



**Melton  
Borough  
Council**



**STATEMENT OF ACCOUNTS  
2011/2012  
Subject to audit**

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22 June 2012

## EXPLANATORY FOREWORD

The purpose of this foreword is to assist the reader's understanding of the Financial Statements and to summarise the Council's financial position.

### **FINANCIAL STATEMENTS**

The Council's Core Financial Statements for the year ended 31 March 2012 are set out on pages 6 to 60. They consist of:

- **The Statement of Responsibilities for the Statement of Accounts** (page 6).
- **The Movement in Reserves Statement** (pages 7 & 8).
- **The Comprehensive Income and Expenditure Statement** (page 9) - summarises the resources that have been generated and consumed in providing services and managing the Council during the year.
- **The Balance Sheet** (page 10) - shows the Council's overall financial position in terms of its assets and liabilities.
- **The Cash Flow Statement** (page 11) - summarises the total movement of cash to and from the Council or, simply where the money came from and where it was spent.
- **Notes to the Core Financial Statements** (pages 12 - 60)

In addition to the core financial statements the following supplementary statements are set out on pages 61 - 69. They consist of:

- **The Housing Revenue Account** (pages 61 - 67) - details the major elements of housing revenue expenditure such as repairs & maintenance, administration, capital financing costs, and shows how these are met by rents, fees & charges and other income. The Housing Revenue Account is incorporated with the Comprehensive Income & Expenditure Statement but is also shown separately as required.
- **The Collection Fund Statement** (pages 68 - 69) - shows the transactions relating to the collection of Council Tax and Non-Domestic Rates. It shows how this money is then distributed between authorities delivering services to the people and businesses within the Borough.

This is followed by:

- **Glossary of Terms** (pages 70 - 75).
- **The Independent Auditor's Report** (pages 76 - 77).

### **FINANCIAL POSITION**

The Council incurs revenue and capital expenditure during the year.

**Revenue Expenditure** – covers most day-to-day items, usually involving the provision of ongoing services.

**Capital Expenditure** – relates to spending of a more lasting nature such as the purchase of an asset which has a life beyond one year and is used in the provision of services.

Revenue spending is financed from Council Tax, fees and charges, Government grants and other income. Capital spending is financed mainly from loans, useable capital receipts from the sale of Council assets, Government grants, contributions and reserves.

### **Revenue Expenditure**

The net costs of the main functions of the Council are included in the Comprehensive Income and Expenditure Statement. This comprises of general fund expenditure, both general and special expenses and the Housing Revenue Account.

## General Fund Services

General Expenses – the net revenue expenditure of the Council for 2011-12 prior to council tax and grant funding was originally estimated at £6.054m, which was subsequently updated to an estimated year end position of £6.449m. The actual net expenditure for the year was £5.818m, a saving over the original estimate of £236k. When taking into account an increase in New Homes Bonus funding of £69k and Local Services Support Grant funding of £71k; the latter item previously being reflected in the original estimates for cost of service provision, the surplus for the year is £376k compared to an original deficit of £9k. This represents an increase in the reserves of £376k when compared to the original estimate. Included in the actual expenditure for cost of service provision is an impairment cost of £2.966m for the new Council offices; the reasons for which are explained later in this foreword in the section called “Material & Unusual Charges to the Accounts”. This is reversed out in the other items line and partly explains the variances shown on both lines.

Special Expenses – the net revenue expenditure for 2011-12 in respect of special expenses was originally estimated at £510k, which was subsequently updated to an estimated year end position of £514k. The actual net expenditure for the year was £432k, a reduction over the original estimate of £78k.

Housing Revenue Account (HRA) – The original estimate for the HRA was a surplus of £1k, which was subsequently updated to an estimated year end surplus position of £21k. The actual year end position was a surplus of £329k, resulting in an underspend over the original estimate of £328k.

The table below compares the original estimate with the actual year end position for all Council funds.

|   | <b>2011-12<br/>Original<br/>Estimate</b> | <b>2011-12 Actual</b> | <b>2011-12<br/>Variances</b> |
|---|--|-----------------------|------------------------------|
|   | <b>£'000</b>                             | <b>£'000</b>          | <b>£'000</b>                 |
| <b><u>General Expenses</u></b>              |  |                       |                              |
| Cost of Service Provision                   | 6,248                                    | 9,424                 | 3,176                        |
| Other Items                                 | -194                                     | -3,606                | -3,412                       |
| Council Tax & Grant Income                  | -6,045                                   | -6,185                | -140                         |
| Surplus(-)/Deficit for Year                 | 9  | -367                  | -376                         |
| Transfer to/from (-) Working Balance        | 0  | 0                     | 0                            |
| Transfer to/from (-) Reserves               | -9                                       | 367                   | 376                          |
| Net Surplus(-)/Deficit                      | 0  | 0                     | 0                            |
| <b><u>Special Expenses</u></b>              |  |                       |                              |
| Cost of Service Provision                   | 567                                      | 968                   | 401                          |
| Other Items                                 | -57                                      | -536                  | -479                         |
| Council Tax & Grant Income                  | -544                                     | -543                  | 1                            |
| Surplus(-)/Deficit for Year                 | -34                                      | -111                  | -77                          |
| Transfer to/from (-) Working Balance        | 1  | 1                     | 0                            |
| Transfer to/from (-) General Reserve        | 33                                       | 110                   | 77                           |
| Net Surplus(-)/Deficit                      | 0  | 0                     | 0                            |
| <b><u>Housing Revenue Account (HRA)</u></b> |  |                       |                              |
| Expenditure                                 | 7,912                                    | 7,719                 | -193                         |
| Income                                      | -7,913                                   | -8,048                | -135                         |
| Surplus(-)/Deficit                          | -1                                       | -329                  | -328                         |

The reduced spend on general expenses of £376k over the original estimate is due to certain areas where actual income was achieved above budget i.e. recycling income, benefits subsidy, benefits overpayment recovery and New Homes Bonus. Added to this the Council received a reimbursement of its costs from the purchaser of land, reached a credit position in its 4<sup>th</sup> year of allowing for savings on its operations caused by the fire and reimbursed to the insurers in relation to the former Council offices fire insurance claim and benefitted from reduced interest payable through applying a strategy of internal borrowing to balance the rates achievable on investments with the cost of borrowing. These savings and additional income more than outweighed the loss of income from planning and building regulation fees.

As with 2010-11 in order to help control the impact of budget pressures from the recession and the financial issues created during the move to new office accommodation enhanced budget monitoring and increased control of spending led to the Council making a number of savings in other service areas.

In addition to the above there are a number of other service underspends where approval has been given to carry forward the budget into 2012-13.

The HRA year end position when compared to the original budget shows a net reduction in spending of £328k. This has been partially due to the continued proactive and robust approach taken to budget spending and monitoring throughout the year and no call on the contingency budget. Also additional income has been received from rents and fees and charges following a more proactive approach to void properties.

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

The current economic climate has proven and continues to prove challenging for the Council in terms of financial management. The main effect on the Council's finances has been the loss of income from fees and charges such as planning and building control and the decline in investment income. As such, budget monitoring throughout 2011-12 continued at an enhanced level in order to reduce the impact. The impact of the economic situation will of course continue into 2012-13 and budget monitoring will remain at an enhanced level.

### **New Accounting Policies**

Local authorities in the United Kingdom are required to prepare their Statement of Accounts (accounts) in accordance with 'proper practices', which is based on the Code of Practice of Local Authority Accounting (the Code).

There are a small number of changes introduced into the 2011 Code, that have amended the requirements for disclosure and presentation in the Statement of Accounts for this Council and these are summarised as follows:

- The impact of the adoption of FRS 30 Heritage Assets on the financial statements
- Related party disclosures – the 2011/12 Code provides additional guidance and new definitions in relation to related parties
- New disclosure requirements for exit packages.
- Financial Instruments – minor changes to the disclosure of the nature and extent of risks rising from financial instruments

### **Long Term Borrowing – Public Works Loans Board (PWLB)**

During the year, two PWLB loans totalling £1.45m were repaid. New loans of £26.323m were raised leaving the outstanding loan debt at 31 March 2012 at £31.86m. These new loans were raised in reference to the HRA Self financing settlement which was settled on 28 March 2012. The maturity profile of the outstanding loan debt at 31 March 2012 is shown below:

| <b>Balance</b>       | <b>Analysis of Loans by maturity</b> | <b>Balance</b>       |
|----------------------|--------------------------------------|----------------------|
| <b>31 March 2011</b> |                                      | <b>31 March 2012</b> |
| <b>£'000</b>         |                                      | <b>£'000</b>         |
| 1,450                | Maturing in 1 year                   | 0                    |
| 0                    | Maturing in 1-2 years                | 0                    |
| 0                    | Maturing in 2-3 years                | 448                  |
| 5,538                | Over 10 years                        | 31,413               |
| <u>6,988</u>         |                                      | <u>31,861</u>        |

Accounting practice requires that local authorities disclose the fair value, i.e. (the settlement value), of their portfolio. The fair value at 31 March 2012 was £34.831m (£7.568m at 31 March 2011).

The figures have been calculated by reference to the 'premature repayment' set of rates in force on that day.

During the year investments increased by £11.75m and stood at £14.9m at 31 March 2012. The fair value at that date was £14.9m.

### **Capital Expenditure**

Capital expenditure amounted to £4.586m which resulted in an underspend on the programme of £1.14m. Of this underspend, £1.13m has been carried forward into 2012-13.

The major items of capital expenditure in 2011-12 were disabled facilities grants, (£0.15m), the new Council Offices (£2.86m) and various works to Council dwellings (£1.36m).

The programme was funded by the following sources:

|                           | <b>£'000</b> |
|---------------------------|--------------|
| Capital receipts          | 804          |
| Major repairs reserve     | 1,337        |
| Third party contributions | 2,292        |
| Government grants         | 140          |
| Use of reserves           | 13           |
|                           | <b>4,586</b> |

Other than the expenditure on capital projects set out above and income received from capital receipts in the sum of £15.04m there have been no other material changes to assets and liabilities.

### **Reserves**

Overall revenue reserves and revenue account surpluses increased by £801k and at 31 March 2012 totalled £3.658m. These are analysed below:

|   | <b>31 March 2011</b> | <b>31 March 2012</b> |
|---|----------------------|----------------------|
|   | <b>£'000</b>         | <b>£'000</b>         |
| Special reserves                        | 853                  | 847                  |
| Other reserves                          | 916                  | 1,393                |
| General Expenses working balance        | 640                  | 640                  |
| Special Expenses working balance        | 50                   | 51                   |
| Housing Revenue Account working balance | 398                  | 727                  |
|   | <b>2,857</b>         | <b>3,658</b>         |

### **Pensions Liability**

Since 2003-04 Local Authorities have had to account for retirement benefits when they are committed to give them, even if the actual payment will be many years into the future. As a result a total liability of £11.804m has been included in the balance sheet, thereby reducing the net worth of the Council. This is a significant increase on the liability of £8.519m at 31 March 2011. This is principally because financial assumptions at 31 March 2012 are less favourable than they were at 31 March 2011. The value of the liabilities have increased and had a negative impact on the FRS17/IAS19 position. In terms of the fund assets the previous 12 months have been worse than expected for most (but not all) funds, also resulting in the negative impact on the FRS17/IAS19 position. This deficit on the Local Government pension scheme will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary.

### **Material & Unusual Charges to the Accounts**

On the 26 January 2012 the Council received the sum of £14.823m for the sale of land. The original deposit of £0.377m was received in 2009/10 making a total receipt of £15.2m. The land was shown in the 2010/11 accounts as an asset held for sale with a market value of £4.5m. From the proceeds the Council has been able to repay all General Fund debt of £5m resulting in future benefits to the revenue budget as no provision for debt repayment and interest will have to be made.

During 2011/12 the Council recognised an impairment loss of £2.966m in the accounts in respect of the new Council offices in Burton Street and associated car park. This impairment arises as the building and car park are required to be shown in these accounts at their market values of £5.8m and £0.495m respectively which was less than the costs of construction and land acquisition (£9.485m). This difference of £3.19m was partially reduced by accumulated gains of £0.224m on the land value at Burton Street during the construction process. In line with other impairments, the impairment in respect of these offices was reversed out to the capital adjustment account in line with proper accounting practices.

Included in the Housing Revenue Account (HRA) Income and Expenditure Statement is a figure of £27.622m for new borrowing from the PWLB taken out on 28 March 2012. This represents the Council's allocated HRA debt payable to the government as part of the government's reform of the HRA. In return the Council receives the benefit of self financing of the HRA. This expenditure has been reversed out in the Movement on the HRA Statement as required by statute.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 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 Central Services.
- To manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

### The Head of Central Services Responsibilities

The Head of Central Services 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 Central Services 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 Central Services has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **CERTIFICATE**

I certify that this Statement of Accounts presents a true and fair view of the financial position of Melton Borough Council at 31<sup>st</sup> March 2012, and its income and expenditure for the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2012.

.....  
D K Garton CPFA  
Section 151 Officer

Date: 29<sup>th</sup> June 2012

### **APPROVAL BY THE COUNCIL**

At its meeting on the 3<sup>rd</sup> of July 2012 the Policy, Finance and Administration Committee resolved that the Statement of Accounts for 2011-12 subject to audit be approved. The audited Statement of Accounts was approved at a meeting of the Governance Committee held on the 20<sup>th</sup> of September 2012.

.....  
D K Garton CPFA  
Section 151 Officer

Date: 20<sup>th</sup> September 2012

.....  
Councillor J B Rhodes  
Chairman

Date: 20<sup>th</sup> September 2012

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus (or deficit) on the Provision of Services line shows the true economic cost of providing the authorities 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 setting and dwelling rent setting purposes. The net increase/decrease before transfers to Earmarked Reserved line shows the statutory General Fund Balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

|  | General Fund<br>Balance<br>£'000 | Earmarked General<br>Fund Reserves<br>£'000 | HRA Balance<br>£'000 | Capital Receipts<br>Reserve<br>£'000 | Major Repairs<br>Reserve<br>£'000 | Capital Grants<br>Unapplied<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable Reserves<br>£'000 | Total Reserves<br>£'000 |
|--|----------------------------------|---|----------------------|--------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|----------------------------|-------------------------|
| <b>Balance at 31/3/10</b>  | 686                              | 1,564                                       | 95                   | 983                                  | 0                                 | 79                                   | 3,407                             | 85,838                     | 89,245                  |
| <b>Movement in Reserves during 2010-11</b>                                     |                                  |   |                      |                                      |                                   |                                      |                                   |                            |                         |
| Surplus/deficit on provision of services                                       | 6,638                            | 0   | -26,398              | 0                                    | 0                                 | 0                                    | -19,760                           | 0                          | -19,760                 |
| Other Comprehensive Income & Expenditure                                       | 0                                | 0   | 0                    | 0                                    | 0                                 | 0                                    | 0                                 | 4,858                      | 4,858                   |
| <b>Total Comprehensive Income &amp; Expenditure</b>                            | <b>6,638</b>                     | <b>0</b>                                    | <b>-26,398</b>       | <b>0</b>                             | <b>0</b>                          | <b>0</b>                             | <b>-19,760</b>                    | <b>4,858</b>               | <b>-14,902</b>          |
| Adjustments between accounting basis & funding basis under regulation (note 6) | -6,428                           | 0   | 26,701               | -41                                  | 577                               | 842                                  | 21,651                            | -21,651                    | 0                       |
| <b>Net Increase before t/f to earmarked reserves</b>                           | <b>210</b>                       | <b>0</b>                                    | <b>303</b>           | <b>-41</b>                           | <b>577</b>                        | <b>842</b>                           | <b>1,891</b>                      | <b>-16,793</b>             | <b>-14,902</b>          |
| Transfers to/from earmarked reserves (note 7)                                  | -206                             | 206   | 0                    | 0                                    | 0                                 | 0                                    | 0                                 | 0                          | 0                       |
| <b>Increase/Decrease in Year</b>   | <b>4</b>                         | <b>206</b>                                  | <b>303</b>           | <b>-41</b>                           | <b>577</b>                        | <b>842</b>                           | <b>1,891</b>                      | <b>-16,793</b>             | <b>-14,902</b>          |
| Transfer to Capital Grants Receipts in Advance                                 | 0                                | 0   | 0                    | 0                                    | 0                                 | 58                                   | 58                                | 0                          | 58                      |
| <b>Balance at 31/3/11 Carried Forward</b>                                      | <b>690</b>                       | <b>1,770</b>                                | <b>398</b>           | <b>942</b>                           | <b>577</b>                        | <b>979</b>                           | <b>5,356</b>                      | <b>69,045</b>              | <b>74,401</b>           |



|   | General Fund<br>Balance | Earmarked General<br>Fund Reserves | HRA Balance    | Capital Receipts<br>Reserve | Major Repairs<br>Reserve | Capital Grants<br>Unapplied | Total Usable<br>Reserves | Unusable Reserves | Total Reserves |
|---|-------------------------|------------------------------------|----------------|-----------------------------|--------------------------|-----------------------------|--------------------------|-------------------|----------------|
|   | £'000                   | £'000                              | £'000          | £'000                       | £'000                    | £'000                       | £'000                    | £'000             | £'000          |
| <b>Balance at 31 March<br/>2011 B/fwd</b>   | <b>690</b>              | <b>1,770</b>                       | <b>398</b>     | <b>942</b>                  | <b>577</b>               | <b>979</b>                  | <b>5,356</b>             | <b>69,045</b>     | <b>74,401</b>  |
| <b>Movement in Reserves<br/>during 2011-12</b>  |                         |                                    |                |                             |                          |                             |                          |                   |                |
| Surplus/deficit on<br>provision of services   | 10,511                  | 0                                  | -26,853        | 0                           | 0                        | 0                           | -16,342                  | 0                 | -16,342        |
| Other Comprehensive<br>Income & Expenditure   | 0                       | 0                                  | 0              | 0                           | 0                        | 0                           | 0                        | -5,478            | -5,478         |
| <b>Total Comprehensive<br/>Income &amp; Expenditure</b>                                 | <b>10,511</b>           | <b>0</b>                           | <b>-26,853</b> | <b>0</b>                    | <b>0</b>                 | <b>0</b>                    | <b>-16,342</b>           | <b>-5,478</b>     | <b>-21,820</b> |
| Adjustments between<br>accounting basis &<br>funding basis under<br>regulation (note 6) | -10,039                 | 0                                  | 27,182         | 9,190                       | -123                     | -979                        | 25,231                   | -25,231           | 0              |
| <b>Net Increase before t/f<br/>to earmarked reserves</b>                                | <b>472</b>              | <b>0</b>                           | <b>329</b>     | <b>9,190</b>                | <b>-123</b>              | <b>-979</b>                 | <b>8,889</b>             | <b>-30,709</b>    | <b>-21,820</b> |
| Transfers to/from<br>earmarked reserves (note<br>7)                                     | -471                    | 471                                | 0              | 0                           | 0                        | 0                           | 0                        | 0                 | 0              |
| Transfer to Capital Grants<br>Receipts in Advance                                       | 0                       | 0                                  | 0              | 0                           | 0                        | 0                           | 0                        | 0                 | 0              |
| <b>Increase/Decrease in<br/>Year</b>  | <b>1</b>                | <b>471</b>                         | <b>329</b>     | <b>9,190</b>                | <b>-123</b>              | <b>-979</b>                 | <b>8,889</b>             | <b>-30,709</b>    | <b>-21,820</b> |
| <b>Balance at 31/3/12<br/>Carried Forward</b>   | <b>691</b>              | <b>2,241</b>                       | <b>727</b>     | <b>10,132</b>               | <b>454</b>               | <b>0</b>                    | <b>14,245</b>            | <b>38,336</b>     | <b>52,581</b>  |

More detailed information on the Council's Unusable Reserves are shown in note 21 to the Financial Statements.



