ITEM NO: 20.00

TITLE	**Financial Statements 2011-12**
FOR CONSIDERATION BY	Audit Committee on 26th September 2012
WARD	None Specific
GENERAL MANAGER	Graham Ebers, General Manager Business Services
LEAD MEMBER	Anthony Pollock, Executive Member for Finance

OUTCOME

To demonstrate financial accountability and sound financial management

RECOMMENDATION

That the financial statements for 2011-12 and summary accounts for 2011-12 be approved.

SUMMARY OF REPORT

The financial statements for 2011-12 are attached. Summary accounts for 2011-12 will be tabled to the audit committee at the meeting on 26th September 2012.

The deficit on the provision of services, including the Housing Revenue Account (HRA) is £139.840m before adjustments (eg, capital financing and other statutory adjustments) to arrive at a net deficit of £78,000 for the General Fund and £43,000 for the HRA. The General Fund balance as at the 31st March 2012 is £9.243m and the HRA balance is £1.273m.

The Revenue Monitoring outturn report was presented to the Executive Committee in May 2012, and is summarised in the explanatory foreword to the financial statements, it shows that the Council underspent against its budget by £1.433m after carry forward requests.

The useable capital receipts reserve as at 31st March 2012 stand at £7.3m and the useable grants and contributions reserve stands at £22.4m, a further £18.6m is held under capital grants receipts in advance as these grants and contributions have conditions attached to them which dictate how they should be spent. These funds are available to fund the Council's capital commitments such as highways infrastructure improvements and schools capital expenditure.

The Housing Revenue Account deficit was £94.9m due to the self financing settlement paid to central government to buy ourselves out of the Housing Subsidy system. This is adjusted for through the movement on reserves statement leaving a balance of £1.273m after adjustments.

School balances have reduced slightly during the year to £6.5m as at 31st March 2012 from £6.8m the previous year. The Dedicated Schools Grant central reserve had a significant increase during the year to a surplus of £1.75m as at 31st March 2012.

The collection fund generated a surplus of £708,000 in year. This will be distributed between the major precepting authorities as part of the 2013/14 budget setting process.

Background

Each year the Audit Committee is asked to approve the financial statements of the Authority. The financial statements for 2011-12 are attached and an explanation of the key issues and changes affecting the financial position of the Council during the year are set out below.

Analysis of Issues

The income and expenditure for all services and functions, including the HRA and capital transactions are combined within the financial statements to form the income and expenditure account for the authority. The balance sheet provides details of all the assets and liabilities of the council and how it is financed.

The key issues that have impacted upon the financial statements in 2011/12 are as follows:-

- 2011/12 is the second time the Authority has had to prepare Group Financial statements to account for its interests in subsidiary companies. For 2011/12 the accounts have consolidated the accounts of Wokingham Enterprise Ltd and Optalis Ltd. Group accounts will expand in the future as the Authority moves to having more subsidiary companies. In 2012/13 Wokingham Housing Ltd will form part of the Authority's group.
- Financial Instruments – the Council impaired its investments in Icelandic banks following their collapse in 2008/09 in the last three year's financial statements. The impairment has been reviewed and significantly reduced following updated information and guidance during 2011/12. Details regarding the Council's loans and investments and the impairment are contained in notes 48 and 49 of the financial statements. Following the Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board of Landsbanki made a distribution to creditors in a basket of currencies in February 2012 and the prospects for future recovery have improved. The council has received £579,000 from the £2m (30%) invested in Landsbanki and expects to receive the remaining amount by December 2018. In relation to Heritable Bank, the council has received just over £2m (67.9%) of the £3m invested to date and expects to recover 88% of its investment by April 2013. Overall the impairment recognised in previous years has reduced by £1.9m in 2011/12 and this has been used to repay the interest equalisation fund reserve, which was reduced when the impairment was recognised in full in 10/11.
- Pensions – the deficit on the pension fund has significantly increased during the year due to actuarial losses on the scheme's assets and liabilities. The movements on the scheme are consistent with the national economic climate at present. Details regarding the pension fund and the movement in the pensions liability can be found in note 46 of the accounts. The triennial valuation undertaken in 2010/11 values the scheme using different assumptions to those used in the financial statements (which are based on IAS 19) and set contribution rates to bring the fund back into balance over the long term.
- Fixed Assets – a prior period adjustment has been made to plant, property and equipment to recognise the demolition of Waingels college over the last two years

prior to rebuilding and completion of the project in 11/12. In addition a further £66m of disposals have taken place in 11/12 relating to 3 secondary schools which have become Academies.

