensions)** – the liabilities of a defined pension scheme for outgoings due after the valuation date. Scheme liabilities are measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

**Service Reporting Code of Practice (SeRCOP)** - aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders.

**Settlement (Pensions)** – arises when a council enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer or an insurance company in settlement of the obligation.

**Short Term Borrowing** – is a loan repayable in less than one year from the Balance Sheet date.

**Short Term Debtors** – an individual or body that owes money to the Council that is due for payment within one year from the Balance Sheet date.

**Short Term Investments** – are financial instruments with maturity dates of less than one year at the Balance Sheet date.

**Statutory Adjustment Accounts (Reserves)** – unusable reserves relating to statutory adjustments made in the Statement of Accounts. For example Collection Fund Adjustment Account.

**Straight Line Basis** – a method used to divide an amount equally over an number of periods.

**Termination Benefits** – are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy

**Unusable Reserves** – amounts set aside that the Council is not able to use to fund expenditure.

**Usable Reserves** – amounts set aside that the Council is able to use to fund expenditure.

**Useful Life** – the period over which the Council will derive benefits from the use of a long term asset.

**Value in Use** – the net present value of future cash flows obtainable as a result of an asset's continued use, including those resulting from its ultimate disposal.

**Vested Rights (Pensions)** – in relation to a defined benefit scheme, these are;  
for active members, benefits to which they would unconditionally be entitled on leaving the scheme.

for deferred pensioners, their preserved benefits; or  
for pensioners, pensions to which they are entitled.

Vested rights include, where appropriate, the related benefits for spouses or other dependents.

**WINCHESTER CITY COUNCIL**

**ANNUAL GOVERNANCE STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2012**

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## ANNUAL GOVERNANCE STATEMENT

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### 1. Scope of Responsibility

Winchester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Winchester City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Winchester City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Winchester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

This Statement explains how Winchester City Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the review of its system of internal control in accordance with best practice, and that the review be reported in an Annual Governance Statement.

### 2. The Purpose of the Governance Framework

The purpose of the governance framework is to ensure that the authority directs and controls its activities in a way that meets standards of good governance and is accountable to the community. It does this by putting in place an organisational culture and values, supported by appropriate systems and processes, and ensuring that these work effectively. It works with the Council's Performance Management Framework to ensure that the Council has in place strategic objectives reflecting the needs of the community, is monitoring the achievement of these objectives through delivery of appropriate, cost-effective services.

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

The governance framework has been in place at Winchester City Council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts for the 2011/12 financial year.

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## ANNUAL GOVERNANCE STATEMENT

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### 3. The Governance Framework

The key elements of good governance are:-

- Focusing on the purpose of the authority and on outcomes for the local community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managed risk.
- Developing the capacity and capability of Members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

The Council's Performance Management Framework translates the needs of the community and requirements of Government, into cost effective local services designed to deliver the shared vision for the District (economic prosperity, a high quality environment and active communities) and meet statutory requirements.

The Council engages with its communities through a number of mechanisms, including community planning, consultation events, surveys and campaigns relating to specific initiatives. Building on the views expressed and evidence of needs and future trends, the Council has worked with partner organisations to agree a shared vision and set of aims and objectives for the District that is documented in the Winchester District Community Strategy 2010 - 2020.

The Council's Community Strategy is supplemented by more detailed information on the key projects and programmes of work that the authority will be delivering during the year – set out in the Change Plans. More detailed business and service plans are drawn up by each of the Council's Teams, with targets set for individual members of staff through the annual appraisal process. This process also looks at the development and training needs of staff, with a programme of training then put in place to meet these needs.

Progress against Change Plans and budgets is monitored regularly by the Corporate Management Team, the Performance Management Team, Senior Managers and Portfolio Holders. The Overview and Scrutiny Committee receives reports focusing on delivery of key projects and programmes of work and drawing attention to other areas where progress is exceeding, or falling short of targets. Cabinet also monitor progress against delivery.