## BALANCE SHEET

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement of reserves statement line "adjustments between accounting basis and funding basis under regulation".

| <b>31 March 2011</b> |                                    | <b>Notes</b> | <b>31 March 2012</b> |
|----------------------|------------------------------------|--------------|----------------------|
| <b>£'000</b>         |                                    |              | <b>£'000</b>         |
| 81,000               | Property Plant & Equipment         | 11           | 80,536               |
| 1,410                | Investment Property                | 13           | 1,300                |
| 497                  | Intangible Assets                  | 14           | 390                  |
| 0                    | Long Term Investments              | 15           | 0                    |
| 0                    | Long Term Debtors                  | 15           | 2                    |
| <b>82,907</b>        | <b>Long Term Assets</b>            |              | <b>82,228</b>        |
| 4,679                | Assets Held for Sale               | 18           | 243                  |
| 3,373                | Short Term Debtors                 | 16           | 2,963                |
| 3,049                | Cash and Cash Equivalents          | 17           | 14,505               |
| <b>11,101</b>        | <b>Current Assets</b>              |              | <b>17,711</b>        |
| 3,401                | Short Term Creditors               | 19           | 2,637                |
| <b>3,401</b>         | <b>Current Liabilities</b>         |              | <b>2,637</b>         |
| 7,125                | Long Term Borrowing                | 15           | 31,982               |
| 8,740                | Other Long Term Liabilities        | 15           | 12,019               |
| 80                   | Capital Grants Receipts in Advance | 32           | 362                  |
| 261                  | Revenue Grants Receipts in Advance | 32           | 358                  |
| <b>16,206</b>        | <b>Long Term Liabilities</b>       |              | <b>44,721</b>        |
| <b>74,401</b>        | <b>NET ASSETS</b>                  |              | <b>52,581</b>        |
| 5,356                | Usable Reserves                    | 6/20         | 14,245               |
| 69,045               | Unusable Reserves                  | 21           | 38,336               |
| <b>74,401</b>        | <b>TOTAL RESERVES</b>              |              | <b>52,581</b>        |

.....  
D K Garton CPFA  
Section 151 Officer

Date: 20<sup>th</sup> September 2012

## CASH FLOW STATEMENT

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

| <b>2010-11</b> |   | <b>Note</b> | <b>2011-12</b> |
|----------------|---|-------------|----------------|
| <b>£'000</b>   |   |             | <b>£'000</b>   |
| 19,760         | Net (surplus) or deficit on the provision of services   |             | 16,342         |
| -27,946        | Adjustments to the net surplus or deficit on the provision for services for non cash movements  |             | 8,514          |
| -219           | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 23          | -15,516        |
| -8,405         | Net cash flows from Operating Activities  | 22          | 9,340          |
| 4,855          | Investing Activities  | 23          | 4,077          |
| 1,600          | Financing Activities  | 24          | -24,873        |
| -1,950         | Net increase or decrease in cash and cash equivalents   |             | -11,456        |
| -1,099         | Cash and cash equivalents at the beginning of the reporting period  |             | -3,049         |
| <b>-3,049</b>  | <b>Cash and cash equivalents at the end of the reporting period</b>   |             | <b>-14,505</b> |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The Statement of Accounts has been prepared with reference to:

- The objective of providing information about the financial position, performance and cash flows in a way that meets the 'common needs of most users'.
- The objective of showing the results of the stewardship and accountability of elected members and management of the resources entrusted to them.

The following underlying assumption:

- Going concern basis

The following qualitative characteristics:

- Understandability
- Relevance
- Materiality
- Reliability
- Comparability

#### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2011-12 financial year and its position at the year end of 31 March 2012. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010 (the Code) and BVACOP (Best Value Accounting Code of Practice). The Code is produced by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is the professional body for accountants in the public sector. The Code is based on International Financial Reporting Standards (IFRS's).

The Code is a statement of 'proper accounting practice' with which local authorities must comply in preparing their Statement of Accounts in accordance with the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011.

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets i.e. community assets, assets held for sale and certain elements of land & buildings where an appropriate valuation method is selected to best reflect the realisable value of the asset.

#### b) 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. An exception to this principle relates to energy supplies and similar quarterly payments which are charged at the date of meter reading rather than apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.
- 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.

**c) Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of the bank overdraft that is repayable on demand and forms an integral part of the Council's cash management.

**d) Exceptional Items**

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

**e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

**f) Charges to Revenue for Non-Current Assets**

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

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

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

**g) 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 salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the 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 via the Accumulated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs 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 enhancements of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated 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 any such amounts payable but unpaid at the year-end.

### **Post Employment Benefits**

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

### **The Local Government Pension Scheme**

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

- The liabilities of the pension fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, as well as projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on high quality corporate bonds).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value based upon the following:
  - i. Quoted securities – current bid price
  - ii. Unquoted securities – professional estimate
  - iii. Unitised securities – current bid price
  - iv. Property – market value.

The change in the net pension's liability is analysed into seven components:

- (i) **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.
- (ii) **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.
- (iii) **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.
- (iv) **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.
- (v) **Gains/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.
- (vi) **Actuarial gains and losses** – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- (vii) **Contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and 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 of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **h) Events After the Reporting Period**

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.

### **i) Financial Instruments**

#### **Financial Liabilities**

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

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

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

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

#### **Financial Assets**

Financial assets are classified into two types:

- (i) Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- (ii) Available-for-sale assets – assets that have a quoted market price and/or do not have a fixed or determinable payment.

The Council currently holds no available-for-sale financial assets.

#### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value.



They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

### **Interest**

All external interest received is credited to the General Fund. The amount credited to the Housing Revenue Account is determined in accordance with the Local Government & Housing Act 1989 and is offset against the amount credited to the General Fund.

### **j) Government Grants and Contributions**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of 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.

### **k) Business Improvement District**

A Business Improvement District (BID) scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the 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).

### **l) Heritage Assets**

The only Heritage Asset held on the Council's Balance Sheet is a property 7 King Street, Melton Mowbray. However, as this asset is currently being used for accommodating staff and for letting purposes this would be classified as an operational building for the purposes of these accounts. This asset is therefore currently accounted for at market value and classified as land and buildings within Property, Plant and Equipment in the Balance Sheet.

Heritage Assets 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.

- **Civic Regalia** – the Council owns chains of office for the mayor, the mayor's consort and the young mayor but as the value of these chains are less than £10k these are considered to be de-minimus and are not reported on the Balance Sheet.
- **Art Collection** – the Council owns a Dora Webb miniature painting in an antique frame but as the value of the painting is less than £10k this is again considered to be de-minimus and not reported on the Balance Sheet.

**m) 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. This is subject to a de-minimus level of £10,000.

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

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

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 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.

**n) Inventories and Long Term Contracts**

Purchasing stocks have been completely recharged to services in 2011-12.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

**o) Investment Property**

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

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

**p) 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's current leases do not meet the definition of finance leases and are accounted for as operating leases.

### **Operating Leases:**

#### **The Council as Lessee**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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**

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.

### **(q) 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 Best Value Accounting Code of Practice 2011-12 (BVACOP). 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:

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

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

The basis of allocation used for the main costs of overheads and support services are outlined below:-

| <b><u>Cost</u></b>       | <b><u>Basis of Allocation</u></b> |
|--------------------------|-----------------------------------|
| Support/Service Accounts | Estimated time spent by staff     |
| Administrative Buildings | Number of personnel               |
| Computer Materials       | Actual use/number of personnel    |
| Telephones               | Number of personnel               |
| Postages                 | Actual use                        |
| Printing & Photocopying  | Actual use                        |
| Stationery               | Actual use/number of personnel    |

### **r) Property, Plant and Equipment**

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

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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.

A de-minimus level of £10,000 has been set for capitalisation (i.e. no expenditure below this level will generally be capitalised). This is also applied to the Council's asset register.

There are some notable exceptions to this rule:

- (i) Where the cost attracts a specific capital grant or government supported borrowing approval.
- (ii) Where individual items of furniture, IT equipment and other equipment costing less than £10,000 are being bulk purchased; the cost for which can be capitalised.
- (iii) Feasibility costs in preparation for a larger scheme.

### **Measurement**

Assets are initially measured at cost, comprising:

- (i) The purchase price
- (ii) Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The 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, where applicable, 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 a 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:

- (i) Infrastructure, community assets and assets under construction – depreciated historical cost
- (ii) Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- (iii) 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 that 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. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- (i) 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)
- (ii) 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 lines(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 is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- (i) 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)
- (ii) Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

## Depreciation

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

Depreciation is calculated on the following bases:

- (i) Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer (see table below).
- (ii) 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 valuer (see table below).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item (i.e. exceeding 25%), the components are depreciated separately. Only assets exceeding the value of £250,000 are considered material for componentisation and housing dwellings are excluded on the grounds of materiality.

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 is provided in the year of disposal rather than the year of acquisition. In determining depreciation for specific asset groups the following bases have been applied based on information provided by the appointed Valuer:-

| <b>Asset</b>                         | <b>Depreciated</b> | <b>Basis</b>  |
|--------------------------------------|--------------------|---|
| <u>Housing Dwellings</u>             | Yes                | Depreciation provided for on the basis of valuation of dwellings and useful life of 50 years. Garages are included within the valuation for Council Dwellings and are depreciated over a useful life of 15 years. |
| <u>Other Land and Buildings</u>      |                    |   |
| Waterfield Leisure Pool              | Yes                | Depreciation charge based on estimated useful life of 15 years.   |
| Car Parks                            | Yes                | Depreciation charge based on estimated useful life of 50 years.   |
| Phoenix House                        | Yes                | Depreciation charge based on estimated useful life of 43 years.   |
| Cattle Market                        | Yes                | Depreciation charge based on useful life of 25 years.   |
| Improvement Schemes                  | No                 |   |
| <u>Vehicles, Plant and Equipment</u> | Yes                | Depreciation provided on basis of estimated useful life of between 3-12 years.  |
| <u>Community Assets</u>              | No                 | Assets in this category consist mainly of play area land, allotment land and Melton Country Park.   |
| <u>Infrastructure Assets</u>         |                    |   |

|                             |    |  |
|-----------------------------|----|--|
| Land                        | No | Assets in this category consist mainly of non-depreciable land.                                  |
| <u>Investment Assets</u>    |    |  |
| Industrial Estates          | No |  |
| <u>Community Assets</u>     |    |  |
| Land                        | No | Assets in this category consist mainly of non-depreciable land.                                  |
| <u>Surplus Assets</u>       | No | Assets held in this category are outside the scope for depreciation in accordance with the Code. |
| <u>Assets Held For Sale</u> | No | Assets held in this category are outside the scope for depreciation in accordance with the Code. |

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

### **Disposals and Non Current Assets Held for Sale**

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

### **s) 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 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 of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

The main provisions held by the Council are:-

- (i) Provisions for Doubtful Debts (Sundry Debtors) – General Fund and Housing Revenue Account.
- (ii) Provision for Doubtful Debts (Collection Fund).
- (iii) Provision for Doubtful Debts (Housing Rents).

Where 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 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 disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **t) 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 to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

The following reserves are maintained:-

- (i) **Council Offices** – Repairs & Renewals - amounts are set aside from revenue to meet repairs and maintenance expenditure on the Council Offices.
- (ii) **Vehicles and Equipment and Christmas Lighting** – amounts are set aside from revenue to meet major repairs or replacement.
- (iii) **The Registrars Furniture** – amounts are set aside from revenue to meet the costs of replacing furniture for the Registrar.
- (iv) **Cemetery Drains** – amounts are set aside from revenue to meet the cost of replacing the French drains at the cemetery.
- (v) **Car Parking Contributions** – amounts are received from developers of commercial properties in lieu of the provision of car parking places. These may be used for the provision of car parking places or other traffic improvement schemes.
- (vi) **Welland Shared Services** – introductory fees received by the Welland Joint Committee from other local authorities joining Welland Shared Services are held as a contingency for future one-off procurement projects.
- (vii) **Melton Local Development Framework (MLDF)** – amounts are set aside from the Local Plans Revenue Budget to fund uneven patterns of spending on the MLDF.
- (viii) **Planning & Delivery Grant (PDG) & Housing & Planning Delivery Grant (HPDG)** – government grants received to be used to cover the costs of the production of the replacement local plan.

- (ix) **Corporate Priorities Reserve** - amounts are set aside from the General Fund General Expenses Revenue Account to fund capital expenditure or new initiatives which meet the Councils priorities.
- (x) **General Reserve - Special** - amounts are set aside from the General Fund Special Expenses Revenue Account to fund capital expenditure or new initiatives in the Special Expenses area of Melton Mowbray.
- (xi) **HRA Working Balance** – amounts are set aside from the Housing Revenue Account (HRA) and can be used to fund expenditure of both a revenue and capital nature on the Council’s housing stock.
- (xii) **Capital Receipts Reserve** – income received from the sale of assets and may be used to repay loan debt or to finance new capital expenditure.
- (xiii) **Capital Contributions Unapplied** – this represents amounts received from third parties for the financing of capital expenditure but not yet applied.
- (xiv) **Major Repairs Reserve** – this represents amounts set aside as depreciation from the Housing Revenue Account to finance capital expenditure to alleviate housing repairs problems.
- (xv) **Pensions Reserve** – reflects the net assets/liabilities of the Pension Fund.

**u) 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 has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of 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.

**v) Value Added Tax (VAT)**

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

**w) Special Expenses**

This statement of accounts refers at times to Special Expenses. Section 35(1) of the Local Government Finance Act 1992 defines special expenses as any expenses incurred by a billing authority in performing in a part of its area a function performed elsewhere in its area by a parish or community council or the chairman of a parish meeting unless a resolution of the authority to the contrary effect is in force.

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

**IFRS 7 - Financial Instruments: Disclosures (transfer of financial assets)**

For 2011/12 the only accounting policy change that needs to be reported relates to amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

This will require the Council, where applicable, to provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset (this may include financial assets that are derecognised in their entirety but in which the Council has continuing involvement) existing at the reporting date, irrespective of when the related transfer transaction occurred. The Council shall present the disclosures required by paragraphs 42B – 42H of IFRS 7 (in accordance with the amendments to IFRS 7 issued in October 2010) in a single note to its financial statements. For the purposes of applying the disclosure requirements in those paragraphs, the Council transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

- Transfers the contractual rights to receive the cash flows of that financial asset, or
- Retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

This is not a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2012/13 financial statements.



### 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There remains uncertainty about future levels of funding for local government following cuts in central government funding for local government as announced in the government's comprehensive spending review in December 2010. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the Council's assets might be further impaired as a result of a need to close facilities and reduce levels of service provision.
- All material contractual arrangements have been reviewed using the Council's contracts register in order to determine whether they have the substance of a lease or need to be accounted for as service concessions. None have been identified on further reference to the actual contractual agreements and these have been reviewed by the Council's auditors.

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

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

The items in the Council's balance sheet at 31 March 2012 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

| Item                        | Uncertainties   | Effect if actual results differ from assumptions  |
|-----------------------------|---|---|
| Property, Plant & Equipment | Assets are depreciated over useful lives that are dependant on assumptions about the level of repairs & 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 & 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 £58k for every year that useful lives had to be reduced.   |
| Pensions Liability          | Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are expected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions applied. | The effect on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £3.1m. However, the assumptions interact in complex ways. During 2011-12, the council's actuary advised that the net pension's liability had increased by £0.4m as a result of estimates being corrected as a result of experience and increased by £1.4m attributable to updating of the assumptions. |
| Arrears                     | At 31 March 2012 the Council had a balance of sundry debtors of £655k. A review of significant balances suggested that an impairment of doubtful debts of £102k 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, for example, the balance of sundry debtors owing were to double in value, this could result in a £19k increase in the allowance for the impairment of doubtful debts.  |

## 5 MATERIAL ITEMS OF INCOME AND EXPENSE

On the morning of 30 May 2008, there was a fire to the main Council Offices which caused considerable damage. The best estimate for the total cost of reinstatement to-date as at 31 March 2012 is estimated to be £10.4m. Of this amount, it is estimated that the sum of £10m will be reimbursed by the Council's insurers with the remaining sum of £0.4m to be funded by the Council.

On the 26 January 2012 the Council received the sum of £14,822,500 for sale of land. The original deposit of £377,500 was received in 2009/10 making a total receipt of £15.2m. The land was shown in the 2010/11 accounts as an asset held for sale with a market value of £4.5m. From the proceeds the Council has been able to repay all General Fund debt of £5m resulting in future benefits to the revenue budget as no provision for debt repayment and interest will have to be made.