- Investments have significantly increased during the year, this is mainly due to the change in fund managers from Investec to Royal London Asset Management (RLAM) at the end of 2010/11. £16m of short term investments were recalled from Investec on the 31st March 2011 as the fund was closed down. Consequently the investments were included in the Council's cash in hand balances in the 2010/11 financial statements. As the investments were paid to the new fund manager in 2011/12, they are now included within the short term investments on the 2011/12 Balance Sheet.
- Long term borrowing has significantly increased by £86m during 2011/12. This is due to the external borrowing undertaken to help finance the HRA self financing settlement to central government in March 2012.
- An exceptional payment of £95m was made from the HRA to central government during 2011/12 for the self financing settlement. This was funded by £86m external borrowing and a £9m internal loan from the general fund. The transaction was adjusted for on the Statement of Movement in HRA reserves
- The balance on the General fund at the end of the financial year is £9.243m which is above the level of £7.3m identified by risk assessment to be the council's required level of balances.
- The Housing Revenue Account Surplus stands £1.3m after adjustments and is also above the level identified by risk assessment to be the council's required level of HRA balances.

The Accounts and Audit Regulations 2011 introduced a change in the approval process for local authority financial statements. The new regulations require the chief financial officer to approve the draft financial statements by the 30th June. Member approval (at WBC this is through the Audit Committee) is required by the 30th September after completion of the external audit on the accounts. The draft accounts were approved by Graham Ebers, Strategic Director of Resources (and Chief Finance Officer) on 27th June 2012. The draft financial statements were provided for information to Audit Committee members shortly afterwards. The audit of the financial statements is now complete and the auditor's conclusions are reported elsewhere on this agenda. The financial statements have been amended to reflect the audit findings and it is the final audited financial statements that the audit committee is asked to approve.

Reasons for considering the report in Part 2
None

List of Background Papers
Statement of Accounts working papers

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Date 16th September 2012	**Version No.** 1

WOKINGHAM
BOROUGH COUNCIL

WOKINGHAM
Borough Council

DRAFT

Statement of Accounts

For the Year Ended 31st March, 2012

WOKINGHAM
BOROUGH COUNCIL

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1. EXPLANATORY FOREWORD

This Statement of Accounts 2011/12 has been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (The Code) and is the second set of accounts to be based on the International Financial Reporting Standards (IFRS). The Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board.

The Code specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position of a local authority. It requires the publication of the following statements for Wokingham Borough Council:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cashflow Statement
- Housing Revenue Account
- Collection Fund
- Group Accounts
- Annual Governance Statement

A brief explanation of each statement, their purpose and the relationship between them is given below:

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories: usable reserves and unusable reserves.

a) Usable Reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve can only be used to fund capital expenditure or repay debt)
b) Unusable Reserves cannot be used to provide services. They include
   - reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold;
   - reserves that hold timing differences shown in the Adjustments between accounting basis & funding basis under regulations (Note 7) line in the Movement in Reserves Statement

Cash Flow Statement

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

Housing Revenue Account

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ringfenced from the rest of the General Fund so that rents cannot be subsidised from council tax or vice versa. The transactions relating to the HRA have been separated into the HRA Income and Expenditure Statement and the Movement on the HRA Statement. The Movement on the HRA is then consolidated into the Movement on Reserves Statement.

Collection Fund

The inclusion of a Collection Fund Statement within the Statement of Accounts is required for every council tax billing authority in England. The account reflects the statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and National Non-Domestic Rates (NNDR). The statement also shows the distribution of council tax income that Wokingham Borough Council collects on behalf of the other precepting authorities within the area: Thames Valley Police Authority, Royal Berkshire Fire Authority and the Parish and Town Councils of the borough. However, only Wokingham Borough Council's share of the Collection Fund is accounted for within the Comprehensive Income and Expenditure Statement and Balance Sheet.

Group Accounts

Where an authority has material interests in subsidiaries, associates and / or jointly controlled entities, there is a requirement to prepare group accounts.

Wokingham Enterprises Ltd (WEL) is a company wholly owned and set up by Wokingham Borough Council for the purpose of enabling the regeneration of the town centre of Wokingham. The 2011/12 accounts will be the second to incorporate summary group accounts for WEL which are presented in notes 53 to 60 of the Financial Statements. The main trading activity is that of property investment. The income is derived from the assets acquired in June 2010, which comprised a number of retail units collectively known as Peach Place.
Optalis Ltd is a company wholly owned and set up by Wokingham Borough Council to provide community care services to members of the public on behalf of the Council and to the private sector. The company was established 6th June 2011 and the 2011/12 accounts will be the first to incorporate summary account for Optalis Ltd.

Wokingham Housing Ltd is a company wholly owned and set up by Wokingham Borough Council to provide housing services to members of the public on behalf of the Council. The company was established January 2012 but was dormant in 2011/12, therefore it has not been consolidated in the Council's 2011/12 Group Accounts.