The Council's performance management arrangements are regularly reviewed and were further developed in 2011/12 to better demonstrate progress against delivering the outcomes in the Winchester District Community Strategy and the Council's Change Plans. The National Performance Framework has been fully embedded in the Council's reporting mechanisms. The Council has an officer Performance Management Team to monitor and direct monthly financial performance, service performance, progress on key corporate projects and risk management and to oversee the implementation of recommendations from Internal Audit.

The Council publishes the Statement of Accounts annually within the statutory timescales. The Statement of Accounts incorporates the full requirements of best



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## ANNUAL GOVERNANCE STATEMENT

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practice guidance in relation to corporate governance, risk management and internal control.

The Council is subject to independent audit by the Audit Commission and receives an Annual Audit Letter reporting on findings. The Council supplements this work with a small internal audit team and ad hoc external peer reviews. The Audit Committee undertakes the core functions as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*.

The Council's Constitution explains existing policy making and delegation procedures and the matters which must be dealt with by the full Council. It documents the role and responsibilities of Cabinet, each committee and members and officers. The Council has approved a protocol governing relationships between members and officers as part of its Constitution and has adopted codes of conduct for both Officers and Members which facilitate the promotion, communication and embedding of proper standards of behaviour. All Officers have job descriptions and there are clearly defined schemes of delegation, all of which are reviewed from time to time.

The Council's Constitution incorporates clear guidelines to ensure that business is dealt with in an open manner except in circumstances when issues should be kept confidential. Meetings are open to the public except where personal or confidential matters are being discussed. All Cabinet /committee agendas, minutes and portfolio holder decisions are published promptly on the Council's website. In addition, senior officers of the Council can make some decisions under delegated authority. The over-arching policy of the Council is decided by the full Council. The Overview and Scrutiny Committee and Audit Committee hold Portfolio Holders to account for delivery of the Council's policy framework within the agreed budget, and protocols are in place for any departure from this to be properly examined.

Staff awareness training has been undertaken to ensure that the Council complies adequately with the provisions of the Data Protection and Freedom of Information Acts, and Equality requirements.

The Council has appointed the Head of Finance as the Section 151 officer with the statutory responsibility for the proper administration of the Council's financial affairs. CIPFA/SOLACE advise that the Chief Finance Officer should report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. Winchester's organisational model has a strategic Corporate Management Team of two Corporate Directors with responsibility for Operations and Governance, with the Head of Finance reporting to the latter. Membership of that Strategic Team is not determined by profession or qualification, nor does the Team's role require it be so.

In practice, the Head of Finance has been invited to all meetings of the Corporate Management Team where matters with financial implications are discussed, and her contribution on a broad range of matters has always been respected. The Chief Executive or Corporate Director (Governance) has ensured she is involved in any follow-up to matters discussed where appropriate – and in practice, as with most District Councils, the 'Leadership Team' is not simply confined to CMT but includes other senior officers as appropriate. The Head of Finance is also a member of the Council's Performance Management Team alongside the Chief Executive, Corporate Directors and Assistant Directors. She also receives copies of agendas for bi-monthly strategic CMT meetings and has an open invitation to attend on any matter.

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## ANNUAL GOVERNANCE STATEMENT

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The Council has appointed the Corporate Director (Governance) as the statutory “Monitoring Officer” and has procedures to ensure that the Monitoring Officer is aware of any issues which may have legal implications.

All Cabinet reports are reviewed by the Head of Finance and Monitoring Officer. All reports to Cabinet are required to demonstrate how the matter links to the Council’s Community Strategy and Change Plans, and highlight resource implications. Officers are also asked to draw out risk, equality, sustainability, management and legal issues as appropriate. Similar procedures are in place for the Scrutiny and Regulatory Committees.

The Council has whistle-blowing and anti-fraud and corruption policies. It has a formal complaints procedure and seeks to address and learn from complaints. The Council’s Standards Committee deals with complaints relating to the conduct of members.

Members’ induction training is undertaken after each election. Members receive regular updates and training on developments in local government.