## 6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

### Usable Reserves

|  | <b>General<br/>Fund<br/>Balance<br/>£'000</b> | <b>HRA<br/>Balance<br/>£'000</b> | <b>Capital<br/>Receipts<br/>Reserve<br/>£'000</b> | <b>Major<br/>Repairs<br/>Reserve<br/>£'000</b> | <b>Capital<br/>Grants<br/>Unapplied<br/>£'000</b> | <b>Movement<br/>in Unusable<br/>Reserves<br/>£'000</b> |
|--|---|----------------------------------|---|--|---|--|
| <b><u>2011-12</u></b>  |   |                                  |   |  |   |  |
| <b><u>Adjustments primarily involving the Capital Adjustment Account:</u></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  | 3,995   | 976                              |   |  |   | -4,971   |
| Movements in the market value of Investment Properties   | 110   |                                  |   |  |   | -110   |
| Amortisation of Intangible Assets  | 125   |                                  |   |  |   | -125   |
| Capital Grants and Contributions Applied   | -2,431  |                                  |   |  |   | 2,431  |
| Revenue Expenditure funded from capital under statute  | 217   |                                  |   |  |   | -217   |
| HRA Reform – Self Financing settlement   |   |                                  | 27,622  |  |   | -27,622  |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | 4,500   | 327                              |   |  |   | -4,827   |
| <b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>   |   |                                  |   |  |   |  |
| Statutory provision for the financing of capital investment  | -228  | -14                              |   |  |   | 242  |
| Capital expenditure charged against the General Fund and HRA balances  | -14   |                                  |   |  |   | 14   |
| Gains realised from sale of Non-Current Asset  | -2,765  |                                  |   |  |   | 2,765  |

**Usable Reserves**

| <u>2011-12</u>   | General<br>Fund<br>Balance | HRA<br>Balance | Capital<br>Receipts<br>Reserve | Major<br>Repairs<br>Reserve | Capital<br>Grants<br>Unapplied | Movement<br>in Unusable<br>Reserves |
|--|----------------------------|----------------|--------------------------------|-----------------------------|--------------------------------|-------------------------------------|
| £'000  | £'000                      | £'000          | £'000                          | £'000                       | £'000                          | £'000                               |
| <b><u>Adjustments primarily involving the Capital Grants Unapplied Account</u></b>   |                            |                |                                |                             |                                |                                     |
| Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement  | -1,452                     |                |                                |                             | 1,452                          |                                     |
| Application of Grants to capital financing transferred to the capital adjustment account   | 2,431                      |                |                                |                             | -2,431                         |                                     |
| <b><u>Adjustments primarily involving the Capital Receipts Reserve</u></b>   |                            |                |                                |                             |                                |                                     |
| Transfer of cash sale proceeds credited as part of the gain/loss in disposal to the Comprehensive Income & Expenditure Statement   | -14,837                    | -503           | 15,340                         |                             |                                |                                     |
| Use of capital receipts reserve to finance new capital expenditure   |                            |                | -5,850                         |                             |                                | 5,850                               |
| Repayment of Debt Premium  | 166                        |                |                                |                             |                                | -166                                |
| Contribution from capital receipts reserve towards administrative costs of non-current asset disposals   |                            | -14            | 14                             |                             |                                |                                     |
| Contribution from capital receipts reserve to finance the payments to the Government capital receipts pool   |                            | 316            | -316                           |                             |                                |                                     |
| Transfer from deferred capital receipts reserve upon receipt of cash   |                            |                | 2                              |                             |                                | -2                                  |
| <b><u>Adjustments Primarily involving the major repairs reserve</u></b>  |                            |                |                                |                             |                                |                                     |
| Reversal of Major repairs allowance credited to the HRA  |                            | -1,214         |                                | 1,214                       |                                |                                     |
| Use of major repairs reserve to finance new capital expenditure  |                            |                |                                | -1,337                      |                                | 1,337                               |
| <b><u>Adjustment primarily involving the financial instrument adjustment account</u></b>   |                            |                |                                |                             |                                |                                     |
| Amount by which finance costs charged to the comprehensive income & expenditure statement differ from finance costs chargeable in the year in accordance with statutory requirements | -160                       |                |                                |                             |                                | 160                                 |
| <b><u>Adjustments primarily involving the pensions reserve</u></b>   |                            |                |                                |                             |                                |                                     |
| Reversal of items relating to retirement benefits to the comprehensive income & expenditure statement  | 668                        | 44             |                                |                             |                                | -712                                |
| Employers pensions contributions and direct payments to pensioners payable in the year   | -643                       | -44            |                                |                             |                                | 687                                 |

### Usable Reserves

| <u>2011-12</u>  | General<br>Fund<br>Balance<br>£'000 | HRA<br>Balance<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Movement<br>in Unusable<br>Reserves<br>£'000 |
|---|-------------------------------------|-------------------------|---|--------------------------------------|---|--|
| <b><u>Adjustments primarily involving the collection fund adjustment account</u></b>  |                                     |                         |   |                                      |   |  |
| Amount by which council tax income credited to the comprehensive income & expenditure statement differ from council tax income calculated for the year in accordance with statutory requirements                      | 16                                  |                         |   |                                      |   | -16  |
| <b><u>Adjustment Primarily involving the accumulated absences account</u></b>   |                                     |                         |   |                                      |   |  |
| Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | -49                                 | -2                      |   |                                      |   | 51   |
| <b><u>Miscellaneous Adjustments between funds</u></b>   |                                     |                         |   |                                      |   |  |
| Interest payable & similar charges  | 198                                 | -198                    |   |                                      |   |  |
| Interest & investment Income  | -6                                  | 6                       |   |                                      |   |  |
| HRA gain/loss(-) on sale of non-current assets  | -190                                | 190                     |   |                                      |   |  |
| Contribution from the capital receipts reserve to finance payments to the Government pool   | 316                                 | -316                    |   |                                      |   |  |
| Difference between interest payable & similar charges   | -6                                  | 6                       |   |                                      |   |  |
| <b>TOTAL ADJUSTMENTS</b>  | <b>-10,039</b>                      | <b>27,182</b>           | <b>9,190</b>                            | <b>-123</b>                          | <b>-979</b>                             | <b>-25,231</b>                               |

### Usable Reserves

| <u>2010-11 Comparatives</u>   | General<br>Fund<br>Balance<br>£'000 | HRA<br>Balance<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Movement<br>in Unusable<br>Reserves<br>£'000 |
|---|-------------------------------------|-------------------------|---|--------------------------------------|---|--|
| <b><u>Adjustments primarily involving the Capital Adjustment Account:</u></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                                       | 368                                 | 28,090                  |   |                                      |   | -28,458                                      |
| Movements in the market value of Investment Properties  | 65                                  |                         |   |                                      |   | -65  |
| Amortisation of Intangible Assets   | 100                                 |                         |   |                                      |   | -100   |
| Capital Grants and Contributions Applied  | -3,791                              |                         |   |                                      |   | 3,791  |
| Revenue Expenditure funded from capital under statute   | 490                                 |                         |   |                                      |   | -490   |

## Usable Reserves

| <u>2010-11 Comparatives</u>  | General<br>Fund<br>Balance<br>£'000 | HRA<br>Balance<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Movement<br>in Unusable<br>Reserves<br>£'000 |
|--|-------------------------------------|-------------------------|---|--------------------------------------|---|--|
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement                               |                                     | 315                     |   |                                      |   | -315   |
| <b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>   |                                     |                         |   |                                      |   |  |
| Statutory provision for the financing of capital investment  | -248                                | -14                     |   |                                      |   | 262  |
| Capital expenditure charged against the General Fund and HRA balances  | -72                                 |                         |   |                                      |   | 72   |
| <b><u>Adjustments primarily involving the Capital Grants Unapplied Account</u></b>   |                                     |                         |   |                                      |   |  |
| Capital Grants and Contributions Unapplied credited to the Comprehensive Income & Expenditure Statement  | -4,633                              |                         |   |                                      | 4,633                                   |  |
| Application of Grants to capital financing transferred to the capital adjustment account   | 3,791                               |                         |   |                                      | -3,791                                  |  |
| <b><u>Adjustments primarily involving the Capital Receipts Reserve</u></b>   |                                     |                         |   |                                      |   |  |
| Transfer of cash sale proceeds credited as part of the gain/loss in disposal to the Comprehensive Income & Expenditure Statement   | -7                                  | -218                    | 225                                     |                                      |   |  |
| Use of capital receipts reserve to finance new capital expenditure   |                                     |                         | -112                                    |                                      |   | 112  |
| Contribution from capital receipts reserve towards administrative costs of non-current asset disposals   |                                     | -8                      | 8                                       |                                      |   |  |
| Contribution from capital receipts reserve to finance the payments to the Government capital receipts pool   |                                     | 170                     | -170                                    |                                      |   |  |
| Transfer from deferred capital receipts reserve upon receipt of cash   |                                     |                         | 8                                       |                                      |   | -8   |
| <b><u>Adjustments primarily involving the major repairs reserve</u></b>  |                                     |                         |   |                                      |   |  |
| Reversal of Major repairs allowance credited to the HRA  |                                     | -1,197                  |   | 1197                                 |   |  |
| Use of major repairs reserve to finance new capital expenditure  |                                     |                         |   | -620                                 |   | 620  |
| <b><u>Adjustment primarily involving the financial instrument adjustment account</u></b>   |                                     |                         |   |                                      |   |  |
| Amount by which finance costs charged to the comprehensive income & expenditure statement differ from finance costs chargeable in the year in accordance with statutory requirements | -3                                  |                         |   |                                      |   | 3  |

## Usable Reserves

| <u>2010-11 Comparatives</u>   | General<br>Fund<br>Balance | HRA<br>Balance | Capital<br>Receipts<br>Reserve | Major<br>Repairs<br>Reserve | Capital<br>Grants<br>Unapplied | Movement<br>in Unusable<br>Reserves |
|---|----------------------------|----------------|--------------------------------|-----------------------------|--------------------------------|-------------------------------------|
|   | £'000                      | £'000          | £'000                          | £'000                       | £'000                          | £'000                               |
| <b><u>Adjustments primarily involving the pensions reserve</u></b>  |                            |                |                                |                             |                                |                                     |
| Reversal of items relating to retirement benefits to the comprehensive income & expenditure statement   | -2,245                     | 40             |                                |                             |                                | 2,205                               |
| Employers pensions contributions and direct payments to pensioners payable in the year  | -738                       | -36            |                                |                             |                                | 774                                 |
| <b><u>Adjustments primarily involving the collection fund adjustment account</u></b>  |                            |                |                                |                             |                                |                                     |
| Amount by which council tax income credited to the comprehensive income & expenditure statement differ from council tax income calculated for the year in accordance with statutory requirements                      | 12                         |                |                                |                             |                                | -12                                 |
| <b><u>Adjustment primarily involving the accumulated absences account</u></b>   |                            |                |                                |                             |                                |                                     |
| Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 60                         | -18            |                                |                             |                                | -42                                 |
| <b><u>Miscellaneous adjustments between funds</u></b>   |                            |                |                                |                             |                                |                                     |
| Interest payable & similar charges  | 175                        | -175           |                                |                             |                                |                                     |
| Interest & investment Income  | -2                         | 2              |                                |                             |                                |                                     |
| HRA gain/loss(-) on sale of non-current assets  | 89                         | -89            |                                |                             |                                |                                     |
| Contribution from the capital receipts reserve to finance payments to the Government pool   | 170                        | -170           |                                |                             |                                |                                     |
| Difference between interest payable & similar charges   | -9                         | 9              |                                |                             |                                |                                     |
| <b>TOTAL ADJUSTMENTS</b>  | <b>-6,428</b>              | <b>26,701</b>  | <b>-41</b>                     | <b>577</b>                  | <b>842</b>                     | <b>-21,651</b>                      |

## 7 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 amount posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011-12.

|                               | FUND BALANCES                       |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       | GENERAL RESERVES             |         |       | Total Fund Balances & Reserves |
|-------------------------------|-------------------------------------|---|--------------------------|-------------------------|---------------------------------|------------------------------------|-------------------------|-------------------------------|----------------------------------|--------------------|-------|------------------------------|---------|-------|--------------------------------|
|                               | Council Property Repairs & Renewals | Vehicles & Equipment Repairs & Renewals | Car Parking Contribution | Planning Delivery Grant | Housing Planning Delivery Grant | Melton Local Development Framework | Welland Shared Services | Registrars Furniture Renewals | Special Expenses Cemetery Drains | Parochial property | Total | General Reserve              |         |       |                                |
|                               |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       | Corporate Priorities Reserve | Special | Total |                                |
| £'000                         | £'000                               | £'000                                   | £'000                    | £'000                   | £'000                           | £'000                              | £'000                   | £'000                         | £'000                            | £'000              | £'000 | £'000                        | £'000   | £'000 | £'000                          |
| <b>Balance: 1 April 2010</b>  | 14                                  | 151                                     | 39                       | 128                     | 144                             | 244                                | 10                      | 3                             | 10                               | 1                  | 744   | 820                          | 0       | 820   | 1,564                          |
| <b>TRANSFERS IN</b>           |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Revenue Contributions:        |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Service Accounts              | 0                                   | 86                                      | 0                        | 0                       | 0                               | 95                                 | 0                       | 0                             | 5                                | 0                  | 186   | 38                           | 72      | 110   | 296                            |
| General                       | 0                                   | 0                                       | 0                        | 0                       | 0                               | 0                                  | 0                       | 0                             | 0                                | 0                  | 0     | 0                            | 0       | 0     | 0                              |
|                               | 0                                   | 86                                      | 0                        | 0                       | 0                               | 95                                 | 0                       | 0                             | 5                                | 0                  | 186   | 38                           | 72      | 110   | 296                            |
| <b>TRANSFERS OUT</b>          |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Capital Expenditure           | 0                                   | 15                                      | 31                       | 11                      | 0                               | 0                                  | 0                       | 0                             | 0                                | 0                  | 57    | 11                           | 4       | 15    | 72                             |
| Revenue                       | 5                                   | 2                                       | 0                        | 1                       | 0                               | 0                                  | 0                       | 0                             | 10                               | 0                  | 18    | 0                            | 0       | 0     | 18                             |
| Working Balances              | 0                                   | 0                                       | 0                        | 0                       | 0                               | 0                                  | 0                       | 0                             | 0                                | 0                  | 0     | 0                            | 0       | 0     | 0                              |
|                               | 5                                   | 17                                      | 31                       | 12                      | 0                               | 0                                  | 0                       | 0                             | 10                               | 0                  | 75    | 11                           | 4       | 15    | 90                             |
| <b>Balance: 31 March 2011</b> | 9                                   | 220                                     | 8                        | 116                     | 144                             | 339                                | 10                      | 3                             | 5                                | 1                  | 855   | 847                          | 68      | 915   | 1,770                          |
| <b>TRANSFERS IN</b>           |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Revenue Contributions:        |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Service Accounts              | 31                                  | 62                                      | 0                        | 0                       | 0                               | 0                                  | 0                       | 1                             | 5                                | 0                  | 99    | 368                          | 110     | 478   | 577                            |
|                               | 31                                  | 62                                      | 0                        | 0                       | 0                               | 0                                  | 0                       | 1                             | 5                                | 0                  | 99    | 368                          | 110     | 478   | 577                            |
| <b>TRANSFERS OUT</b>          |                                     |   |                          |                         |                                 |                                    |                         |                               |                                  |                    |       |                              |         |       |                                |
| Capital Expenditure           | 0                                   | 5                                       | 8                        | 1                       | 0                               | 0                                  | 0                       | 0                             | 0                                | 0                  | 14    | 0                            | 0       | 0     | 14                             |
| Revenue                       | 0                                   | 2                                       | 0                        | 0                       | 0                               | 90                                 | 0                       | 0                             | 0                                | 0                  | 92    | 0                            | 0       | 0     | 92                             |
| Working Balances              | 0                                   | 0                                       | 0                        | 0                       | 0                               | 0                                  | 0                       | 0                             | 0                                | 0                  | 0     | 0                            | 0       | 0     | 0                              |
|                               | 0                                   | 7                                       | 8                        | 1                       | 0                               | 90                                 | 0                       | 0                             | 0                                | 0                  | 106   | 0                            | 0       | 0     | 106                            |
| <b>Balance: 31 March 2011</b> | 40                                  | 275                                     | 0                        | 115                     | 144                             | 249                                | 10                      | 4                             | 10                               | 1                  | 848   | 1,215                        | 178     | 1,393 | 2,241                          |

## 8 OTHER OPERATING EXPENDITURE

| 2010-11<br>£'000 |  | 2011-12<br>£'000 |
|------------------|--|------------------|
| 416              | Parish Council Precepts                                | 429              |
| 170              | Payments to Government Housing Capital Receipts Pool   | 316              |
| 81               | Gains (-)/Losses on the disposal of non-current assets | -13,292          |
| <b>667</b>       | <b>Total</b>   | <b>-12,547</b>   |

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 333              | Interest payable and similar charges  | 306              |
|                  | Pensions interest cost and expected return on pensions assets                             | 129              |
| 408              |   |                  |
| -21              | Interest receivable and similar income  | -37              |
|                  | Income & expenditure in relation to investment properties and changes in their fair value | -194             |
| -213             |   |                  |
| 0                | Other investment income   | 0                |
| <b>507</b>       | <b>Total</b>  | <b>204</b>       |

## 10 TAXATION AND NON SPECIFIC GRANT INCOME

| 2010-11<br>£'000 |                                   | 2011-12<br>£'000 |
|------------------|-----------------------------------|------------------|
| -3,715           | Council Tax Income                | -3,774           |
| -3,433           | Non-Domestic Rates                | -2,324           |
| -537             | Non-ring fenced government grants | -1,043           |
| -4,633           | Capital grants and contributions  | -1,452           |
| <b>-12,318</b>   | <b>Total</b>                      | <b>-8,593</b>    |