Annual Governance Statement

Local authorities are required to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. This provides assurance that the Statement of Accounts gives a true and fair view of the Council's financial position at the reporting date and its financial performance during the year. The Annual Governance Statement sets out the framework within which the control environment is managed and reports on areas of strengths and weaknesses.

Financial Performance

Following the Local Government Finance Settlement Wokingham Borough Council suffered a reduction in formula grant of 14.3%, the worst funding settlement since it became a Unitary Authority in 1998.

The housing revenue account subsidy system ended in April 2012. Under the Localism Act, the Council took control of its housing rental income thus enabling more effective planning for the long term management of these key assets. In return Wokingham took on its share of the £28bn national housing debt as part of the self financing settlement. The payment made in March 2012 to the Department of Communities and Local Government amounted to £95m.

The financial climate remains difficult with returns on investments being low. The Council has used funding to reduce its debt levels rather than investing with minimal returns.

Investment fund managers for 2011/12 were Royal London Asset Management and Scottish Widows Investment Partnership (SWIP). Investment returns for 2011/12 have been modest given the financial climate and low level of returns possible. The Council continues legal action with the Icelandic banks (Landsbanki / Heritable) although £2.618m of our £5m investment has been reimbursed to date.

General Fund Service Expenditure 2011/12

The following table analyses Wokingham Borough Council's outturn (actual) and budgeted net expenditure by service, as at 31st March, 2012:

Service	End of Year Position Approved Budget £,000	Outturn Actual £,000	Net Over / (Under) Spend £,000
Business Assurance & Democratic Services	(136)	(161)	(25)
Resources	10,682	10,407	(275)
Chief Executives Office	3,486	3,468	(18)
Children's Services	29,991	28,662	(1,329)
Community Care	39,087	39,016	(71)
Governance Services	335	293	(42)
Place and Neighbourhoods	30,922	30,699	(223)
Policy and Partnerships	2,814	2.025	(789)
Transformation	1,504	1,506	2
Net Expenditure before Carry Forwards	**118,685**	**115,915**	**(2,770)**
Approved Carry Forwards	0	1,337	1,337
Total Net Expenditure	**118,685**	**117,252**	**(1,433)**

To enable a clearer appraisal of the variances, the above table does not include grants and contributions, revenue expenditure funded from capital under statute or International Accounting Standards (IAS) 19 pension adjustments because these are all internal accounting adjustments. The approved budget includes new budget approvals (supplementary estimates) that have been agreed during the year.

The Statement of Accounts has been prepared in accordance with IAS 19 – Retirement Benefits. Although IAS 19 has not directly affected the net outturn position in 2011/12, the accounts show a net pension liability of £146m. This has increased from the 2010/11 liability of £94m due to in year actuarial losses. The deficit will be reviewed over the long-term as part of the next triennial actuarial valuation and, if necessary, will be addressed through increased employer and employee contributions to ensure the pension scheme returns to a 100% funding level over an appropriate period of time.

During 2011/12 the Council, as part of its 5 year rolling revaluation programme, has seen an increase in its value of land and buildings due to the revaluation of a number of properties. However, these increases have been offset by large disposals totalling asset values of £66m, of which £65m relates to 3 secondary schools which have now become Academies. The Council has also revalued all their investment properties and will continue to revalue these on an annual basis as per IFRS Guidelines. As a result, investment properties have, on balance, seen an increase in their value.

Early in October 2008, the Icelandic bank Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable, Kaupthing Singer and Friedlander went into administration. The Council had £5m deposited across two of these institutions, with varying maturity dates and interest rates at that time. Based on the latest information available and, in accordance with accounting practice, the Council considered that it was appropriate to consider an impairment adjustment for the deposits in its 2008/09 accounts. The impairment has been reviewed during 2011/12 in accordance with CIPFA guidance. In relation to Heritable bank (with whom the Council invested £3m) the authority has received information that it will recover a total of 88.00% by the end of April 2013 (the Council has received 67.90% to date). In relation to Landsbanki the

Authority now expects to recover 100% of its investment. It has received 30% to date and expects to recover the remainder by the end of December 2018.

The CIPFA Code of Practice for 2010 introduced IFRS and therefore the 2011/12 accounts are prepared in this format for the second time.

In 2011/12 the council adopted a change in accounting policy under FRS 30 – Heritage Assets. The adoption of this policy has been insignificant for Wokingham Borough Council. A review was carried out in 2011/12 for the identification of Heritage Assets. A small number were identified, however these fall below the Council's materiality level and therefore no assets have been recognised on the Council's balance sheet.

The outstanding balance of loans amounts to £134m. Additional borrowing during 2011/12 was due to the HRA self financing. The authorised borrowing limit was adjusted in the 12/13 strategy to accommodate this borrowing, and is now £190m.