#### **4. Review of Effectiveness**

Winchester City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

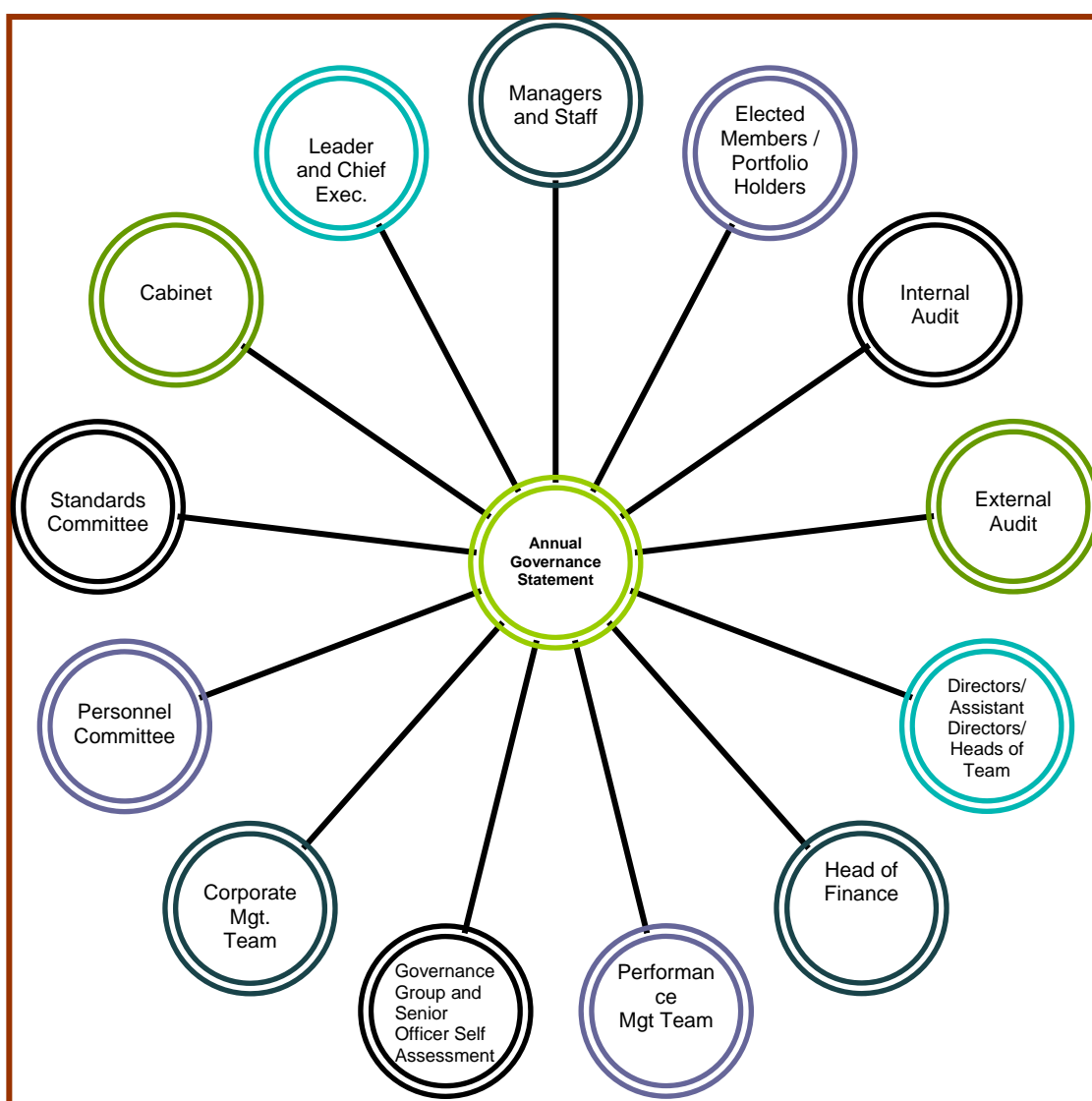
The process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements includes wide input:-

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## ANNUAL GOVERNANCE STATEMENT

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### INPUTS TO THE ANNUAL GOVERNANCE STATEMENT



- **Managers and staff** have responsibility for the development and maintenance of a sound governance environment.
- **Elected members** are collectively responsible for the governance of the Council and the full Council is responsible for agreeing the Constitution, policy framework and budget.
- **Internal Audit**'s remit includes the Council's entire control environment. The Internal Audit Manager takes account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives. The Internal Audit Plan is based on the Corporate Risks Register and identifies Internal Audit's contribution to the review of the effectiveness of the control environment. The process includes reports to the Audit Committee on progress of audits. Regular summaries are also produced of the outcome of each audit, together with reviews of whether agreed recommendations have been implemented. Internal Audit provides an annual opinion on the internal control environment and issues that should be included in this Statement.