## 11 PROPERTY, PLANT AND EQUIPMENT

Movement on Balances

|  | Council Dwellings | Other Land & Buildings | Vehicles, Plant, Furniture & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|-------------------|------------------------|--|------------------------|------------------|----------------|---------------------------|-----------------------------------|
|  | £'000             | £'000                  | £'000                                  | £'000                  | £'000            | £'000          | £'000                     | £'000                             |
| <b><u>Movements in 2011-12</u></b>   |                   |                        |  |                        |                  |                |                           |                                   |
| <b>Cost or Valuation</b>   |                   |                        |  |                        |                  |                |                           |                                   |
| At 1 <sup>st</sup> April 2011  | 96,489            | 10,387                 | 1,825                                  | 52                     | 483              | 0              | 6,597                     | 115,833                           |
| Additions  | 1,360             | 60                     | 42                                     | 0                      | 0                | 0              | 2,888                     | 4,350                             |
| Revaluations recognised in revaluation reserve   | 394               | 470                    | 0                                      | 0                      | -5               | 0              | 0                         | 859                               |
| Revaluations recognised in surplus/deficit on Provision of Services                    | 0                 | 0                      | 0                                      | 0                      | 0                | 0              |                           | 0                                 |
| Derecognition – Disposals  | -305              | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | -305                              |
| Assets reclassified to/from held for sale  | -250              | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | -250                              |
| Other movements in cost/valuation  | 0                 | 9,485                  | 0                                      | 0                      | 0                | 0              | -9,485                    | 0                                 |
| At 31 March 2012   | 97,688            | 20,402                 | 1,867                                  | 52                     | 478              | 0              | 0                         | 120,487                           |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                        |  |                        |                  |                |                           |                                   |
| At 1 <sup>st</sup> April 2011  | -34,007           | -368                   | -443                                   | -15                    | 0                | 0              | 0                         | -34,833                           |
| Depreciation Charge  | -976              | -215                   | -168                                   | -3                     | 0                | 0              | 0                         | -1,362                            |
| Depreciation written out to revaluation reserve  | 0                 | 162                    | 67                                     | 0                      | 0                | 0              | 0                         | 229                               |
| Depreciation written out to Surplus/Deficit on Provision of services                   | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| Impairment losses/reversals recognised in revaluation reserve                          | 0                 | -378                   | 0                                      | 0                      | 0                | 0              | 0                         | -378                              |
| Impairment losses/reversals recognised in Surplus/Deficit on the Provision of Services | 0                 | -3,607                 | 0                                      | 0                      | 0                | 0              | 0                         | -3,607                            |
| Derecognition- Disposals   | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| Other movement in depreciation and impairment  |                   |                        |  |                        |                  |                | 0                         |                                   |
|  | -34,983           | -4,406                 | -544                                   | -18                    | 0                | 0              | 0                         | -39,951                           |
| <b>Net Book Value</b>  |                   |                        |  |                        |                  |                |                           |                                   |
| at 31 <sup>st</sup> March 2012   | 62,705            | 15,996                 | 1,323                                  | 34                     | 478              | 0              | 0                         | 80,536                            |
| at 31 March 2011   | 62,482            | 10,019                 | 1,382                                  | 37                     | 483              | 0              | 6,597                     | 81,000                            |

|  | Council Dwellings | Other Land & Buildings | Vehicles, Plant, Furniture & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|-------------------|------------------------|--|------------------------|------------------|----------------|---------------------------|-----------------------------------|
|  | £'000             | £'000                  | £'000                                  | £'000                  | £'000            | £'000          | £'000                     | £'000                             |
| <b>2010-11 Comparatives</b>  |                   |                        |  |                        |                  |                |                           |                                   |
| <b>Cost or Valuation</b>   |                   |                        |  |                        |                  |                |                           |                                   |
| At 1 <sup>st</sup> April 2010  | 96,044            | 10,171                 | 1,691                                  | 52                     | 483              | 25             | 3,095                     | 111,561                           |
| Additions  | 939               | 33                     | 134                                    | 0                      | 1                | 0              | 3,502                     | 4,609                             |
| Revaluations recognised in revaluation reserve   | 0                 | 158                    | 0                                      | 0                      | -1               | 0              | 0                         | 157                               |
| Revaluations recognised in surplus/deficit on Provision of Services                    | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| Derecognition - Disposals  | -315              | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | -315                              |
| Assets reclassified to/from held for sale  | -179              | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | -179                              |
| Other movements in cost/valuation  | 0                 | 25                     | 0                                      | 0                      | 0                | -25            | 0                         | 0                                 |
| At 31 March 2011   | 96,489            | 10,387                 | 1,825                                  | 52                     | 483              | 0              | 6,597                     | 115,833                           |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                        |  |                        |                  |                |                           |                                   |
| At 1 <sup>st</sup> April 2010  | -4,412            | -336                   | -356                                   | -12                    | 0                | 0              | 0                         | -5,116                            |
| Depreciation Charge  | -972              | -208                   | -154                                   | -3                     | 0                | 0              | 0                         | -1,337                            |
| Depreciation written out to revaluation reserve  | 0                 | 207                    | 67                                     | 0                      | 0                | 0              | 0                         | 274                               |
| Depreciation written out to Surplus/Deficit on Provision of services                   | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| Impairment losses/reversals recognised in revaluation reserve                          | -1,506            | -31                    | 0                                      | 0                      | 0                | 0              | 0                         | -1,537                            |
| Impairment losses/reversals recognised in Surplus/Deficit on the Provision of Services | -27,117           | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | -27,117                           |
| Derecognition- Disposals   | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| Other movement in depreciation and impairment  | 0                 | 0                      | 0                                      | 0                      | 0                | 0              | 0                         | 0                                 |
| At 31 March 2011   | -34,007           | -368                   | -443                                   | -15                    | 0                | 0              | 0                         | -34,833                           |
| <b>Net Book Value</b>  |                   |                        |  |                        |                  |                |                           |                                   |
| at 31 <sup>st</sup> March 2011   | 62,482            | 10,019                 | 1,382                                  | 37                     | 483              | 0              | 6,597                     | 81,000                            |
| at 31 March 2010   | 91,632            | 9,835                  | 1,335                                  | 40                     | 483              | 25             | 3,095                     | 106,445                           |

## **Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – 50 years
- Other Land and buildings 15–50 years
- Vehicles, Plant, Furniture and Equipment – 3-12 years
- Infrastructure – 10 years

## **Capital Commitments**

At 31<sup>st</sup> March 2012 the council had no capital commitments over a threshold of £100,000. The council has a retention sum of £85,000 to pay in 2012/13 in respect of the new council offices at Burton Street but this sum has been reserved in 2011-12 in line with accounting practice as the related works were completed in this year.

## **Effects of changes in Estimates**

There were no changes to the basis of estimating useful lives for non current assets during the year.

## **Revaluations**

MBC carries out an annual revaluation programme that ensures that all Property, Plant and Equipment required is measured at fair value. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market at latest list price adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- Market value is assessed on the value of the property being sold in an arms length transactions by knowledgeable parties
- Depreciated replacement cost is used where properties are rarely sold and there is no active market. This applies to specialised properties such as public conveniences and Waterfield Leisure Pool.

## **Fixed Asset Valuation Information**

The freehold and leasehold properties which comprise the Council's property portfolio were valued as at 31 March 2012 by Mr David Blanchard who is the Council's corporate property officer and a qualified member of the Royal Institute of Chartered Surveyors (RICS) with assistance from Gary Bradbury from the valuation office. The valuations have been made in accordance with the RICS Appraisal and Valuation Standards Manual ('The Red Book') for all assets in the portfolio above the de-minimus threshold of £10k. In relation to the Councils Housing Portfolio the market value for each property has been determined.

Properties regarded by the Council as operational were valued on the basis of Market Value Existing Use. There are two notable exceptions to this valuation method.

The first relates to the Council's housing portfolio which has been valued on the basis of existing use for social housing. This is an accepted valuation method for stock held for this purpose and represents 34% of the open market value of the stock. For the purposes of determining the position as 31<sup>st</sup> March 2012 in respect of HRA properties the valuer has provided a value as at 31<sup>st</sup> March 2011 which has then been assessed as to any increases in value depending on property type and location based on the latest information available on market movements in the year.

The second exception relates to specialised property which is rarely if ever sold on the open market. As such an open market value cannot be determined. For this type of property, which includes the Councils Waterfield Leisure Pool and Public Conveniences, the Depreciated Replacement Cost method of valuation has been used.

Community Assets have been valued on the basis of market value, except where an open market value is not determinable, in which case historic cost has been used.

For determining the value of all Non HRA Assets a valuation was also provided by Mr Blanchard for all operational assets as at 31<sup>st</sup> March 2012 taking into account all the available evidence of movements in the year.

Vehicles and general plant and equipment not associated with buildings are valued on the basis of historic cost.

Plant and machinery is included in the valuation of the buildings.

### Fixed Asset Depreciation – IAS 16

In order to comply with IAS 16 the Council has obtained useful lives for all of the assets included in the balance sheet as part of the valuation process. The bases used to calculate depreciation for individual assets are disclosed in the Statement of Accounting Policies.

### 12 HERITAGE ASSETS

The Council has one asset which meets the criteria of a heritage asset to be included in the balance sheet under Financial Reporting Standard 30 (FRS30). This is a grade II listed medieval timber framed building with an Edwardian shop front located at 7 King Street, Melton Mowbray (previously 5 King St). The building was the subject of a major restoration project completed in 2004 and substantially funded by the Heritage Lottery Fund. However, as the asset is currently being used for the purpose of accommodating council staff and the remainder for letting purposes it is classified as an operational asset under the land & buildings section of the Property, Plant and Equipment for the purpose of these accounts.

In addition the council has civic regalia and a painted miniature of a hunting scene in an antique frame by the artist Dora Webb who lived in Melton Mowbray between 1921-1933 which meet the criteria of heritage assets but whose values fall below the de-minimus threshold.

### 13 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

|   | 2010-11<br>£'000 | 2011-12<br>£'000 |
|---|------------------|------------------|
| Rental Income from Investment Property                    | 148              | 145              |
| Direct Operating Expense arising from Investment Property | -101             | -140             |
| <b>Net Gain/Loss (-)</b>                                  | <b>47</b>        | <b>5</b>         |

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

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

|   | 2010-11<br>£'000 | 2011-12<br>£'000 |
|---|------------------|------------------|
| Balance at year start                           | 1,450            | 1,410            |
| Additions:                                      |                  |                  |
| Purchases                                       | 0                | 0                |
| Construction                                    | 25               | 0                |
| Subsequent Expenditure                          | 0                | 0                |
| Disposals                                       | 0                | 0                |
| Net Gains/Losses(-) from fair value adjustments | -65              | -110             |
| Transfers:                                      |                  |                  |
| to/from investments                             | 0                | 0                |
| to/from property, plant & equipment             | 0                | 0                |
| Other Changes                                   |                  |                  |
| <b>Balance at Year End</b>                      | <b>1,410</b>     | <b>1,300</b>     |

### 14 INTANGIBLE ASSETS

The authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system. The intangible asset is purchased licences. Intangible assets are given a finite useful life based on assessments of the period the software or licence is expected to be of use to the Authority. The useful lives assigned to the intangible assets are 5 years.

The movement on Intangible Assets in the year is as follows:

|   | 2010-11                                    |                          |                | 2011-12                                    |                          |                |
|---|--|--------------------------|----------------|--|--------------------------|----------------|
|   | Internally<br>Generated<br>Assets<br>£'000 | Other<br>Assets<br>£'000 | Total<br>£'000 | Internally<br>Generated<br>Assets<br>£'000 | Other<br>Assets<br>£'000 | Total<br>£'000 |
| Balance at year start:  |  |                          |                |  |                          |                |
| Gross carrying amounts  | 0  | 1,172                    | 1,172          | 0  | 1,217                    | 1,217          |
| Accumulated amortisation  | 0  | -620                     | -620           | 0  | -720                     | -720           |
| Net carrying amount at year start   | 0  | 552                      | 552            | 0  | 497                      | 497            |
| Additions:  |  |                          |                |  |                          |                |
| Internal development  | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Purchases   | 0  | 45                       | 45             | 0  | 18                       | 18             |
| Disposals   | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Revaluations increases or<br>decreases  | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Impairment losses recognised or<br>reversed directly in Revaluation<br>Reserve                            | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Impairment losses recognised in<br>Surplus/Deficit on the Provision of<br>Services                        | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Reversals of past impairment<br>losses written back to the<br>Surplus/Deficit on Provision of<br>Services | 0  | 0                        | 0              | 0  | 0                        | 0              |
| Amortisation in period  | 0  | -100                     | -100           | 0  | -125                     | -125           |
| Other Changes   | 0  | 0                        | 0              | 0  | 0                        | 0              |
| <b>Net Carrying Amount at year end</b>  |  | <b>497</b>               | <b>497</b>     | <b>0</b>                                   | <b>390</b>               | <b>390</b>     |
| Comprising:   |  |                          |                |  |                          |                |
| Gross Carrying Amounts  | 0  | 1,217                    | 1,217          | 0  | 1,235                    | 1,235          |
| Accumulated amortisation  | 0  | -720                     | -720           | 0  | -845                     | -845           |
|   | <b>0</b>                                   | <b>497</b>               | <b>497</b>     | <b>0</b>                                   | <b>390</b>               | <b>390</b>     |

There are no items of capitalised software that are material to the financial statements.

The Council would revalue its software assets acquired under licence where comparable licences are currently commercially available for purchase. Revaluations would be made at every year end based on the market price of the comparable licences at that date. The Council does not have any intangible assets where a revaluation can be obtained as described above.

The intangible assets of the Council consist mainly of items of software which are valued at amortised historic costs. The other assets, which make up less than 3% of the overall intangibles balance, consist of costs associated with developing neighbourhoods at the new building, and costs of the partnership scheme in conservation areas.

The assets are all amortised on a straight line basis over their estimated useful life of 5 years.

## 15 FINANCIAL INSTRUMENTS

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

|  | Long-Term                 |                           | Current                   |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | 31 March<br>2011<br>£'000 | 31 March<br>2012<br>£'000 | 31 March<br>2011<br>£'000 | 31 March<br>2012<br>£'000 |
| <b>Investments</b>   |                           |                           |                           |                           |
| Loans and receivables  | 0                         | 0                         | 0                         | 0                         |
| Available for sale financial assets                          | 0                         | 0                         | 0                         | 0                         |
| Unquoted equity investment at cost                           | 0                         | 0                         | 0                         | 0                         |
| Financial assets at fair value<br>through profit & loss      | 0                         | 0                         | 0                         | 0                         |
| <b>Total Investments</b>                                     | <b>0</b>                  | <b>0</b>                  | <b>0</b>                  | <b>0</b>                  |
| <b>Debtors</b>   |                           |                           |                           |                           |
| Loans and receivables  | 0                         | 0                         | 3,373                     | 2,963                     |
| Financial Assets carried at contract<br>amounts              | 0                         | 0                         | 0                         | 0                         |
| <b>Total Debtors</b>   | <b>0</b>                  | <b>0</b>                  | <b>3,373</b>              | <b>2,963</b>              |
| <b>Borrowings</b>  |                           |                           |                           |                           |
| Financial liabilities at amortised cost                      | 7,125                     | 31,982                    | 0                         | 0                         |
| Financial liabilities at fair value<br>through profit & loss | 0                         | 0                         | 0                         | 0                         |
| <b>Total Borrowings</b>                                      | <b>7,125</b>              | <b>31,982</b>             | <b>0</b>                  | <b>0</b>                  |
| <b>Other Long Term Liabilities</b>                           |                           |                           |                           |                           |
| PFI & Finance lease liabilities                              | 0                         | 0                         | 0                         | 0                         |
| Deferred Liabilities   | 221                       | 215                       | 0                         | 0                         |
| <b>Total Long Term Liabilities</b>                           | <b>221</b>                | <b>215</b>                | <b>0</b>                  | <b>0</b>                  |
| <b>Creditors</b>   |                           |                           |                           |                           |
| Financial liabilities at amortised cost                      | 0                         | 0                         | 3,401                     | 2,637                     |
| Financial liabilities carried at<br>contract amount          | 0                         | 0                         | 0                         | 0                         |
| <b>Total Creditors</b>                                       | <b>0</b>                  | <b>0</b>                  | <b>3,401</b>              | <b>2,637</b>              |

Income, Expense, Gains and Losses:

|   | 2010-11   |  |  |   |                | 2011-12   |  |  |   |                |
|---|---|--|--|---|----------------|---|--|--|---|----------------|
|   | Financial Liabilities measured at Amortised cost<br>£'000 | Financial Assets loans & receivable<br>£'000 | Financial Assets Available for sale<br>£'000 | Assets & Liabilities at fair value through profit & loss<br>£'000 | Total<br>£'000 | Financial Liabilities measured at Amortised cost<br>£'000 | Financial Assets loans & receivable<br>£'000 | Financial Assets Available for sale<br>£'000 | Assets & Liabilities at fair value through profit & loss<br>£'000 | Total<br>£'000 |
| Interest Expense  | 333   | 0  | 0  | 0   | 333            | 306   | 0  | 0  | 0   | 306            |
| Losses on derecognition   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Reduction in fair value   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Impairment losses   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Fee expense   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| <b>Total expense in Surplus/Deficit on the Provision of Services</b>  | <b>333</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>333</b>     | <b>306</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>306</b>     |
| Interest Income   | 0   | 21   | 0  | 0   | 21             | 0   | 37   | 0  | 0   | 37             |
| Interest Income accrued on impaired financial assets  | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Increases in fair value   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Gains on derecognition  | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Fee Income  | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| <b>Total Income in Surplus/Deficit on the Provision of Services</b>   | <b>0</b>  | <b>21</b>                                    | <b>0</b>                                     | <b>0</b>  | <b>21</b>      | <b>0</b>  | <b>37</b>                                    | <b>0</b>                                     | <b>0</b>  | <b>37</b>      |
| Gains on Revaluation  | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Losses on Revaluation   | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| Amounts recycled to the surplus/deficit on the Provision of Services after impairment                             | 0   | 0  | 0  | 0   | 0              | 0   | 0  | 0  | 0   | 0              |
| <b>Surplus/Deficit arising on revaluation of financial assets in Other Comprehensive Income &amp; Expenditure</b> | <b>0</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>0</b>       | <b>0</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>0</b>       |
| <b>Net Gain/Loss (-) for the year</b>   | <b>0</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>0</b>       | <b>0</b>  | <b>0</b>                                     | <b>0</b>                                     | <b>0</b>  | <b>0</b>       |

## Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments

The fair values calculated are as follows:

|                       | 31 March 2011 |            | 31 March 2012 |            |
|-----------------------|---------------|------------|---------------|------------|
|                       | Carrying      | Fair Value | Carrying      | Fair Value |
|                       | Amount        | Amount     | Amount        | Amount     |
| Financial Liabilities | £'000         | £'000      | £'000         | £'000      |
| Long-Term Creditors   | 6,988         | 7,568      | 31,861        | 34,831     |
| Loans & receivables   | 0             | 0          | 0             | 0          |
| Long-Term Debtors     | 3,150         | 3,150      | 14,900        | 14,904     |
|                       | 0             | 0          | 0             | 0          |

## 16 DEBTORS

| 31 March 2011 |                                     | 31 March 2012 |
|---------------|-------------------------------------|---------------|
| £'000         |                                     | £'000         |
|               | Amounts falling due in one year:    |               |
| 623           | Central Government Bodies           | 123           |
| 837           | Other Local Authorities             | 1,149         |
| 0             | NHS Bodies                          | 0             |
| 0             | Public Corporations & trading funds | 0             |
| 310           | Housing rent                        | 345           |
| 1,909         | Other Sundry Debtors                | 1,722         |
| -306          | Provision for doubtful debts        | -376          |
| <b>£3,373</b> |                                     | <b>£2,963</b> |

## 17 CASH AND CASH EQUIVALENTS

| 31 March 2011 |   | 31 March 2012  |
|---------------|---|----------------|
| £'000         |   | £'000          |
|               | Cash Held by the Authority:                         |                |
| -101          | Bank Current Accounts                               | -395           |
| 2000          | Short-term deposits with Banks/Building Societies   | 6,000          |
| 1,150         | Short-term deposits with the Debt Management Office | 2,900          |
| 0             | Money Market Funds                                  | 6,000          |
| <b>£3,049</b> | <b>Total cash &amp; cash equivalents</b>            | <b>£14,505</b> |

## 18 ASSETS HELD FOR SALE

| 31 March 2011 |   | 31 March 2012 |
|---------------|---|---------------|
| £'000         |   | £'000         |
| 4,500         | <b>Balance outstanding at start of year</b> | 4,679         |
|               | Assets newly classified as held for sale:   | 250           |
| 494           | Property, Plant & Equipment                 | -7            |
| 0             | Revaluation Losses                          | 0             |
| 0             | Revaluation Gains                           | 31            |
| 0             | Impairment Losses                           | 0             |
|               | Assets declassified as held for sale:       |               |
| 0             | Property, Plant & Equipment                 | 0             |
| -315          | Assets Sold                                 | -4,710        |
| 0             | Transfers from non-current to current       | 0             |
| 0             | Other Movements                             | 0             |
| <b>4,679</b>  | <b>Balance outstanding at year end</b>      | <b>243</b>    |



## 19 CREDITORS

| 31 March 2011 |                                     | 31 March 2012 |
|---------------|-------------------------------------|---------------|
| £'000         |                                     | £'000         |
| 127           | Central Government Bodies           | 189           |
| 0             | Other Local Authorities             | 0             |
| 0             | NHS Bodies                          | 0             |
| 0             | Public Corporations & trading funds | 0             |
| 3,274         | Sundry Creditors                    | 2,448         |
| <b>£3,401</b> | <b>Total</b>                        | <b>£2,637</b> |

## 20 USABLE RESERVES

Movements in the Authorities usable reserves are detailed in the Movement in Reserves Statement and note 6.