The combination of long term and short term investments has seen a reduction of £7m in available funds during 2011/12. The reduction is attributable to the liquidation of funds in March 2012 to support the Public Works Loan Board (PWLB) borrowing for the HRA self financing.

Wokingham Enterprise Limited (WEL) is a wholly owned subsidiary of Wokingham Borough Council. Incorporated as a trading company in December 2009, the main trading activity is that of a property investment. The income is derived from the assets acquired in June 2010 comprising of a number of retail units collectively known as Peach Place. In 2011/12 group accounts have been prepared for WEL for the second time (see notes 52 to 58)

Optalis Ltd is a company wholly owned and set up by Wokingham Borough Council. The company was established June 2011, to provide community care services to members of the public on behalf of the Council and to the private sector.

2. ANNUAL GOVERNANCE STATEMENT 2011/12

1. Scope of Responsibility

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

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

1.3 Wokingham Borough Council has a local code of corporate governance (LCCG), which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". The LCCG was formally adopted by the Audit Committee on 27 July 2010. This statement explains how Wokingham Borough Council meets the requirements of the Accounts and Audit Regulations.

2. The Purpose of the Governance Framework

2.1 The governance framework comprises the systems, processes, procedures, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they not be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at Wokingham Borough Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

3. The Governance Environment in Place at Wokingham Borough Council

3.1 Establishing and monitoring the achievement of the Council's objectives

There has been significant focus on the Council's purpose and outcomes for service users and a new vision has been created. This incorporates developments for a new strap line, principles and priorities, which have now been finalised and approved by Council, and will begin to take effect for the coming year.

3.2 The corporate plan has not been operational during 2011/12 given the significant work undertaken in developing a new vision, but has now been refreshed on an interim basis and will be implemented in 2012/13.

3.3 The Council's performance management processes and guidance have been subject to review during 2011/12 and it is intended that performance indicators to address new corporate priorities will be developed in service areas as part of the service planning process for 2012/13. Performance will be reported on this basis rather than through a central performance management framework.

3.4 The Facilitation of Policy and Decision Making

The Council has a written constitution, as required by the Local Government Act 2000. For the financial year 2011/12 it was based on the Executive – Leader/Cabinet Model. The Executive acted collectively and as individuals in accordance with the relevant protocol agreed in 2006. In December 2010 the Council agreed to adopt, from May 2011, the new Leader/Cabinet Executive Model as set out in the Local Government and Public Involvement in Health Act 2007. The constitution is divided into sections which include articles which set out the basic rules governing the Council's business and more detailed procedures, codes of practice, rules of procedure and protocols. These include: Executive Procedures Rules; Overview and Scrutiny Procedures Rules; Members Code of Conduct; Protocol on Member/Officer Relations, Access to Information Procedure Rules as well as the Scheme of Delegation to Officers and the Council's Financial and Procurement Rules.

3.5 Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority. The Council publishes a forward plan and a schedule of meetings that provides a programme for Executive decisions. A major review of the constitution was completed and implemented in May 2006 with reviews and updates to the constitution undertaken on an annual basis thereafter. Members and officers can also propose changes throughout the year to the Council's constitution. All proposed changes are considered in advance of Council approval by the Constitution Review Working Group.

3.6 The Council has a robust decision making process which provides for both Executive and individual Executive decisions. Individual Executive decisions are taken in accordance with chapter 5.5 of the Council's constitution. All decisions are advertised and are supported by a formal public report which is produced five working days in advance of the decision being taken. All decision making meetings are public meetings. Both Executive and individual Executive decisions are subject to documented 'Call-In' arrangements.

3.7 Policy is considered and formulated by Executive Members of the Administration, who are advised by senior officers. Supported policies are presented to Executive/Council for formal approval.

3.8 The Council has designated the Director of Legal and Electoral Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service (Interim Chief Executive) and Chief Finance Officer (Strategic Director of Resources), the Monitoring Officer will report to Council if it is considered that any proposal, decision or omission would give rise to unlawfulness, or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No such report has been issued during the 2011/12 financial year.

3.9 The Chief Executive (Interim) and Strategic Director of Resources are part of the Council's Corporate Leadership Team (Previously the Legacy Operations Board) and have access to all decision making meetings. The Director of Legal and Electoral Services (Monitoring Officer) is not a member of the Corporate Leadership Team but usually attends those meetings when the Executive reports are discussed and cleared, to ensure the legal, financial and policy framework is adhered to.

3.10 Through reviews by external auditors, external agencies, internal audit and various working groups, the Council continually seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.11 The Service and Finance Planning Guidance provide a context of the level of savings and efficiencies required to achieve a politically acceptable level of council tax increase. Considerable focus is given to reducing costs through effective procurement, reducing staffing through process re-engineering and new technology and alternative cost effective methods of service delivery. Investment to save or contain escalating expenditure is strongly encouraged.