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Part of this review process is an annual review report by the Internal Audit Manager of the effectiveness of the Council's internal audit function. In the light of feedback we have concluded that internal audit is an effective part of the Council's governance arrangements.

- **External Audit** provides an Annual Audit Letter, which includes a review of the Council's Annual Governance Statement and internal controls.
- **Corporate Directors, Assistant Directors and Heads of Teams** complete annual statements of assurance and implement action plans identified as a part of this process.
- **The Monitoring Officer** has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are followed. He also reviews this Statement. Amendments to the Constitution are considered by Cabinet, The Overview and Scrutiny Committee, the Standards Committee and Council from time to time as required to reflect managerial and operational changes.
- An officer **Performance Management Team** is responsible for deploying risk management across the Council and the risk assessment of emerging issues, in addition to monitoring progress against Business Plans and budgets.
- An officer **Governance Group** co-ordinates the preparation of this statement and recommends the statement to the Corporate Management Team. The Group monitors compliance in the risk management arrangements and keeps the self-assessment of governance based on the Code of Corporate Governance under review.
- **The Corporate Management Team** reviews this statement and regularly deals with setting policy for risk management. It has a role in setting the culture and values, agreeing the Governance Framework, and implementing the framework throughout all its work.
- **The Audit Committee** monitors the internal control environment through receipt of audit reports and this Statement, and keeps an overview of arrangements for risk management. Acting as the Statement of Accounts Committee it also approves this Statement and the Statement of Accounts.
- The **Cabinet** manages risk in making operational and governance decisions together with proposing and implementing the policy framework, budget and key strategies.
- The **Leader and Chief Executive** sign this Statement on behalf of the Council.

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## ANNUAL GOVERNANCE STATEMENT

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### 5. Emerging Issues

There are a number of issues identified which significantly impact on the 2012/13 and / or future financial years. In identifying these issues, the Council has also stated how it plans to address them and the following plans have been integrated into the Council's performance management arrangements.

<b>Issue</b>	<b>Action to be taken</b>	<b>Progress / Comments</b>
Asset Management	Maintain an up to date Asset Management Plan and ensure that financial aspects of the Council's fixed assets are appropriately incorporated into the financial planning process, taking account of the possible impact of the current economic situation on the Council's properties.	Significant capital expenditure was incurred on the Council's fixed assets in 2011/12, and earmarked reserves have been increased to fund future planned expenditure. However there are still some future capital requirements that will need funding identified including the River park Leisure Centre, City Offices and IT. This will be considered further during 2012/13.

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Issue	Action to be taken	Progress / Comments
<p>Setting and achieving priorities within the context of recession and reduced resources for local government.</p>	<p>Continued improvement in consultation on Council priorities/budget.</p> <p>Improvement of links between corporate and departmental business planning, aligning departmental business plans to the Sustainable Community Strategy and Change Plans over a five year period.</p> <p>The financial strategy to be more effectively linked with asset, IT and human resource management.</p> <p>Effective Flexible Resource Management to achieve target savings.</p>	<p>In 2011/12 the Council's budgets were revised several times during the year, and the outturn position was favourable, allowing for some replenishment of reserves.</p> <p>The Council set a balanced budget for 2012/13, but there are a number of further challenges for the medium term financial plan. These include;</p> <ul style="list-style-type: none"> <li>- changes proposed in the government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;</li> <li>-changes proposed in the government's Localism Act, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and</li> <li>-government proposals to allow local authorities to keep their business rates.</li> </ul> <p>The link between the Council's priorities and the SCS has been strengthened by the Change Plans introduced from 2011/12.</p> <p>Employee cost savings targets for 2011/12 were achieved, and the "1team" approach is embedded.</p>