## 21 UNUSABLE RESERVES

| 31 March 2011 |  | 31 March 2012 |
|---------------|--|---------------|
| £'000         |  | £'000         |
| 3,849         | Revaluation Reserve                              | 1,561         |
| 0             | Available for sale Financial Instruments Reserve | 0             |
| 74,143        | Capital Adjustment Account                       | 48,815        |
| -161          | Financial Instruments Adjustment Account         | 0             |
| 0             | Deferred Capital Receipts Reserve                | -2            |
| -8,519        | Pensions Reserve                                 | -11,804       |
| -3            | Collection Fund Adjustment Account               | -20           |
| -264          | Accumulated Absences Account                     | -214          |
| <b>69,045</b> | <b>Total Unusable Reserves</b>                   | <b>38,336</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 intangible assets). The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised

The reserve only contains 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.

| 2010-11      |  | 2011-12      |
|--------------|--|--------------|
| £'000        |  | £'000        |
| 5,011        | <b>Balance at 1 April</b>  | 3,849        |
| 431          | Upward revaluation of Assets   | 1,111        |
| -1,537       | Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services | -378         |
| 0            | Surplus/Deficit on revaluation of non-current assets not posted to the surplus/deficit on provision of services      | 0            |
| -56          | Difference between fair value depreciation & historical cost depreciation  | -71          |
| 0            | Accumulated gains on assets sold or scrapped   | -2,950       |
| 0            | Amount written off to the Capital Adjustment Account   | 0            |
| <b>3,849</b> | <b>Balance at 31 March</b>   | <b>1,561</b> |

### Capital Adjustment Account

The capital adjustment account adsorbs 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 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 April 2007, the date the revaluation reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

| <b>2010-11</b> |  | <b>2011-12</b> |
|----------------|--|----------------|
| <b>£'000</b>   |  | <b>£'000</b>   |
| <b>98,655</b>  | <b>Balance at 1 April</b>  | <b>74,143</b>  |
|                | Reversal of items relating to capital expenditure on the Comprehensive Income & Expenditure Statement  |                |
| -28,455        | Charges for depreciation and impairment of non-current assets  | -4,971         |
| 0              | Revaluation losses on Property, Plant & Equipment  | 0              |
| -100           | Amortisation of Intangible Assets  | -125           |
| -490           | Revenue expenditure funded from capital under statute  | -217           |
| -315           | Amounts of non-current assets written off on disposal as part of the gain/loss on disposal to the comprehensive income & expenditure statement | -2,062         |
| 56             | Adjusting amounts written out of the Revaluation Reserve   | 71             |
|                | Net amount written out of the Revaluation Reserve  |                |
|                | Capital Financing Applied in the year:   |                |
| 113            | Use of the Capital Receipts Reserve to finance new capital expenditure   | 804            |
| 620            | Use of the Major Repairs Reserve to finance new capital expenditure  | 1,337          |
| 3,663          | Capital Grants & Contributions credited to comprehensive income & expenditure statement that have been applied to capital financing            | 1,421          |
| 128            | Application of Grants to capital financing from Capital Grants Unapplied Account   | 1,011          |
| 261            | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances                                  | 242            |
| 72             | Capital expenditure charged against the General Fund and HRA balances  | 14             |
| 0              | Use of capital receipts to repay General Fund CFR debt   | 4,879          |
| 0              | HRA Reform adjustment  | -27,622        |
| <b>74,143</b>  | <b>Balance at 31 March</b>   | <b>48,815</b>  |

## 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 benefitting from gains per statutory provisions. The Council uses the account to manage premiums paid and discounts received on the early redemption of loans. Premiums are debited and discounts credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the Account in the Movement in Reserves statement. Over time the expense/income is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case, this period is the unexpired term outstanding on the loans when they were redeemed.

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 163              | <b>Balance at 1 April</b>   | 161              |
| 0                | Premiums incurred in the year charged to<br>Comprehensive Income & Expenditure Statement  | 0                |
| 0                | Discounts received in the year credited to<br>Comprehensive Income & Expenditure Statement  | 0                |
| -11              | Proportion of premiums incurred in previous years<br>to be charged against General Fund balance in<br>accordance with statutory requirements  | -166             |
| 9                | Proportion of discounts received in previous years<br>to be credited against General Fund balance in<br>accordance with statutory requirements  | 5                |
| 0                | Amount by which finance costs charged to<br>Comprehensive Income & Expenditure Statement<br>differ from finance costs chargeable in the year in<br>accordance with statutory requirements | 0                |
| <b>161</b>       | <b>Balance at 31 March</b>  | <b>0</b>         |

## 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 Authority accounts for post employment benefits in the Comprehensive Income & 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 Authority makes employers contributions in pension's funds or eventually pays any pension 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 Authority has 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.

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| -17,458          | <b>Balance at 1 April</b>   | -8,519           |
| 5,960            | Actuarial Gains/Losses on pensions assets & liabilities   | -3,260           |
| 2,205            | Reversal of items relating to retirement benefits debited/credited to<br>the surplus/deficit on provision of Services | -712             |
| 774              | Employers pension contributions and direct payments to pensioners<br>payable in the year                              | 687              |
| <b>-8,519</b>    | <b>Balance at 31 March</b>  | <b>-11,804</b>   |

## 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 Authority does not treat these gains as usable for financing new capital expenditure backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2010-11<br>£'000 |  | 2011-12<br>£'000 |
|------------------|--|------------------|
| 7                | <b>Balance at 1 April</b>  | 0                |
| 0                | Transfer of deferred sale proceeds credited as part of gain/loss on disposal on comprehensive income & expenditure statement | 0                |
| -7               | Transfer to the Capital Receipts Reserve upon receipt of cash  | 2                |
| <b>0</b>         | <b>Balance at 31 March</b>   | <b>2</b>         |

## 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.

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| -9               | <b>Balance at 1 April</b>   | 3                |
| 12               | Amount by which Council Tax income credited to the Comprehensive Income & Expenditure Statement differs from Council Tax income calculated for the year in accordance with statutory requirements | 17               |
| <b>3</b>         | <b>Balance at 31 March</b>  | <b>20</b>        |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the difference that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 222              | <b>Balance at 1 April</b>   | 264              |
| -222             | Settlement or cancellation of accrual made at the end of the preceding year   | -264             |
| 264              | Amounts accrued at the end of the current year  | 214              |
| 42               | Amount by which officer remuneration charged to comprehensive income & expenditure statement on accruals basis differs from remuneration chargeable in the year in accordance with statutory requirements | -51              |
| <b>264</b>       | <b>Balance at 31 March</b>  | <b>214</b>       |

## 22 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| 2010-11<br>£'000 |                   | 2011-12<br>£'000 |
|------------------|-------------------|------------------|
| -20              | Interest Received | -33              |
| 328              | Interest Paid     | 322              |

## 23 CASH FLOW STATEMENT – INVESTING ACTIVITIES

| 2010-11<br>£'000 |  | 2011-12<br>£'000 |
|------------------|--|------------------|
| 4,656            | Purchase of Property, Plant & Equipment, investment property and intangible assets               | 4,146            |
| 0                | Purchase of short term and long term investments   | 0                |
| 485              | Other payments for investing activities  | 219              |
| -219             | Proceeds from the sale of property, plant & equipment, investment property and intangible assets | -15,516          |
| 0                | Proceeds from short term and long term investments   | 0                |
| -286             | Other receipts from investing activities   | -288             |
| <b>4,636</b>     | <b>Net cash-flows from investing activities</b>  | <b>-11,439</b>   |

## 24 CASH FLOW STATEMENT – FINANCING ACTIVITIES

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 0                | Cash receipts of short and long term borrowing  | -26,323          |
| 0                | Other receipts from financing activities  | 0                |
| 0                | Cash payments for the reduction of the outstanding liabilities relating to finance leases | 0                |
| 1,600            | Repayments of short and long term borrowing   | 1,450            |
| 0                | Other payments for managing financing activities  | 0                |
| <b>1,600</b>     | <b>Net cash-flows from financing activities</b>   | <b>-24,873</b>   |

## 25 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Management Team on the basis of budget reports analysed across services. 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 amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows rather than the current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to services.

The code requires that the authority separately report on operating segments which account for 10% of the authority's gross expenditure or income and show segmental reporting for at least 75% of the total.

The Council has identified 9 reportable segments and 3 non-reportable segments based on its Management structure. These segments are reported to the Council's Management Team and Corporate Management Team, and resources are discussed at these meetings.

The reportable segments are:

- Regulatory Services – Environmental Protection & Safety
- Regulatory Services – Applications and Advice
- Community Services – Place
- Community Services – People
- Community Services – Plans
- Central Services – Assets & Regeneration
- Central Services – Financial
- Communications Service – Customer
- Communications Service – Civic

The Council's non reportable segments are Strategic, Support and Holding Accounts.

Of the 9 reportable segments the 2 separately reported below amount to 86.01% of the gross expenditure in 2011-12 (86.08% in 2010-11).

The income and expenditure of the Council's principal services recorded in the budget reports for the year is as follows:

| Service Income and Expenditure       | Community Services |                 | Other                          | Total<br>£'000 |
|--------------------------------------|--------------------|-----------------|--------------------------------|----------------|
|                                      | Place<br>£'000     | People<br>£'000 | All Other<br>Segments<br>£'000 |                |
| <b>2011-12</b>                       |                    |                 |                                |                |
| Fees, charges & other service income | 7,383              | 1,061           | 3,313                          | 11,757         |
| Government Grants                    | 0                  | 11,078          | 87                             | 11,165         |
| <b>Total Income</b>                  | <b>7,383</b>       | <b>12,139</b>   | <b>3,400</b>                   | <b>22,922</b>  |
| Employee Expenses                    | 765                | 838             | 4,116                          | 5,719          |
| Other Service Expenses               | 32,341             | 12,042          | 5,982                          | 50,365         |
| Support Service Recharges            | 2,174              | 982             | -2,103                         | 1,053          |
| <b>Total Expenditure</b>             | <b>35,280</b>      | <b>13,862</b>   | <b>7,995</b>                   | <b>57,137</b>  |
| <b>Net Expenditure</b>               | <b>27,897</b>      | <b>1,723</b>    | <b>4,595</b>                   | <b>34,215</b>  |
| % of authorities gross expenditure   | 61.75%             | 24.26%          | 13.99%                         |                |

| Service Income and Expenditure       | Community Services |                 | Other                          | Total<br>£'000 |
|--------------------------------------|--------------------|-----------------|--------------------------------|----------------|
|                                      | Place<br>£'000     | People<br>£'000 | All Other<br>Segments<br>£'000 |                |
| <b>2010-11 Comparatives</b>          |                    |                 |                                |                |
| Fees, charges & other service income | 6,432              | 1,144           | 3,166                          | 10,742         |
| Government Grants                    | 136                | 10,270          | 121                            | 10,527         |
| <b>Total Income</b>                  | <b>6,568</b>       | <b>11,414</b>   | <b>3,287</b>                   | <b>21,269</b>  |
| Employee Expenses                    | 632                | 857             | 4,459                          | 5,948          |
| Other Service Expenses               | 32,913             | 10,961          | 5,966                          | 49,840         |
| Support Service Recharges            | 1,068              | 888             | -2,772                         | -816           |
| <b>Total Expenditure</b>             | <b>34,613</b>      | <b>12,706</b>   | <b>7,653</b>                   | <b>54,972</b>  |
| <b>Net Expenditure</b>               | <b>28,045</b>      | <b>1,292</b>    | <b>4,366</b>                   | <b>33,703</b>  |
| % of authorities gross expenditure   | 62.96%             | 23.11%          | 13.92%                         |                |

## Reconciliation of Services Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

|   | <b>2010-11</b> | <b>2011-12</b> |
|---|----------------|----------------|
|   | <b>£'000</b>   | <b>£'000</b>   |
| Net Expenditure in the Service Analysis   | 33,703         | 34,214         |
| <b>Net Expenditure of services and support services not included in the analysis</b>                        | <b>0</b>       | <b>0</b>       |
| <b>Amounts in the Comprehensive Income &amp; Expenditure Statement not reported in the Service Analysis</b> |                |                |
| Reversal of employers contribution  | -738           | -643           |
| Current service pension cost  | 672            | 527            |
| Reversal of previous year short term accumulated absences   | -165           | -225           |
| Accrual of current year short term accumulated absences   | 225            | 176            |
| Past service pension cost   | -3,417         | 0              |
| Pension settlements   | 92             | 12             |
| Exceptional item(s)   | 133            | 2,808          |
| Corporate and Democratic Core recharge to HRA   | 177            | 197            |
| Unapportionable overheads recharge to HRA   | 9              | 18             |
| <b>Amounts included in the analysis not included in the CIES</b>  |                |                |
| Trading undertakings  | 213            | 194            |
| <b>Cost of services in the Comprehensive Income and Expenditure statement</b>                               | <b>30,904</b>  | <b>37,278</b>  |

## Reconciliation to Subjective Analysis

| 2011-12   | Service Analysis<br>£'000 | Services & Support Services not in analysis<br>£'000 | Amounts not reported to Management for decision making<br>£'000 | Amounts not included in CIES<br>£'000 | Allocation of recharges<br>£'000 | Cost of Services<br>£'000 | Corporate Amounts<br>£'000 | Total<br>£'000 |
|---|---------------------------|--|---|---------------------------------------|----------------------------------|---------------------------|----------------------------|----------------|
| Fees charges & other service income             | -11,757                   |  |   |                                       |                                  | -11,757                   | 0                          | -11,757        |
| Interest & Investment Income                    |                           |  |   |                                       |                                  | 0                         | -38                        | -38            |
| Income from Council Tax                         |                           |  |   |                                       |                                  | 0                         | -3,773                     | -3,773         |
| Trading Undertakings                            |                           |  |   | 194                                   |                                  | 194                       | -194                       | 0              |
| Government Grants & Contributions               | -11,165                   |  |   |                                       |                                  | -11,165                   | -3,368                     | -14,533        |
| <b>Total Income</b>                             | <b>-22,922</b>            | <b>0</b>   | <b>0</b>  | <b>194</b>                            | <b>0</b>                         | <b>-22,728</b>            | <b>-7,373</b>              | <b>-30,101</b> |
| Employee Expenses                               | 5,718                     |  | -153  |                                       |                                  | 5,565                     | 0                          | 5,565          |
| Other Service Expenses                          | 45,394                    |  | 2,808   |                                       |                                  | 48,202                    | 0                          | 48,202         |
| Support Service Recharges                       | 1,053                     |  | 215   |                                       |                                  | 1,268                     | 0                          | 1,268          |
| Depreciation, Amortisation & Impairment         | 4,971                     |  |   |                                       |                                  | 4,971                     | 0                          | 4,971          |
| Interest Payments                               |                           |  |   |                                       |                                  | 0                         | 306                        | 306            |
| Pension interest cost and expected return       |                           |  |   |                                       |                                  | 0                         | 129                        | 129            |
| Precepts & Levies                               |                           |  |   |                                       |                                  | 0                         | 429                        | 429            |
| Capital grants and contributions                |                           |  |   |                                       |                                  | 0                         | -1,452                     | -1,452         |
| Payments to Housing Capital Receipts Pool       |                           |  |   |                                       |                                  | 0                         | 316                        | 316            |
| Gains/Loss on Disposal of Fixed Assets          |                           |  |   |                                       |                                  | 0                         | -13,292                    | -13,292        |
| <b>Total Expenditure</b>                        | <b>57,136</b>             | <b>0</b>   | <b>2,870</b>  | <b>0</b>                              | <b>0</b>                         | <b>60,006</b>             | <b>-13,564</b>             | <b>46,442</b>  |
| <b>Surplus/Deficit on provision of services</b> | <b>34,214</b>             | <b>0</b>   | <b>2,870</b>  | <b>194</b>                            | <b>0</b>                         | <b>37,278</b>             | <b>-20,937</b>             | <b>16,341</b>  |



| <b>2010-11<br/>Comparative<br/>Figures</b>      | <b>Service<br/>Analysis<br/>£'000</b> | <b>Services<br/>&amp;<br/>Support<br/>Services<br/>not in<br/>analysis<br/>£'000</b> | <b>Amounts<br/>not reported<br/>to<br/>Management<br/>for decision<br/>making<br/>£'000</b> | <b>Amounts<br/>not<br/>included<br/>in CIES<br/>£'000</b> | <b>Allocation<br/>of<br/>recharges<br/>£'000</b> | <b>Cost of<br/>Services<br/>£'000</b> | <b>Corporate<br/>Amounts<br/>£'000</b> | <b>Total<br/>£'000</b> |
|---|---------------------------------------|--|---|---|--|---------------------------------------|--|------------------------|
| Fees charges & other service income             | -10,742                               |  |   |   |  | -10,742                               | 0                                      | -10,742                |
| Interest & Investment Income                    |                                       |  |   |   |  |                                       | -21                                    | -21                    |
| Income from Council Tax                         |                                       |  |   |   |  |                                       | -3,715                                 | -3,715                 |
| Trading Undertakings                            |                                       |  |   | 213   |  | 213                                   | -213                                   | 0                      |
| Government Grants & Contributions               | -10,527                               |  |   |   |  | -10,527                               | -3,970                                 | -14,497                |
| <b>Total Income</b>                             | <b>-21,269</b>                        | <b>0</b>   | <b>0</b>  | <b>213</b>  | <b>0</b>   | <b>-21,056</b>                        | <b>-7,919</b>                          | <b>-28,975</b>         |
| Employee Expenses                               | 5,948                                 |  | -3,331  |   |  | 2,617                                 |  | 2,617                  |
| Other Service Expenses                          | 21,750                                |  | 133   |   |  | 21,883                                |  | 21,883                 |
| Support Service Recharges                       | -815                                  |  | 186   |   |  | -629                                  |  | -629                   |
| Depreciation, Amortisation & Impairment         | 28,089                                |  |   |   |  | 28,089                                |  | 28,089                 |
| Interest Payments                               |                                       |  |   |   |  |                                       | 333                                    | 333                    |
| Pension interest cost and expected return       |                                       |  |   |   |  |                                       | 408                                    | 408                    |
| Precepts & Levies                               |                                       |  |   |   |  |                                       | 416                                    | 416                    |
| Capital grants and contributions                |                                       |  |   |   |  |                                       | -4,633                                 | -4,633                 |
| Payments to Housing Capital Receipts Pool       |                                       |  |   |   |  |                                       | 170                                    | 170                    |
| Gains/Loss on Disposal of Fixed Assets          |                                       |  |   |   |  |                                       | 81                                     | 81                     |
| <b>Total Expenditure</b>                        | <b>54,972</b>                         | <b>0</b>   | <b>-3,012</b>   | <b>0</b>  | <b>0</b>   | <b>51,960</b>                         | <b>-3,225</b>                          | <b>48,735</b>          |
| <b>Surplus/Deficit on provision of services</b> | <b>33,703</b>                         | <b>0</b>   | <b>-3,012</b>   | <b>213</b>  | <b>0</b>   | <b>30,904</b>                         | <b>-11,144</b>                         | <b>19,760</b>          |

## 26 TRADING OPERATIONS

The Authority has established two trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations.