3.12 The submission and evaluation of bids for additional resources (capital and revenue) are laid out in the Service and Financial Planning Framework. Bids are scrutinised by senior officers and evaluated against corporate priorities and then used to inform Member decisions. There are plans to revise this process during 2012/13.

3.13 The Medium Term Financial Plan (MTFP) provides a strategic overview of the Council's financial position over a three year period to provide a longer-term view. It includes the Council's resources requirements and performance targets (outputs) over the medium term. It also includes a service narrative, financial risk analysis, reserve policies and covers both revenue and capital. The MTFP incorporates the financial plans with our key partners over a three year period. This process has been recognised and promoted by CIPFA as best practice and by the Audit Commission across Berkshire.

3.14 <u>The Financial Management of the Council and the Reporting of Financial Management</u>

The financial management arrangements of the Council are brought together in the Financial Regulations and Budget Management Protocol which identifies roles, responsibilities, policies, procedures and processes.

3.15 The Corporate Leadership Team considers revenue and capital budget monitoring reports on a monthly basis, as do Executive Leads. This is supplemented by an informal Member/Senior Officer group (known as the Special Finance Group) that takes an overview of the Council's finances and directs action as appropriate. Executive formally considers the revenue and capital budget monitoring reports quarterly. The Statement of Accounts produced at financial year-end is approved by the Audit Committee on behalf of the Council.

3.16 The financial management of the authority is conducted in accordance with the financial rules set out in Part 4 of the constitution (the Financial Regulations) and the Medium Term Financial plan (Budget Management Protocol). The Council has designated the Strategic Director of

Resources as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972. The Council has in place a three year Financial Strategy, updated annually to ensure resources are allocated effectively to best enable the delivery of the corporate priorities.

3.17 The Council maintains an Internal Audit function (part of the Business Assurance Section), which operates in accordance with the CIPFA and Chartered Institute of Internal Auditors International Standards. The Business Assurance Section reports quarterly to the Audit Committee on progress against the Internal Audit Plan and highlights any significant governance or internal control issues arising.

3.18 <u>The Performance Management System of the Council and the Reporting of Performance Management</u>

Performance management is laid out in the Performance Management Guidance. This is currently being revised and it is intended that performance management will no longer be a central function, but will be delivered through each service's service plan.

3.19 The Council prepares a series of performance reports on a monthly, quarterly and annual basis to provide a comprehensive picture of achievement. Whilst the Key Performance Indicator Report is still being produced, the Corporate Leadership Team are reviewing it's role given that it is intended that performance management be owned at a service level rather than through a central corporate function.

3.20 <u>The Risk Management of the authority and the Reporting of Risk Management</u>

A system is in place for the management of service and corporate risks. The process, roles and responsibilities of members, committees and staff are laid out in the Council's Enterprise Risk Management Policy. The Council has continued to embed an Enterprise Risk Management model for managing its risks (and opportunities) as detailed in its Enterprise Risk Management Strategy. A refresh of the Council's Risk Management Strategy & Policy will be required in 2012/13.

3.21 Members of the Audit Committee have received risk management training in year relevant to their role. Going forwards, refresher training is required for Senior Managers and Members of the Executive.

3.22 The Service and Financial Planning Guidance ensures that significant service and financial risks within the annual budget presented to Council for approval, are highlighted in the Chief Finance Officer's statutory report.

3.23 The Corporate Leadership Team has responsibility for the Corporate Risk Register and for refreshing this on a regular basis. This has been undertaken quarterly in the year. After each refresh, the Corporate Risk Register is presented to the Audit Committee and forwarded to Executive members for information and reference. All Strategic Directors/Directors are responsible for monitoring and co-ordinating risks in their service area and for producing a service risk register that is regularly refreshed and reviewed.

3.24 A Risk Management Group consisting of representatives from all service areas continues to meet quarterly. The group helps to facilitate the production and refresh of both service and team risk registers. The group is charged with collating the key and consistent risks from services, teams and projects and then communicating this information to their Service Management Teams and/or Corporate Leadership Team for possible inclusion in the relevant risk register. This ensures that risks are considered both vertically and horizontally. Going forwards it is planned that risk registers will be aligned to (and embedded within) service plans.

4. Review of Effectiveness of Wokingham Borough Council's Governance Framework

4.1 Wokingham Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by:

- the work of the Corporate Leadership Team, who have responsibility for the development and maintenance of the Council's governance environment;
- the Director of Business Assurance and Democratic Services' Annual Internal Audit Report; and
- comments made by the external auditors and other review agencies and inspectorates.

4.2 Responsibility for facilitating the production of the Council's Annual Governance Statement rests with the Director of Business Assurance and Democratic Services in liaison with the Corporate Governance Group. The draft Annual Governance Statement is considered by the Corporate Leadership Team and is subsequently reviewed and endorsed by the Audit Committee prior to presentation at Council as part of the audited financial statements.