## ANNUAL GOVERNANCE STATEMENT

Issue	Action to be taken	Progress / Comments
Partnership arrangements	Continue to develop partnership arrangements where there is an efficiency or improvement led case for doing so.	<p>A number of delivery partnerships are in place to help realise priority outcomes, for example the Community Safety Partnership, Health &amp; Wellbeing Partnership or Housing Forum.</p> <p>The Council continues to develop a range of partnership and shared services projects including:</p> <ul style="list-style-type: none"> <li>- Housing services (based on the Hampshire Home Choice service)</li> <li>- Destination Management Organisation</li> <li>- Fully Integrated Merger of Museums services</li> </ul> <p>Shared service already in place include; IT, Revenues &amp; Benefits and Internal Audit. Each will be developed further over time.</p>
Equality Assessments	The Council has completed all Equality Impact Assessments (EIAs) covering priority areas as set out in the programme along with a number completed in new areas of work. Work continues with the programme of EIAs and compliance with the Equality Framework	Equality Strategy, which sets the framework, was agreed by Cabinet in June 2011. Assistant Directors will lead EIAs of all change projects. However, need to keep under consideration in 2012/13 to ensure that it is fully embedded.
Financial Management	Further development and strengthening of the internal control financial procedures for the core and subsidiary financial systems.	Payroll control account procedures were implemented in 2011/12 and further systems controls are under development. .

## ANNUAL GOVERNANCE STATEMENT

Issue	Action to be taken	Progress / Comments
Housing Finance Reform	<p>Responding to the government's proposals for Housing Finance Reform and implementing the consequential changes to the Housing Revenue Account and the Treasury Management procedures.</p> <p>Delivering the Council's new homes programme.</p>	<p>The Council took on debt and paid £157.622m to the government in 2011/12 in accordance with the requirements of housing finance reform.</p> <p>Treasury management procedures for the management of the cashflow and the debt will be developed during 2012/13.</p> <p>The Council has set up a separate Cabinet sub-Committee to ensure that the new homes programme is delivered.</p>
Changes arising from the Localism Act 2011	To consider and implement appropriate responses to changes arising from the Localism Act 2011, taking account of the current uncertainty surrounding the regulations and guidance, for example, those relating to the Standards Regime; Neighbourhood Plans; Community Assets, wider governance issues.	There will be a need to consider responses to the Localism Act in short timescales, taking into account that much of the detail will arise from regulations/guidance made available at short notice.
Leading the response to Climate Change	Ensure commitment to achievement of the Council/WDSP target on carbon reduction across the district and provide leadership to obtain commitment from key organisations currently not involved in the partnership. Make resources available to reduce the carbon footprint of the Council which will in turn impact on the efforts for reduction in the wider community.	Various milestones continue to be measured within individual climate change projects.



## ANNUAL GOVERNANCE STATEMENT

Issue	Action to be taken	Progress / Comments
Capacity	Ensure capacity to deliver priorities.	Performance Management Team leads in monitoring progress with key projects and managing capacity to ensure delivery of priorities. The <i>1-team</i> approach to staff deployment is assisting with directing staff resource to priority areas. The budget target for vacancy management savings has been reduced for 2012/13, and resources have been identified for the New Homes Delivery team.
Silver Hill	To work with the Council's development partner Henderson Global Investments to progress the scheme.	Public Inquiry to consider Compulsory Purchase Order commences June 2012. Overall project management arrangements continue to keep the scheme under review.
The management of significant contracts	Ensure that appropriate management arrangements are in place for the Council's most significant contracts including Housing Term maintenance and Environmental Services Contracts.	Governance arrangements appropriate to contract to be put in place on commencement, e.g. Joint member-led committee to lead on shared waste contract.
Commissioning	Developing approach to allocating resources to secure priority outcomes, in particular through closer working with voluntary and community sector.	Cabinet have agreed the framework for commissioning, models being developed to pilot and further develop our approach. Arrangements continue to develop and are kept under review.

We propose, over the coming year, to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review.

Signed:

Signed:

Simon Eden  
 Chief Executive  
 Winchester City Council  
 Dated: September 2012

Councillor Wood  
 Leader of the Council  
 Winchester City Council  
 Dated: September 2012