### Cattle Market

The Melton Mowbray Cattle Market was established under the Melton Mowbray Cattle Market Act 1869. The animal markets are operated under licence by a local consortium of auctioneers. Other activities include a farmer's market, antique and collector's fairs, car boot and agricultural vehicle sales.

The financial results were as follows:-

| <b>2010-11<br/>£'000</b> |                            | <b>2011-12<br/>£'000</b> |
|--------------------------|----------------------------|--------------------------|
| -387                     | Turnover                   | -439                     |
| 206                      | Expenditure                | 233                      |
| <b>-181</b>              | <b>Deficit/Surplus (-)</b> | <b>-206</b>              |

Included in the expenditure in 2011-12 is impairment to the site of the Cattle Market to the value of £20k compared to no such cost in 2010-11. The cost is reversed out in the adjustments between accounting basis and funding basis under regulations therefore has a neutral impact for the Council Tax Payer.

### Industrial Estates

The Council lets 20 units at Snow Hill Industrial Estate, Melton Mowbray. These were provided to help small businesses. Over previous years this account has produced a trading surplus.

| <b>2010-11</b> |                     | <b>2011-12</b> |
|----------------|---------------------|----------------|
| <b>£'000</b>   |                     | <b>£'000</b>   |
| -132           | Turnover            | -128           |
| 100            | Expenditure         | 140            |
| <b>-32</b>     | Deficit/Surplus (-) | <b>12</b>      |

Included in the expenditure in 2011-12 is impairment to the Industrial Units to the value of £90k compared to £65k in 2010-11. The cost is reversed out in the adjustments between accounting basis and funding basis under regulations therefore has a neutral impact for the Council Tax Payer.

## **27 AGENCY SERVICES**

The Council has an agency agreement with Leicestershire County Council whereby the Council is responsible for the provision of children's services within the borough on behalf of the County Council. The County Council reimburses the borough for this work, including a contribution towards administrative costs.

A summary of expenditure incurred and reimbursement received in respect of the activity is as follows:

|  | <b>2010-11</b> | <b>2011-12</b> |
|--|----------------|----------------|
|  | <b>£'000</b>   | <b>£'000</b>   |
| Expenditure incurred in providing children's services to Leicestershire County Council | 337            | 350            |
| Management fee payable by the County   | -360           | -362           |
| Net surplus arising on the agency arrangement  | -23            | -12            |

## **28 MEMBERS ALLOWANCES**

The Authority paid the following amounts to members of the Council during the year.

|              | <b>2010-11</b> | <b>2011-12</b> |
|--------------|----------------|----------------|
|              | <b>£'000</b>   | <b>£'000</b>   |
| Allowances   | 169            | 168            |
| Expenses     | 17             | 8              |
| <b>Total</b> | <b>186</b>     | <b>176</b>     |

## **29 OFFICERS REMUNERATION**

The remuneration paid to the Council's senior employees is as follows:

|                          |         | <b>Salary, Fees<br/>&amp; Allowances</b> | <b>Expenses<br/>Allowance</b> | <b>Employer's Pension<br/>Contributions</b> | <b>Total</b> |
|--------------------------|---------|--|-------------------------------|---|--------------|
|                          |         | <b>£</b>                                 | <b>£</b>                      | <b>£</b>                                    | <b>£</b>     |
| Chief Executive          | 2011-12 | 82,934.70                                | 1,324.33                      | 13,911.84                                   | 98,170.87    |
|                          | 2010-11 | 83,269.16                                | 1,445.02                      | 16,669.56                                   | 101,383.74   |
| Strategic Director       | 2011-12 | 68,926.68                                | 1,239.00                      | 11,593.20                                   | 81,758.88    |
|                          | 2010-11 | 68,910.28                                | 1,239.00                      | 13,335.60                                   | 83,484.88    |
| Strategic Director       | 2011-12 | 69,100.03                                | 1,285.01                      | 11,593.20                                   | 81,978.24    |
|                          | 2010-11 | 69,120.20                                | 1,345.39                      | 13,335.60                                   | 83,801.19    |
| Head of Central Services | 2011-12 | 52,050.60                                | 1,288.51                      | 8,740.20                                    | 62,079.31    |
|                          | 2010-11 | 52,030.40                                | 693.58                        | 10,053.83                                   | 62,777.81    |

Remuneration for these purposes includes all taxable sums paid to or receivable by an employee, sums due by way of expenses allowances, and the money value of any other benefits received other than in cash, albeit the latter does not apply.

In accordance with Regulation 7 (2) of the Accounts and Audit (England) Regulations 2011 the Council is also required to disclose the number of other employees whose remuneration is in excess of £50k per annum, starting at that level and increasing in multiples of £5k. There are no other employees in this category.

### 30 EXIT PACKAGES

#### The number of employees termination/exit package

| 2010-2011 | Remuneration    | 2011-2012 |
|-----------|-----------------|-----------|
| Number of | Band            | Number of |
| Employees |                 | Employees |
| 0         | 0 - 19,999      | 6         |
| 0         | 20,000 - 39,999 | 0         |
| 2         | 40,000 – 60,000 | 0         |

### 31 EXTERNAL AUDIT COSTS

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

| 2010-11    |  | 2011-12    |
|------------|--|------------|
| £'000      |  | £'000      |
| 92         | Fees payable to the appointed auditor in respect of external audit services  | 90         |
| 57         | Fees payable to the appointed auditor for the certification of grant claims and returns                            | 52         |
| 6          | Fees payable in respect of any other services over and above the normal services provided by the appointed auditor | 3          |
| 0          | Fees payable to the Audit Commission in respect of statutory inspection  | 0          |
| <b>155</b> |  | <b>145</b> |

### 32 GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in the year:

|   | 2010-11      | 2011-12      |
|---|--------------|--------------|
|   | £'000        | £'000        |
| <b>Credited to Taxation and Non-specific Grant Income</b> |              |              |
| Big Lottery Fund – Children's Play Project                | 88           | 0            |
| LCC – New Council Offices                                 | 663          | 618          |
| LCC RIEP  | -16          | 0            |
| Zurich Municipal – New Offices                            | 3,586        | 673          |
| British Gas re: Central Heating                           | 12           | 0            |
| Leicester City Council re: Grantham Canal Project         | 3            | 0            |
| Section 106 Contributions                                 | 7            | 21           |
| Decent Homes  | 186          | 11           |
| Department of Health – Warm Homes                         | 0            | 10           |
| Disabled Facilities Grants                                | 104          | 119          |
| <b>Total</b>  | <b>4,633</b> | <b>1,452</b> |

The Council has received a number of grants and contributions 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:

|  | 31 March 2011<br>£'000 | 31 March 2012<br>£'000 |
|--|------------------------|------------------------|
| <b>Capital Grant Receipts in Advance</b> |                        |                        |
| Section 106 Monies                       | 59                     | 47                     |
| Decent Homes Grant                       | 21                     | 11                     |
| Better Places Grant                      | 0                      | 19                     |
| Warm Homes Grant Funding                 | 0                      | 185                    |
| NHS re: Disabled Facilities Grant        | 0                      | 100                    |
| <b>Total</b>                             | 80                     | 362                    |

|  | 31 March 2011<br>£'000 | 31 March 2012<br>£'000 |
|--|------------------------|------------------------|
| <b>Revenue Grant Receipts in Advance</b>       |                        |                        |
| Priority Need Grant                            | 44                     | 8                      |
| Health Forum Income                            | 2                      | 6                      |
| Active Melton                                  | 9                      | 0                      |
| Town Centre Regeneration                       | 1                      | 2                      |
| GP Referral                                    | 16                     | 0                      |
| LCC Contribution to LCC staff                  | 24                     | 24                     |
| Council Tax Billing – Efficiency Project       | 9                      | 9                      |
| Mortgage Rescue Programme                      | 23                     | 42                     |
| FIP Monies                                     | 14                     | 48                     |
| Waste Minimisation                             | 38                     | 0                      |
| Vanguard funding                               | 0                      | 30                     |
| Court Desk Funding                             | 30                     | 27                     |
| Older Persons Strategy                         | 5                      | 5                      |
| Active Together                                | 10                     | 0                      |
| Sainsbury Cost Contribution                    | 0                      | 70                     |
| DWP Training                                   | 4                      | 4                      |
| Welland Wheels to Work Contributions           | 29                     | 10                     |
| Atlas Funding                                  | 3                      | 3                      |
| Housing Benefit Transitional monies            | 0                      | 3                      |
| Positive Activities for Young People           | 0                      | 3                      |
| Integrated Youth Support Services              | 0                      | 11                     |
| Community Safety Initiatives                   | 0                      | 5                      |
| Community Safety – Youth Shelter Contributions | 0                      | 7                      |
| New Homes Bonus                                | 0                      | 38                     |
| BID – Northgate Costs                          | 0                      | 3                      |
| <b>Total</b>                                   | 261                    | 358                    |

### 33 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.

**Central Government** has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills). Grants received from government departments are set out in the subjective analysis in Note 25 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in note 32.

**Members** of the Council have direct control over the Council's financial and operating policies. The following Members have declared 'related party transactions' with the Council during the year:

Councillor M.O'Callaghan:

- a) Chairman of Melton Mowbray Food Partnership which received no funding during the year.

Councillor P Cumbers:

- b) Trustee of Shopmobility which received a payment of £1,350 during the year.

Councillor V J Manderson

- c) Chairman of Citizens Advice Bureau from 6 May 2011 to 30 November 2011 which received funding of £27,500 during the year.

- d) Councillor J Douglas

Member of 'WorkClub' which received £500 from the Council in the year.

- e) Councillor M Sheldon

Parish Councillor of Asfordby Parish Council which received payments of £11,100 in the year.

- f) Councillors J Moulding and L Horton did not, following three letters, return a signed declaration.

**Officers.** The following officers of the Council have declared 'related party transactions' with the Council during the year:

Keith Aubrey

- a) Strategic Director is a Director of Melton Learning Hub which received payments totalling £18,767 during the year.

#### **Entities controlled or significantly influenced by the Authority**

The Welland Partnership is a committed consortium of six local authorities from East Northamptonshire, Harborough, Melton, Rutland, Blaby and Oadby & Wigston; a partnership by choice. It has established joint officer working groups, created shared appointments and secured joint funding in its collective aim of delivering improved services.

#### **34 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.

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 9,281            | <b>Opening Capital Financing Requirement</b>  | 9,593            |
|                  | <b>Capital Investment</b>   |                  |
| 4,609            | Property, Plant and Equipment   | 4,350            |
| 25               | Investment Properties   | 0                |
| 45               | Intangible Assets   | 18               |
| 490              | Revenue Expenditure funded from Capital under statute                                   | 217              |
| 0                | Additional Debt Required re: HRA Reform   | 27,622           |
|                  | <b>Sources of Finance</b>   |                  |
| -113             | Capital Receipts  | -804             |
| -4,468           | Government Grants and other contributions   | -3,769           |
|                  | Sums set aside from revenue:  |                  |
| -14              | Direct revenue contributions  | -12              |
| -262             | (MRP/loans fund principal)  | -242             |
| 0                | Use of Capital Receipts to repay General Fund CFR                                       | -4,880           |
| <b>9,593</b>     | <b>Closing Capital Financing Requirement</b>  | <b>32,093</b>    |
|                  | <b>Explanation of Movements in Year</b>   |                  |
| 300              | Increase in underlying need to borrow (supported by Government financial assistance)    | 0                |
| 12               | Increase in underlying need to borrow (un-supported by Government financial assistance) | 22,500           |
| <b>312</b>       | <b>Increase in Capital Financing Requirement</b>  | <b>22,500</b>    |

## 35 LEASES

### Authority as Lessee

#### Finance Leases

The authority holds no finance leases.

#### Operating Leases

This Council uses vans, grounds equipment and various other equipment financed under the terms of an operating lease. There were no amounts paid under these arrangements in 2011-12 (2010-11 - £2k).

There are no future minimum lease payments due under (*non-cancellable*) leases in future years.

The expenditure charged to the Cemetery service line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

|  | 2010-11<br>£'000 | 2011-12<br>£'000 |
|--|------------------|------------------|
| Minimum Lease payments (prepayment from previous year) | 2                | 2                |
| Contingent Rents                                       | 0                | 0                |
|  | 2                | 2                |

### Authority as Lessor

#### Finance Leases

Following the introduction of IFRS there was no change to the accounting treatment of finance leases where the authority was the lessor. In the event the Council has no finance leases where it is the lessor, and consequently do not have any future lease payments due to it under non-cancellable leases as at 31<sup>st</sup> March 2012.

#### Operating Leases

Following the introduction of IFRS there was no change to the accounting treatment of operating leases where the authority was the lessor.

## 36 IMPAIRMENT LOSS

During 2011-12 the Council recognised an impairment loss of £2,966m in respect of the new council offices in Burton Street and associated car park. This impairment arises as the building and car park is required to be shown in these accounts at their market values of £5.8m and £0.495m respectively which was less than the costs of construction and land acquisition (£9.485m). This difference of £3.19m was partially reduced by accumulated gains on the land value at Burton Street during the construction process. In line with other impairments, the impairment in respect of these offices was reversed out to the capital adjustment account in line with accounting practices.

The other significant impairment loss applied to the Community centres at Sysonby St and Dalby Road which was due to a change in the valuation method from depreciated replacement cost to market value – existing use. Both of these properties have long term lease agreements in place with Leicestershire County Council who made a significant financial contribution towards the costs of construction and which thus impact on the market value.

## 37 TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2011-12, incurring liabilities of £39k (£192k in 2010-11). This liability relates to employees who were made redundant as part of the Councils departmental restructuring exercise. In addition to this the Council will incur a liability of £21k in 2012-13 for one other officer made redundant as a savings requirement as part of the 2012-13 budget setting exercise.

## 38 DEFINED BENEFIT PENSION SCHEMES

### Participation in Pensions Scheme

As part of the terms and conditions of employment of its officers and other employees, 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 which needs to be disclosed at the time that employees earn their future entitlement.

### The Council participates in the following:

The Local Government Pension Scheme administered by Leicestershire 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.

## Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits 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 the Council is required to make 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 via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

| <b>Comprehensive Income and Expenditure Statement</b>  | <b>2010-11</b> | <b>2011-12</b> |
|--|----------------|----------------|
|  | <b>£'000</b>   | <b>£'000</b>   |
| Cost of Services:  |                |                |
| Current Service Cost   | 712            | 571            |
| Past Service Costs   | -3,417         | 0              |
| Settlements & Curtailments   | 92             | 12             |
| Financing & Investment Income and Expenditure:   |                |                |
| Interest Cost  | 2,059          | 1,624          |
| Expected Return on Assets in the Scheme  | -1,651         | -1,495         |
| <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>                                    | <b>-2,205</b>  | <b>712</b>     |
| Other post employment benefits charged to the Comprehensive Income Expenditure Statement:  |                |                |
| Actuarial Gains and losses   | 5,960          | -3,260         |
| <b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>                                     | <b>5,960</b>   | <b>-3,260</b>  |
| Movement in Reserves Statement:  |                |                |
| Reversal of Net Charges made to the Surplus/deficit for provision of services for post employment benefits in accordance with the code | 2,205          | 712            |
| Actual amount charged against the General Fund Balance for the pensions in the year:   |                |                |
| Employers contribution payable to the scheme   | 705            | 616            |
| Retirement benefits payable to pensioners  | 69             | 71             |
|  | <b>774</b>     | <b>687</b>     |

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 £11.595m.

## Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

| <b>Funded Liabilities: Local Government Pension Scheme</b> | <b>2010-11</b> | <b>2011-12</b> |
|--|----------------|----------------|
|  | <b>£'000</b>   | <b>£'000</b>   |
| Opening Balance at 1 April                                 | 40,696         | 29,758         |
| Current Service Cost                                       | 712            | 571            |
| Interest Cost  | 2,059          | 1,624          |
| Contributions by scheme participants                       | 242            | 218            |
| Losses / (gains) on Curtailments                           | 92             | 12             |
| Actuarial (gains) and losses                               | -8,375         | 1,875          |
| Benefits paid  | -2,251         | -1,263         |
| Past service costs   | -3,417         | 0              |
| Closing Balance at 31 March                                | <b>29,758</b>  | <b>32,795</b>  |

Reconciliation of fair value of the scheme assets:

|                                      | <b>2010-11</b> | <b>2011-12</b> |
|--------------------------------------|----------------|----------------|
|                                      | <b>£'000</b>   | <b>£'000</b>   |
| Opening Balance at 1 April           | 23,238         | 21,239         |
| Expected rate of return              | 1,651          | 1,495          |
| Actuarial gains and losses           | -2,415         | -1,385         |
| Employer contribution                | 774            | 687            |
| Contributions by scheme participants | 242            | 218            |
| Benefits paid                        | -2,251         | -1,263         |
| Settlements                          | 0              | 0              |
| Closing Balance at 31 March          | <b>21,239</b>  | <b>20,991</b>  |

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 rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £248k (2010-11: loss of £1.999m).

| Scheme history                           | <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>   |
| Present Value Defined Benefit Obligation | -26,002        | -25,290        | -40,696        | -29,758        | -32,795        |
| Fair value of assets                     | 22,729         | 17,025         | 23,238         | 21,239         | 20,991         |
| Surplus/(deficit) in the scheme          | -3,273         | -8,265         | -17,458        | -8,519         | -11,804        |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £11.804m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction from £74.4m to £62.60m.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. 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 £0.619m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The last formal actuarial valuation in respect of the Leicestershire County Council Pension Fund was carried out as at 31 March 2010. The actuary has projected the results of this valuation to 31 March 2012 using approximate methods. The next formal valuation due will be as at 31 March 2013.