4.3 The Internal Audit assurance levels on key areas of the internal control environment demonstrate that for 2011/12 a reasonable internal control framework has been maintained.

4.4 Review of the Effectiveness of the System of Internal Control

The Council has developed an Assurance Framework to maintain and review the system of internal control. Assurances are provided by a number of sources including Business Assurance Internal Audit and Investigations coverage, annual Management Assurance Statements, the Performance Management system, the Risk Management system, External Audit coverage and other external inspections (e.g. Ofsted and the Care Quality Commission).

4.5 The Director of Business Assurance and Democratic Services produces an Annual Internal Audit Report which is submitted to the Audit Committee and includes an opinion on the effectiveness of the system of internal control. The Internal Audit function is subject to review by External Audit (the Audit Commission) who place particular reliance on the Internal Audit work carried out on the Council's key systems.

4.6 Management Assurance Statements have been completed by the Council's 5 Strategic Directors and 3 Directors. All 8 Management Assurance Statements for 2011/12 have been agreed by the relevant Executive Lead Members and returned to the Corporate Governance Group for consideration as part of the process for compiling the Annual Governance Statement.

4.7 Review of the Effectiveness of Internal Audit

The Accounts and Audit (Amendment) Regulations 2009 require relevant bodies to review the effectiveness of their system of internal audit at least annually and to report this to their Audit Committee. A review of Internal Audit effectiveness was conducted in 2010/11 and concludes that Internal Audit is effective and complies with the Chartered Institute of Internal Auditors International Standards.

4.8 The review found that controls are in place to ensure the delivery of high quality risk-based Internal Audits and resources are used effectively to meet the assurance needs of the Council. The review made some recommendations on areas which can be strengthened, but none of these raised concerns over the effectiveness of Internal Audit. The review was reported to Audit Committee on 29 June 2011. A follow-up of this review was carried out in 2011/12 and identified that all areas of weakness had been addressed.

5. Significant Governance Issues at Wokingham Borough Council

5.1 The Council's Corporate Governance Group (tasked with drafting the Annual Governance Statement) has been consulted on the implications of significant issues raised during our review of the effectiveness of the governance framework and system of internal control.

5.2 Corporate Risks and Issues

5.2.1 The uncertainty created by the announced departure of the Chief Executive has presented a number of governance challenges and organisational direction was reduced. The appointment of an interim Chief Executive creates the risk of short-termism and instability. However, the early indications are that this risk is being effectively mitigated.

5.2.2 There has been significant organisational and structural change during the Transformation Programme, presenting a weakness around clarity of roles and responsibilities. This should be addressed in the coming year, as the structure becomes more stable and the structural review of governance services has been finalised.

5.2.3 The 2010/11 Internal Audit review of Performance Management Audit raised a number of recommendations relating to a new Performance Management Framework for the Council. This included development of the 'Golden Thread' and linking Performance Management to Corporate Priorities. The Council's vision and priorities were refreshed this year and an interim Corporate Plan has been devised. Nevertheless, in the absence of a robust service planning process clearly aligned to a Corporate Plan there remains significant gaps in the Council's Performance Management Framework as at 31 March 2012.

5.2.4 Following the Council's implementation of smart working during 2011/12 there has been an increased risk of confidentiality issues and data security breaches (involving ICT and/or hard copy papers). Management has ensured that positive action has been taken to minimise this risk, but there remains a significant risk that breaches have occurred and have gone undetected. There is also unmitigated opportunity for confidentiality issues and security breaches to transpire.

5.2.5 As part of corporate project undertaken during 2011/12 it was identified that there is a lack of a standardised competitive dialogue procedure. This is in the process of being taken forward.

5.3 Service Risks and Issues

5.3.1 Resources: A significant control review and investigation was conducted in Property Services at the request of the Strategic Director of Resources. This resulted in the need to increase controls and undertake other management interventions. Considerable improvements and actions are now in place with an ongoing working group (including Business Assurance) to help ensure all actions are completed and embedded in the service (with organisational solutions put in place where appropriate). It is expected that all control issued identified in the Property Service reviews are to be addressed through this group. Many actions have already been completed and where they have not been fully implemented to date, alternative controls are in place.

5.3.2 Business Assurance & Democratic Services: Although good progress has been made, there remains an issue around some of the Members not taking up the training and development opportunities offered to them. A Member/Officer Working Group has been formed to deal with this issue.

5.3.3 Business Assurance & Democratic Services: Capacity and resources to undertake the Scrutiny function effectively remains a concern; the function has expanded to include scrutiny of partner organisations and there has been no increase in current resources. There also remains a lack of corporate engagement in the Scrutiny function.