The principal assumptions used by the actuary have been:

|  | <b>2010-11</b> | <b>2011-12</b> |
|--|----------------|----------------|
| Long-term expected rate of return on assets in the scheme: |                |                |
| Equity investments   | 7.5%           | 6.2%           |
| Bonds  | 4.9%           | 3.9%           |
| Property   | 5.5%           | 4.4%           |
| Cash   | 4.6%           | 3.5%           |
| Mortality assumptions:                                     |                |                |
| Longevity at 65 for current pensioners:                    |                |                |
| Men  | 20.9           | 20.9           |
| Women  | 23.3           | 23.3           |
| Longevity at 65 for future pensioners:                     |                |                |
| Men  | 23.3           | 23.3           |
| Women  | 25.6           | 25.6           |



|   | 2010-11 | 2011-12 |
|---|---------|---------|
| Rate of inflation   | 2.8%    | 2.5%    |
| Rate of increase in salaries                                      | 5.1%    | 4.8%    |
| Rate of increase in pensions                                      | 2.8%    | 2.5%    |
| Rate of discounting scheme liabilities                            | 5.5%    | 4.8%    |
| Take-up option to convert annual pension into retirement lump sum |         |         |

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

|                    | 31 March 2011 | 31 March 2012 |
|--------------------|---------------|---------------|
|                    | %             | %             |
| Equity Investments | 82            | 65            |
| Bonds              | 7             | 16            |
| Property           | 11            | 11            |
| Cash               | 0             | 8             |
|                    | <u>100</u>    | <u>100</u>    |

### 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 at 31 March 2012:

|  | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|--|---------|---------|---------|---------|---------|
|  | £'000   | £'000   | £'000   | £'000   | £'000   |
| Differences between the expected and actual return of assets | -2,593  | -7,256  | -5,180  | -2,415  | -1,385  |
| Fair value of employer assets                                | 22,729  | 17,025  | 23,238  | 21,239  | 20,991  |
| <b>Percentage of assets</b>                                  | -11.4%  | -42.6%  | 22.3%   | -11.4%  | -6.6%   |
| Experience gains/(losses) on liabilities                     | -1,296  | 46      | -22     | 3,713   | -448    |
| Present value of liabilities                                 | -26,002 | -25,290 | -40,696 | -29,758 | -32,795 |
| <b>Percentage of liabilities</b>                             | -5.0%   | -0.2%   | -0.1%   | -12.48% | 1.33%   |

### 39 CONTINGENT LIABILITIES

At the 31 March 2012 the Council had one material contingent liability:

The Council has received notification from the Government that charging a fee for a personal search of the local land charges register is incompatible with the Environmental Information Regulations 2004 (EIRs) and the underlying 2003 EU Directive. The Government subsequently revoked the fee from 17 August 2010. Local authorities are tasked with looking at reimbursing fees charged wrongly since January 2005, when the EIRs came into force, but each case should be considered on its own facts. A potential contingent liability could arise of between £1k and £24k.

This matter has the potential to be resolved during the next financial year with no prospect of reimbursement.

### 40 CONTINGENT ASSETS

There is one claim for compensation to be sought by the Council as a contingent asset; the details for which are as follows:

Compensation claim to be pursued by the Council against the contractors/architects/agents, subject to legal Counsel Opinion, to cover the costs of repairing defects to balconies on Council owned/private leasehold dwellings on New Street/Chapel Street in Melton Mowbray. The estimated cost to rectify the damage is in the region of £150k. An independent architects report commissioned by the Council concluded that water ingress into some of the flats was entirely as a result of "very poor detailing and design".

### 41 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

#### Key Risks

The Council's activities expose it to a variety of financial risks. The key risks are:

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

### **Overall procedures for managing risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

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

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 2/2/11 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011-12 was set at £47m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £36.76m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £40m and £7m respectively based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are detailed in the strategy.

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

### **Credit risk**

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 identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F1, Long Term A-, Support C and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government.

The full Investment Strategy for 2011-12 was approved by Full Council on 2 February 2011 and is available on the Council's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £14.9m 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. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions. This does not now cover normal money market deposits.

|              | Amount<br>£000s  | Historical<br>experience<br>of default<br>% | Adjustment<br>for market<br>conditions<br>% | Estimated<br>maximum<br>exposure to<br>default<br>£000s | Estimated<br>maximum<br>exposure to<br>default<br>£000s |
|--------------|------------------|---|---|---|---|
| Bonds rated: | 31 March<br>2012 | 31 March<br>2012                            | 31 March<br>2012                            | 31 March<br>2012  | 31 March<br>2011  |
| AAA          | N/A              | N/A   | N/A   | N/A   | N/A   |
| AA           | N/A              | N/A   | N/A   | N/A   | N/A   |
| A            | N/A              | N/A   | N/A   | N/A   | N/A   |
| BBB          | N/A              | N/A   | N/A   | N/A   | N/A   |
| Customers *  | 654              | 5%  | 5%  | 687   | 414   |
| <b>Total</b> | <b>654</b>       |   |   | <b>687</b>  | <b>414</b>  |

\* - Excluding statutory debtors – Council Tax/NNDR

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

The Council does not generally allow credit for its customers, such that £360k of the £654k balance is past its due date for payment. The past due amount can be analysed by age as follows:

|                        | 31 March 2011<br>£000s | 31 March 2012<br>£000s |
|------------------------|------------------------|------------------------|
| Less than three months | 32                     | 43.5                   |
| Three to six months    | 22                     | 11.5                   |
| Six months to one year | 46                     | 59                     |
| More than one year     | 142                    | 246                    |
| <b>Total</b>           | <b>242</b>             | <b>360</b>             |

Collateral – During the reporting period the council held no collateral as security

#### Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

|                       | 31 March 2011<br>£000s | 31 March 2012<br>£000s |
|-----------------------|------------------------|------------------------|
| Less than 1 year      | 3,150                  | 14,900                 |
| Between 1 and 2 years | 0                      | 0                      |
| Between 2 and 3 years | 0                      | 0                      |
| More than 3 years     | 0                      | 0                      |
| <b>Total</b>          | <b>3,150</b>           | <b>14,900</b>          |

### Refinancing and maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by the Council as part of the Treasury Management Strategy):

|                        | Approved<br>minimum<br>limits<br>% | Approved<br>maximum<br>limits<br>% | Actual 31<br>March 2011<br>£000s | Actual 31<br>March 2012<br>£000s |
|------------------------|------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Less than 1 year       | 0                                  | 100                                | 1,450                            | 0                                |
| Between 1 and 2 years  | 0                                  | 100                                | 0                                | 0                                |
| Between 2 and 5 years  | 0                                  | 100                                | 0                                | 448                              |
| Between 5 and 10 years | 0                                  | 100                                | 0                                | 0                                |
| More than 10 years     | 0                                  | 100                                | 5,538                            | 31,413                           |
| <b>Total</b>           | <b>N/A</b>                         | <b>100</b>                         | <b>6,988</b>                     | <b>31,861</b>                    |

### Market risk

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants (HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

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

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

|  | £000's |
|--|--------|
| Increase in interest payable on variable rate borrowings   | 0      |
| Increase in interest receivable on variable rate investments   | 15     |
| Impact on Surplus or Deficit on the Provision of Services  | 15     |
| Increase in Government grant receivable for financing costs  | 0      |
| Share of overall impact debited to the HRA   | 0      |
| Decrease in fair value of fixed rate investment assets   | 0      |
| Impact on Other Comprehensive Income and Expenditure   | 0      |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | 0      |

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

## HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure 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. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA statement.

| 2010-11       |  | 2011-12 |               |
|---------------|--|---------|---------------|
| £'000         |  | £'000   | £'000         |
|               | <b>Expenditure</b>   |         |               |
| 1,514         | Repairs and Maintenance  | 1,712   |               |
| 1,043         | Supervision and Management   | 1,051   |               |
| 63            | Rent, rates, taxes and other charges   | 69      |               |
| 1,651         | Negative HRA Subsidy payable   | 1,849   |               |
| 28,089        | Depreciation & impairment of non-current assets  | 976     |               |
| 13            | Debt Management Costs  | 15      |               |
| 0             | Debt for self financing settlement   | 27,622  |               |
| 41            | Movement in the allowance for bad debts  | 48      |               |
| 0             | Subsidy Limitation Transferred to General Fund   | 0       |               |
| 0             | Revenue Expenditure Funded from Capital Under Statute  | 0       |               |
| <b>32,414</b> | <b>Total Expenditure</b>   |         | <b>33,342</b> |
|               | <b>Income</b>  |         |               |
| 5,734         | Dwelling Rents   |         | 6,198         |
| 88            | Non-dwelling Rents   |         | 87            |
| 380           | Charges for services and facilities  |         | 419           |
| <b>6,202</b>  | <b>Total Income</b>  |         | <b>6,704</b>  |
| <b>26,212</b> | <b>Net cost of HRA services as included in the Comprehensive Income &amp; Expenditure Statement</b>                          |         | <b>26,638</b> |
| 176           | HRA services share of Corporate & Democratic core  |         | 197           |
| 10            | HRA services share of Non-Distributed Costs  |         | 18            |
| <b>26,398</b> | <b>Net Income(-)/Cost of HRA Services</b>  |         | <b>26,853</b> |
|               | <b>HRA Share of the operating income &amp; expenditure included in the Comprehensive Income &amp; Expenditure Statement:</b> |         |               |
| 89            | Gain(-) or loss on sale of HRA non-current assets  |         | -190          |
| 175           | Interest payable and similar charges   |         | 198           |
| -2            | Interest & Investment Income   |         | -6            |
| 23            | Pensions interest cost and expected return on pensions asset   |         | 7             |
| <b>26,683</b> | <b>Surplus(-)/deficit for the year on HRA Services</b>   |         | <b>26,862</b> |

## MOVEMENT ON THE HRA STATEMENT

| 2010-11       |  | 2011-12       |  |
|---------------|--|---------------|--|
| £'000         |  | £'000         |  |
| <b>-95</b>    | Balance on HRA at end of previous year   | <b>-398</b>   |  |
| 26,683        | Surplus(-) or deficit for the year on the HRA Income and Expenditure Statement | 26,862        |  |
| -107          | Adjustments between accounting basis and funding basis under statute           | 179           |  |
| <b>26,576</b> | <b>Net Increase (-) or decrease before transfers to/from reserves</b>          | <b>27,041</b> |  |
| -26,879       | Transfers to/from earmarked reserves   | -27,370       |  |
| <b>-303</b>   | <b>Increase(-) or decrease in the year on the HRA</b>                          | <b>-329</b>   |  |
| <b>-398</b>   | <b>Balance on the HRA at end of current year</b>                               | <b>-727</b>   |  |

## NOTE TO THE MOVEMENT ON THE HRA STATEMENT

| 2010-11        |   | 2011-12        |
|----------------|---|----------------|
| £'000          |   | £'000          |
|                | <b>Adjustments between Accounting basis and funding basis under statute</b> |                |
| -9             | Difference between interest payable and similar charges                     | -6             |
| 18             | Accumulated Absences accrual  | 2              |
| -89            | Gain/Loss(-) on sale of non-current assets                                  | 190            |
| -27            | HRA Share of contributions to/from the Pensions Reserve                     | -7             |
| 0              | Capital Expenditure Funded by the HRA                                       | 0              |
| 0              | Revenue expenditure funded from Capital Under statute                       | 0              |
| <b>-107</b>    |   | <b>179</b>     |
|                | <b>Transfers to/from Reserves</b>   |                |
| 224            | Transfer to/from (-) Major Repairs Reserve                                  | 238            |
| -27,103        | Transfer to/from (-) Capital Adjustment Account                             | -27,608        |
| <b>-26,879</b> |   | <b>-27,370</b> |

## NOTES TO THE HRA FINANCIAL STATEMENTS

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with part 6 of the Local Government and Housing Act 1989. The Act sets the framework for "ring fencing" the Housing Revenue Account (HRA). The account has to be self financing and there is a legal prohibition on cross subsidy to or from the General Fund.

### 1 Number of Dwellings

| 2010-11      |                   | 2011-12      |
|--------------|-------------------|--------------|
| Dwellings    |                   | Dwellings    |
| 1,897        | <b>At 1 April</b> | 1,893        |
| 4            | Sold during year  | 8            |
| <b>1,893</b> | At 31 March       | <b>1,885</b> |

### 2 Type of Dwelling

| 2010-11      |                       | 2011-12      |
|--------------|-----------------------|--------------|
| Dwellings    |                       | Dwellings    |
| 894          | Houses                | 886          |
| 283          | Bungalows             | 283          |
| 716          | Flats and maisonettes | 716          |
| <b>1,893</b> |                       | <b>1,885</b> |

### 3 Movement in Fixed Assets

|                                 | Operational assets |                        |                                  | Non-Operational Assets | Total         |
|---------------------------------|--------------------|------------------------|----------------------------------|------------------------|---------------|
|                                 | Dwellings          | Other land & buildings | Surplus assets not held for sale | Other land & buildings |               |
|                                 | £'000              | £'000                  | £'000                            | £'000                  | £'000         |
| Net book value 31 March 2011    | 59,377             | 2,796                  | 101                              | 208                    | 62,482        |
| Revaluation adjustment          | 106                | 123                    | 0                                | 7                      | 236           |
| Net book value 1 April 2011     | 59,483             | 2,919                  | 101                              | 215                    | 62,718        |
| <b>Movement in 2011-12</b>      |                    |                        |                                  |                        |               |
| Spending in Year                | 1,360              | 0                      | 0                                | 0                      | 1,360         |
| Disposals                       | -229               | 0                      | -76                              | 0                      | -305          |
| Revaluation on Disposal         | 119                | 0                      | 39                               | 0                      | 158           |
| Impairment                      | 0                  | 0                      | 0                                | 0                      | 0             |
| Depreciation / Amortisation     | -846               | -123                   | 0                                | -7                     | -976          |
| Reclassification                | -250               | 0                      | 0                                | 0                      | -250          |
| Net book value at 31 March 2012 | <b>59,637</b>      | <b>2,796</b>           | <b>64</b>                        | <b>208</b>             | <b>62,705</b> |

Housing properties were valued on the basis of 'Existing use value – Social Housing'. Depreciation for operational and non operational assets has been calculated using estimated useful lives following assessment by the valuer. During 2011-12 the valuer has not altered the property values in the HRA reflecting the current weak state of the housing market and the fact that there has been little discernable movement in residential property values in the Melton area in the past 12 months.

7 properties were sold in the year under Right to Buy and 1 property was sold as a land disposal. On the face of the income and expenditure account this amount has been adjusted to account for the return of discount from a previous right to buy property being re-sold. In the Right to Buy situation the Council is constrained by law from selling the dwellings at their market value, the fair comparison is between the sale proceeds and the value subject to the statutory constraint, which results in no gains or losses.

At a meeting of the Community & Social Affairs committee on 27 October 2010 a number of HRA assets were approved as surplus. As at 31 March 2012 only one of these assets was sold with the remaining still within the Council's ownership with no instructions yet issued to market these assets. They therefore remain as surplus assets for this 2011-12 Statement of Accounts. Surplus assets are valued at existing use value and so no revaluation is required.

### 4 Assets Held For Sale

|   | Current          |                  | Non-Current      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2010-11<br>£'000 | 2011-12<br>£'000 | 2010-11<br>£'000 | 2011-12<br>£'000 |
| <b>Balance outstanding at start of year</b> | <b>0</b>         | <b>0</b>         | <b>0</b>         | <b>179</b>       |
| Assets newly classified as held for sale    | 0                | 0                | 494              | 250              |
| Revaluation Losses                          | 0                | 0                | 0                | -7               |
| Revaluation Gains                           | 0                | 0                | 0                | 31               |
| Impairment Losses                           | 0                | 0                | 0                | 0                |
| Assets declassified as held for sale        | 0                | 0                | 0                | 0                |
| Assets Sold                                 | 0                | 0                | -315             | -210             |
| Transfers from non-current to current       | 0                | 0                | 0                | 0                |
| Other Movements                             | 0                | 0                | 0                | 0                |
| <b>Balance outstanding at year end</b>      | <b>0</b>         | <b>0</b>         | <b>179</b>       | <b>243</b>       |

At 31 March 2012 it was considered by the Council's legal team that there were 7 dwellings which were virtually certain to complete on Right to Buy terms during the following year. These properties have therefore been re-classified in the accounts as assets held for sale and valued at the lower of their carrying value and their value less costs to sell. The carrying value in 6 cases was the lower with the fair value less costs to sell being the lower for 1 property so a small revaluation loss has been identified.



## 5 Vacant Possession Value of Dwellings

The vacant possession value of dwellings within the HRA at 1 April 2011 was £175m.

## 6 Economic Cost of Providing Council Housing

The valuation at 1 April 2011 of £60m is lower than the vacant possession value on the open market of £175m.

The difference between the vacant possession value of dwellings and the opening balance sheet value within the HRA represents the economic cost to Government of providing council housing at less than open market rents.

The adjustment factor for the economic cost of providing Council Housing for the East Midlands of 34% has been used as noted in the Department of Communities & Local Government's Guidance on Stock Valuations.

## 7 Impairments

An impairment is a reduction in the value of a non-current asset due to revaluation, deterioration or any reduction in the carrying value of the non-current asset. During 2011-12 no revaluation impairments have been reflected in the accounts.

## 8 HRA Subsidy

The Council must pay a contribution to the subsidy pool from the Housing Revenue Account based upon notional calculations representing the Government's assessment of what the Council should be collecting and spending.

The Notional Housing Revenue Account for 2011-12 is as follows:

| 2010-11<br>£'000 |                                       | 2011-12<br>£'000 |
|------------------|---------------------------------------|------------------|
|                  | <b>Expenditure</b>                    |                  |
| 2,809            | Management and Maintenance Allowance  | 2,886            |
| 1,196            | Major Repairs Allowance               | 1,213            |
| 244              | Charges for Capital                   | 295              |
| 0                | Interest for self-financing borrowing | 10               |
|                  | <b>Income</b>                         |                  |
| -1               | Interest on Receipts                  | 0                |
| -5,872           | Guideline Rent Income                 | -6,253           |
| <hr/>            |                                       | <hr/>            |
| -1,624           | Total Housing Subsidy Payable         | -1,849           |
| -27              | Prior Year Adjustments                | 0                |
| <hr/>            |                                       | <hr/>            |
| <b>-1,651</b>    | <b>Debit to HRA in year</b>           | <b>-1,849</b>    |

## 9 Capital Expenditure:

### Financing of Capital Expenditure

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 939              | Dwellings   | 1,360            |
| 0                | Revenue expenditure funded from capital under statute | 0                |
| <hr/>            |   | <hr/>            |
| <b>939</b>       |   | <b>1,360</b>     |
| 300              | Borrowing   | 0                |
| 0                | Credit Arrangements                                   | 0                |
| 0                | Useable capital receipts                              | 24               |
| 0                | Capital Receipts Reserve                              | 0                |
| 0                | HRA Working Balance                                   | 0                |
| 619              | Major Repairs Reserve                                 | 1,336            |
| 20               | Contribution from Third Party                         | 0                |
| <hr/>            |   | <hr/>            |
| <b>939</b>       |   | <b>1,360</b>     |

## Summary of Capital Expenditure

| 2010-11<br>£'000 |                                | 2011-12<br>£'000 |
|------------------|--------------------------------|------------------|
| 131              | Aids and Adaptations           | 87               |
| 282              | Major Void Repairs             | 260              |
| 3                | Alarms and Security            | 0                |
| 101              | Replacement Heating Systems    | 142              |
| 56               | Re-roofing                     | 73               |
| 55               | Windows and Doors replacement  | 127              |
| 29               | New Kitchens & Bathrooms       | 96               |
| 121              | Rewiring                       | 105              |
| 117              | Major Catch Up Repairs         | 24               |
| 4                | Asbestos Remedial Work         | 0                |
| 0                | Fire Safety Works              | 112              |
| 0                | Health & Safety related works  | 294              |
| 0                | Capitalisation of salaries     | 40               |
| 40               | Housing Stock Condition Survey | 0                |
| <b>939</b>       |                                | <b>1,360</b>     |

### 10 Total Capital Receipts from Disposal of HRA Assets

The total capital receipts before pooling of capital receipts to the Department for Communities and Local Government (DCLG) is as follows:

| 2010-11<br>£'000 |                  | 2011-12<br>£'000 |
|------------------|------------------|------------------|
| 219              | Dwellings        | 439              |
| 0                | Land             | 88               |
| 8                | Housing Advances | 2                |
| 17               | Discount Repaid  | 9                |
| <b>244</b>       |                  | <b>538</b>       |

### 11 Capital Asset Charges Accounting Adjustment

The capital asset charges accounting adjustment is calculated in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for 2011/12. This is the amount debited or credited to the HRA in regard to its Capital Financing Requirement (CFR) for the year.

The table below shows the Council's adjustment in the HRA. Self-financing begins on 1 April 2012 but loans were taken out in order to settle the resulting debt on 28 March 2012, so for the purposes of the Mid-year CFR in 2011/12 the self financing settlement is ignored.

The consolidated rate of interest is arrived at by using both the external borrowing rates of the Council's outstanding loans and the internal borrowing rate using the average 3-month London Interbank Bid rate for 2011/12.

As the Council's CFR is a positive amount the resulting adjustment is a debit to the HRA.

Other balances and expenditure which if were positive, would be included in the calculation include: impairment charges, revenue expenditure funded from capital under statute, debit average notional cash balances, interest payments under certain circumstances

| 2010/11<br>£'000 |  | 2011/12<br>£'000 |
|------------------|--|------------------|
| <b>4,010</b>     | <b>CFR at 1 April</b>                              | <b>4,296</b>     |
|                  | Movement in year:                                  |                  |
| -14              | Voluntary Revenue Provision                        | -14              |
| 300              | Supported Borrowing                                | 0                |
| N/A              | Self Financing                                     | 27,622           |
| 4,296            | CFR at 31 March                                    | 31,904           |
| N/A              | CFR at 31 March excluding Self Financing           | 4,282            |
| <b>4,153</b>     | <b>Mid Year CFR excluding Self Financing</b>       | <b>4,289</b>     |
| 3.66%            | Consolidated Interest Rate for Year                | 4.36%            |
| <b>152</b>       | <b>Capital Asset Charges Accounting Adjustment</b> | <b>187</b>       |

## 12 Depreciation

Depreciation is referred to in detail in note 1 (r) of the accounting policies section and in note 3 to the HRA. In 2011-12 £976k depreciation has been charged to the HRA.

## 13 Major Repairs Reserve

| 2010-11<br>£'000 |   | 2011-12<br>£'000 |
|------------------|---|------------------|
| 0                | Balance brought forward 1 April         | 577              |
| 973              | Transfer from the HRA                   | 976              |
| -620             | Capital Expenditure – Dwellings         | -1,336           |
| 0                | Repayment of Borrowing Principal        | 0                |
| 224              | Transfer to(-)/from the HRA             | 237              |
| <b>577</b>       | <b>Balance carried forward 31 March</b> | <b>454</b>       |

## 14 Retirement Benefits

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the HRA balance during the year:

| Income & Expenditure Account                           | 2010-11<br>£'000 | 2011-12<br>£'000 |
|--|------------------|------------------|
| Net Cost of Services:                                  |                  |                  |
| Current Service Cost                                   | 40               | 44               |
| Net Operating Expenditure:                             |                  |                  |
| Interest Cost  | 115              | 91               |
| Expected Return on Assets in the Scheme                | <u>-92</u>       | <u>-84</u>       |
| <b>Net Charge to Income &amp; Expenditure Account</b>  | <b>63</b>        | <b>51</b>        |
| Statement of Movement in the HRA Balance:              |                  |                  |
| Reversal of Net Charges made for retirement benefits   |                  |                  |
| In accordance with FRS 17                              | -63              | -51              |
| Actual amount charged against the HRA for the pensions |                  |                  |
| In the year:   |                  |                  |
| Employers Contributions Payable to Scheme              | 36               | 44               |

## 15 Rent Arrears

At 31 March 2012 rent arrears (including ancillary services) as a proportion of gross rent debit were 4.80% (31 March 2011 – 4.66%). The arrears figures excluding amounts collectable on behalf of other agencies are as follows:-

| 2010-11<br>£'000 | Arrears at 31 March: | 2011-12<br>£'000 |
|------------------|----------------------|------------------|
| 181              | Current Tenants      | 205              |
| 104              | Former Tenants       | 113              |
| <b>285</b>       |                      | <b>318</b>       |

At 31 March 2012, the total arrears (including amounts collectable on behalf of other agencies) are £345k (2010-11 £309k) which was the basis of the disclosure in the 2010-11 financial statements.

**16 Doubtful Debts Provision of Uncollectable Debts**

| <b>2010-11</b> |                                 | <b>2011-12</b> |
|----------------|---------------------------------|----------------|
| <b>£'000</b>   |                                 | <b>£'000</b>   |
| 207            | Housing Rents, Fees and Charges | 231            |
| 16             | Sundry Debtors                  | 32             |
| <u>223</u>     |                                 | <u>263</u>     |

During the year £8k (2010-11 £24k) was written off against the provision for doubtful debts.

**17 Sums Directed by Secretary of State**

No such amounts were charged to the account in 2011-12 or 2010-11.

**18 Transfers to the General Fund**

Since 1 April 2004, the administration of rent rebate is now classified as expenditure under the general fund and is controlled by the Department for Work & Pensions along with other benefit payments. The HRA must compensate the general fund on an on-going basis for rent rebate subsidy losses due to increasing rents above Government Guidelines. During 2011-12 there was no transfer from the HRA to the General Fund on this basis and nor was there in 2010-11.

## COLLECTION FUND STATEMENT

The Collection Fund is an Agents 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 local authorities and the Government of Council Tax and Non-domestic rates.

| 2010-11<br>£'000   | Note                            | 2011-12<br>£'000 |
|--|---------------------------------|------------------|
| <b>Amounts required by statute to be credited to the Collection Fund</b> |                                 |                  |
| 25,068   | 1                               | 25,347           |
|  |                                 |                  |
| Transfers from the General Fund:   |                                 |                  |
| 2,435  |                                 | 2,520            |
| 0  |                                 | 0                |
| 0  |                                 | 0                |
| 11,864   | 2                               | 10,954           |
| 0  |                                 | 37               |
| <b>39,367</b>  | <b>Total</b>                    | <b>38,858</b>    |
| <b>Amounts required by statute to be debited to the Collection Fund</b>  |                                 |                  |
| 27,510   |                                 | 28,031           |
|  |                                 |                  |
| Business Rate:   |                                 |                  |
| 11,595   |                                 | 10,747           |
| 65   |                                 | 63               |
| Impairment of debts/appeals:   |                                 |                  |
| 210  |                                 | 120              |
| 26   |                                 | 19               |
| 50   |                                 | 0                |
| <b>39,456</b>  | <b>Total</b>                    | <b>38,980</b>    |
| 89   | <b>Movement on Fund Balance</b> | 122              |
|  |                                 |                  |
| -66  | Opening Balance at 1 April      | 23               |
| 23   | Closing Balance at 31 March     | 145              |

### Bad Debt Provision – Summary (Memorandum)

|                | Balance<br>31-3-11<br>£'000 | Write-offs<br>£'000 | Increased<br>Provision<br>£'000 | Reduced<br>Provision<br>£'000 | Balance<br>31-3-12<br>£'000 |
|----------------|-----------------------------|---------------------|---------------------------------|-------------------------------|-----------------------------|
| Business Rates | 12                          | 83                  | 100                             | 0                             | 29                          |
| Council Tax    | 83                          | 37                  | 38                              | 0                             | 84                          |
|                | <u>95</u>                   | <u>120</u>          | <u>138</u>                      | <u>0</u>                      | <u>113</u>                  |

## NOTES TO COLLECTION STATEMENT

### 1 Council Tax Base

| <b>Band</b>  | <b>Range of Values</b>           | <b>Number of Properties<br/>(Valuation List March<br/>2012)</b> | <b>Council Tax Base Band<br/>D Equivalents*</b> |
|--------------|----------------------------------|---|---|
| A*           | Adapted for disabled use         | 0   | 4   |
| A            | Up to £40,000                    | 3,478   | 1,918   |
| B            | Over £40,000 and up to £52,000   | 6,912   | 4,735   |
| C            | Over £52,000 and up to £68,000   | 3,744   | 3,000   |
| D            | Over £68,000 and up to £88,000   | 3,404   | 3,123   |
| E            | Over £88,000 and up to £120,000  | 2,299   | 2,643   |
| F            | Over £120,000 and up to £160,000 | 1,336   | 1,821   |
| G            | Over £160,000 and up to £320,000 | 914   | 1,442   |
| H            | Over £320,000                    | 90  | 164   |
| <b>Total</b> |                                  | <b>22,177</b>   | <b>18,850</b>                                   |

\* Used for the purpose of setting the Council Tax for 2011-12

### 2 Non Domestic Rates

|   |            |
|---|------------|
| Non Domestic Rateable Value at 31 March 2012              | 32,639,487 |
| Rate Multiplier for 2011-12 – up to and including £15,000 | 42.6       |
| – £15,001 and over  | 43.3       |

### 3 Precepts and Demands

|                                      |               |
|--------------------------------------|---------------|
|                                      | <b>£'000</b>  |
| Leicestershire County Council        | 20,037        |
| Leicestershire Police Authority      | 3,198         |
| Melton Borough Council               | 3,361         |
| Parish Councils                      | 429           |
| Leicestershire Fire & Rescue Service | 1,006         |
| <b>Total</b>                         | <b>28,031</b> |

### 4 Collection Fund Arrears

| <b>2010-11</b> |              |                         | <b>2011-12</b> |              |
|----------------|--------------|-------------------------|----------------|--------------|
| <b>£'000</b>   | <b>£'000</b> |                         | <b>£'000</b>   | <b>£'000</b> |
| 786            |              | Business Ratepayers     | 875            |              |
| -12            |              | Provision for Bad Debts | -29            |              |
| <hr/>          |              |                         | <hr/>          | 846          |
| 1,522          | 774          | Council Taxpayers       | 1,741          |              |
| -83            |              | Provision for Bad Debts | -84            |              |
| <hr/>          |              |                         | <hr/>          | 1,657        |
|                | 1,439        |                         |                | <hr/>        |
|                | <b>2,213</b> |                         |                | <b>2,503</b> |

### 5 Collection Rate

The collection rate for accounts raised in 2011-12 was 99.6% (2010-11 99.6%).

## **GLOSSARY OF FINANCIAL TERMS**

This section explains the technical terms that have been used throughout this document.

### **Accumulated Absences Account**

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

### **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**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

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

### **Actuary**

An expert on rates of death and insurance statistics, who assesses whether our pension fund is adequate.

### **Amortisation**

A reduction in the value of an intangible asset over time, due to wear and tear.

### **Balance Sheet**

A statement of all our assets, liabilities and balances at the end of the financial year.

### **Capital Adjustment Account**

This 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.

### **Capital Charges**

These are costs, such as depreciation, which we incur because we have spent money on non-current assets i.e. property, plant & equipment.

### **Capital Expenditure**

Expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing asset.

### **Capital Receipt**

Income from selling assets that have a long-term value and may be used to repay loan debt or to finance new capital expenditure.

### **Cash Equivalents**

These 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.

### **Cash-Flow Statement**

This is a statement which shows the changes in our cash and bank balances since we prepared the previous year's accounts. It also shows the changes in our other assets, liabilities and other accounts in our balance sheet.

### **Collection Fund**

A fund we use to show what happens to council tax and national non domestic rates (NDR) income.

### **Collection Fund Adjustment Account**

This 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.

### **Community Assets**

Assets we do not plan to sell and which have no definite useful life. Examples of community assets are parks and historic buildings.

## **Comprehensive Income and Expenditure Statement**

The account which reports the income and spending on our services.

### **Contingency**

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### **Contingent Asset**

Money that may be owed to us, but we cannot be certain of the exact amount.

### **Contingent Liability**

Money that we may owe, but we cannot be certain of the exact amount.

### **Corporate and Democratic Core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same activities. There is therefore no logical basis for apportioning these costs to services.

### **Creditors**

Money we owe for work, goods or services, which have not been paid for by the end of the financial year.

### **Current Assets**

These are the short-term assets we have at the date of our Balance Sheet, which we can use in the following year.

### **Current Liabilities**

These are the short-term liabilities we owe at the date of our Balance Sheet, which we will pay in the following year.

### **Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### **Curtailement**

For a defined benefit scheme, 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:

- a) termination of employees' services earlier than expected, e.g. as a result of discontinuing a service.
- b) 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..

### **Debtors**

Money that is owed to us, but it is not paid by the end of the financial year.

### **Deferred Contributions**

Amounts paid to us for future activities.

### **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investment of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **De Minimus**

This term relates to items not recognised on the Balance Sheet in accordance with the concept of materiality.

### **Depreciation**

The measure of the wearing out, consumption, or other reduction in the useful life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

### **Discretionary benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

### **Earmarked Reserves**

Money we set aside for a specific purpose.



**Expected Rate of Return on Pension Assets**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fair Value**

This is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

**Financial Instruments**

These can be defined as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Instruments Adjustment Account**

This account absorbs the timing differences arising from different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

**Formula Grant**

The money we receive from the Government for a revenue support grant and our share of NNDR.

**General Fund**

This is the main revenue fund of the Council. Precept income, NNDR income and government grants are paid into the fund, from which the cost of providing services is met.

**Gross Spending**

The total cost of providing a service.

**Heritage Assets**

A tangible heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Impairment**

A loss in the value of a non-current asset, arising from physical damage such as a major fire or a significant reduction in market value.

**Infrastructure Assets**

These are assets that only have a nominal value as we cannot sell them, e.g. roads, bridges, lighting, etc.

**Intangible Asset**

Non-current assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights (e.g. purchased software licences).

**Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investment Properties**

Interest in land/or buildings:-

- a) in respect of which construction work and development have been completed; and
- b) which is held for its investment potential, any rental income being negotiated at arm's length.

**IFRS (International Financial Reporting Standards)**

These are accounting standards adopted by the European Union and the basis on which these accounts are prepared.

**Leasing**

A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc.

There are two forms of lease:

- a) a finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

- b) an operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

**LGPS (Local Government Pension Scheme)**

This is the fund that pays and manages the pensions of our staff.

**Liabilities**

These are our debts and responsibilities.

**Liquid Resources**

This is money we have invested but which we can draw on quickly.

**Long Term Borrowing**

This relates to loans raised to finance capital spending which have still to be repaid.

**Minimum Revenue Provision (MRP)**

This is the amount we have to set aside, out of our revenue, to repay loans.

**Movement in Reserves Statement**

A reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.

**National Non-Domestic Rates (NNDR)**

This is a charge, which all businesses must pay for their premises. It is worked out by multiplying a property's rateable value by a nationally set multiplier. National Non-Domestic Rates are paid into a pool which the Government controls. This money is then shared between local authorities depending on the adult population in their area.

**Net Book Value**

The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for 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 its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net Realisable Value**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**Net Spending**

The cost of providing a service after we have taken into account income from government grants and fees and charges.

**Nominal Value**

Where an asset cannot be sold, it is given a very low value in the Balance Sheet to recognise that it has no resale value.

**Non-Current Assets**

Property, plant and equipment assets which are carried on the Balance Sheet.

**Non-Distributed Costs**

We must make an extra payment to Leicestershire County Council to maintain the value of the pension fund. Under the accounting rules, we do not get this cost back from our services.

**Non-Operational Assets**

Assets held by the Authority but not directly used for the provision of services, e.g. assets surplus to requirements, commercial properties and assets under construction.

**Operational Assets**

Assets that we use in our day-to-day activities for delivering our services to the public, e.g. the Council offices.

**Parish Council**

An organisation delivering some services within the parish boundary, rather than across the borough as a whole.

**Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Post Balance Sheet Events**

Those events, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is authorised, by the responsible financial officer, for issue.

**Precept**

A demand made by Leicestershire County Council, Leicestershire Police Authority, Leicestershire Combined Fire and Rescue Authority and Parish Councils for money they want us to collect for them from the Council Tax.

**Prior Year Adjustment**

If we make an important change to the accounts for earlier years we call this a 'prior year adjustment'. We must show the reasons for any prior year adjustments in the year we make them.

**Projected Unit Method**

An accrued benefits valuation 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:

- a) 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 dependants, allowing where appropriate for future increases, and
- b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

**Provision**

An amount set aside for any liabilities or losses of uncertain timing or amounts that have been incurred.

**Public Works Loan Board (PWLB)**

A government body from which local authorities may raise long term loans, usually at advantageous interest rates.

**Recharge**

The transfer of costs from one service to another.

**Reserve**

An amount set aside for purposes falling outside the definition of a provision.

**Restated**

We normally show the amounts that were in last year's accounts as the same figure, but where there is a change in the accountancy rules, we have to change last year's figure to meet the current rules.

**Revaluation Reserve**

This reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

**Revenue**

Expenditure that the Council incurs on the day to day running costs of its services including salaries, running expenses of premises and vehicles as well as the annual payment of capital charges. The expenditure is financed from charges for services, government grants and income from council tax and NNDR.

**Revenue Expenditure Funded from Capital under Statute**

Spending on assets that have a lasting value which we do not own e.g. grants to the community.

**Revenue Funding of Capital Expenditure**

The financing of capital expenditure by a direct contribution from the revenue budget.

**Settlement**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

- b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

**Specific Grants**

Grants paid by the government for a particular service e.g. Housing & Planning Delivery Grant and Disabled Facilities Grant.

**Surplus**

At the end of the year, if an account such as the Comprehensive Income & Expenditure Statement shows that we have received more income than we have spent, that account is known as being 'in surplus'.

**Tangible Assets**

Assets we plan to own or use for more than one year.

**Taxbase**

The number of houses that we can charge our Council Tax on.

**Termination Benefits**

These are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the Council.

**The Code**

The Code of Practice on Local Authority Accounting in the United Kingdom, which defines proper accounting practices for local authorities in the UK.

**Trading Undertakings**

Part of our activities where the service could also be provided by others outside the Council.

**Useful Life**

The period over which the Council will derive benefits from the use of a non current asset.