5.3.4 Transformation: An audit of Programme and Project Management was undertaken in 2010/11 and work has been ongoing during 2011/12 to implement organisation-wide recommendations to address Programme and Project Management weaknesses. This includes strengthening and embedding project risk and issues management, which is important in the overall implementation of the Council's vision and priorities.

5.4 Overall, internal controls are robust, although given the issues outlined above there is scope to further strengthen the Council's internal control environment and overall assurance framework.

5.5 We propose over the coming year to take steps to address the above matters to further develop the Council's governance arrangements. The governance disclosures contained in this Annual Governance Statement will be managed via the appropriate risk register in accordance with the Council's Risk Management Strategy. This will provide for more accountability, reduced bureaucracy and further embed enterprise risk management.

Signed:

Leader of the Council: **Date:**

Chief Executive: **Date:**

WOKINGHAM BOROUGH COUNCIL

3. STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

The Responsibilities of the Strategic Director of Resources

The Strategic Director of Resources, in his capacity as the S151 Officer, is responsible for the preparation of the Council's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in United Kingdom, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March, 2012.

In preparing this Statement of Accounts, the Strategic Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- complied with the Code of Practice.

I hereby certify that the Statement of Accounts on pages 14 to 124 presents a true and fair view of the financial position of the Wokingham Borough Council at the accounting date and its income and expenditure for the year ended 31 March, 2012.

Signature:
G.M.Ebers
Strategic Director of Resources
Date: 26th September, 2012

Signature:
Philip Mirfin
Chairman of the Audit Committee
Date: 26th September, 2012

4. STATEMENT OF ACCOUNTING POLICIES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003. They are required to be prepared in accordance with proper accounting practices.

This Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners 2011/2012 (the Code). The statements comply with the CIPFA Best Value Accounting Code of Practice 2011/12 (BVACOP).

The Statements reflect the requirements of International Financial Reporting Standards (IFRS) by adopting the core accounting principles and concepts of:

- **Accruals Basis** – other than the Cash Flow Statement, the financial statements have been prepared on an accruals basis and report transactions that have been recorded in the accounting period for which the goods and services were received or supplied rather than in which the cash was received or paid

- **Going Concern** - the financial statements have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future

- **Understandability** – the statements have been prepared to ensure they are as easy to understand as possible

- **Relevance** - the financial statements provide information about the Council's performance and position that is useful to the users of the accounts to assess the stewardship of public funds and for making economic decisions

- **Reliability** – the financial information faithfully represents the substance of the transactions, the activities underlying them and other events that have taken place, are free from deliberate or systematic bias and material error, are complete within the bounds of materiality and cost and have been prudently prepared

- **Comparability** – the information has been prepared consistently and with adequate disclosures so that it can be compared with prior years and other local authorities

- **Materiality** – the statements disclose items of a certain size and nature such that they provide a fair presentation of the financial position and transactions of the Council

- **Legality** – where the accounting principles and specific legislation requirements are in conflict, the financial statements have been prepared to reflect legislative requirements

3.1 Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services
- Supplies and services 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 stocks on the Balance Sheet
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Where payments are made or received in advance of a service being provided or received a payment or receipt in advance is recognised as a debtor or creditor in the Balance Sheet
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure

3.2. Acquired Operations

The Council does not have any acquired operations.

3.3. Discontinued Operations

The Council does not have any discontinued operations.

3.4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of less than 24 hours.

Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with little risk of change in value.

3.5. Exceptional Items

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

3.6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Adjustments applicable to prior years arising from changes in accounting policies are accounted for by restating the comparative figures for the preceding period and by adjusting opening balances as if the new policy had always been applied.
Changes in accounting estimates are accounted for in the current and future years affected by the change but do not give rise to a prior year adjustment.

Material errors are corrected retrospectively by restating the comparative figures for the preceding period and by adjusting the opening balances.

3.7. Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts to record the cost of holding fixed assets during the year:

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

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

3.8. Employee Benefits

i. Benefits Payable During Employment

Short term employee benefits are those to be settled within 12 months of the year end, for example wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits such as cars. They are charged to the accounts in the period within which the employees worked. An accrual is made for the cost of any leave earned but not taken before the year end and which can be carried forward by the employee into the next financial year. The accrual is made at the wages and salaries rate in the new financial year *as that will be when the employee will benefit. The charge is made to the Surplus or Deficit* on the Provision of Services in the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement, allowing the benefit to be charged to revenue when the leave occurs.

ii. Termination Benefits

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 are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement.

Termination benefits involving pension enhancement are required by statutory provisions to be charged to the General Fund balance on the basis of the amount payable by the Council to the pension fund or the pensioner in the year not the amount calculated according to relevant accounting standards.

Appropriations are required to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for pension enhancement termination benefits and to replace them with debits for the cash paid to the pension fund, the pensioners and any amounts payable but unpaid at the year end.

***iii.* Post Employment Benefits**

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

- The Teacher's Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)

- The Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Council

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The arrangements for the teacher's scheme mean that liabilities for these benefits cannot be specifically identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme with no liability for future payments of benefits recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the DfES in the year.

Local Government Pension Scheme
The Local Government Pension Scheme provides members of the scheme with defined benefits related to pay and service. The level of the employer's contribution is determined by triennial actuarial valuation. The latest review was undertaken as at 31st March 2010. Under Superannuation Regulations, the contribution rates are set to meet all the liabilities of the fund.

The Balance Sheet includes a Pension Reserve which includes the attributable share of the funds assets and liabilities that relate to the Council. Employer contributions will be adjusted in future years to account for any projected deficit.

The liabilities of the pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 6.7% (based on the indicative rate of return on Merrill Lynch Non Gilt Sterling AA over 15 year Corporate Bond Index).

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The valuation of quoted securities for the pension scheme is based on bid price rather than mid-market value.

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

- current service cost – the increase in liabilities as result of years of service earned this year is allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities are 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 or directly to pensioners 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, pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension 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 has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued 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.

Details of the methods adopted in the valuation of scheme assets and liabilities are set out in the notes to the Balance Sheet.

3.9. Events After the Balance Sheet Date

These are events both favourable and unfavourable, which occur between the end of the Balance Sheet date and the date when the Statement of Accounts is authorised for issue:

- **Adjusting Event**
  The Statement of Accounts is adjusted to reflect events where there is evidence that conditions existed at the Balance Sheet date
- **Non-Adjusting Event**
  Where an event is indicative of conditions that arose after the Balance Sheet date, the Statement of Accounts are not adjusted. However, the following will be disclosed for each material category of non-adjusting event:
  - the nature of the event, and

- an estimate of the financial effect, or a statement that such an estimate cannot be made reliably.

The date when the Statement of Accounts was authorised for issue and who gave the authorisation is disclosed in the notes to the accounts.

3.10. Financial Instruments

i. Financial Liabilities

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

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

The Council does not issue bonds.

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.

ii. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and / or do not have fixed or determinable payment

a. Loans and Receivables

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

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

Sometimes the Council may make loans at less than market rates. These are called soft loans. Due to the low value of advances made which may be considered as soft loans, the Council applies de mimimis principles to soft loans.

b. Available for Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain / loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the 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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

3.11. Foreign Currency Translation

Income and expenditure arising from a transaction denominated in a foreign currency is translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. If the rates do not fluctuate significantly, an average rate for a period is used as an approximation. Where the transaction is to be settled at a contracted rate, that rate is used.

At each Balance Sheet date, monetary assets and liabilities denominated in a foreign currency are reconverted at the spot exchange rate at 31st March or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

3.12. Government Grants and Contributions

Whatever their basis of payment, government grants and other contributions or donations are accounted for on an accruals basis. They are recognised on the relevant service line or the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement once the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where conditions have not been satisfied, the grant or contribution is carried in the Balance Sheet as a creditor.

Capital grants credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund Balance in the Movement in Reserves Statement. Grants which have not yet been used to finance capital expenditure are posted to the Capital Grants Unapplied reserve. When an amount in the Grants Unapplied Reserve is applied to fund capital expenditure, it is posted to the Capital Adjustment Account. There is no deferral of grant expenditure to match against the depreciation of the underlying asset the grant was used for.

Donated assets transferred to the Council for nil consideration are recognised at fair value in the Comprehensive Income and Expenditure Statement once any conditions attaching to them have been met.

i. **Business Improvement District (BID) Schemes**
   BID schemes are projects that apply across the whole of the Council that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers. The Council is not involved in a BID scheme.

3.13. Intangible Assets

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Council's business or which arise from contractual or other legal rights. They are recognised where they have a cost in excess of £10,000, where it is probable that future economic benefits will flow to, or service potential be provided to, the Council and where the cost of the asset can be measured reliably. Where internally generated assets are held for service potential, this involves a direct contribution to the delivery of services to the public.

Internally generated assets are capitalised only where all of the following can be demonstrated by the Council:

- technical feasibility of completing the asset so it will be available for use or sale;
- intention to complete the asset;
- ability to use or sell the asset;
- how the asset will generate future economic or service delivery benefits (by demonstrating a market for the asset or the usefulness of the asset;
- availability of adequate resources are to complete the asset; and
- ability to measure reliably the expenses attributable to the asset during the development phase only (research expenditure cannot be capitalised)

Software which is integral to the operation of hardware (e.g. an operating system) is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware (e.g. application software licences), is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

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

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management. Subsequently intangible assets should be recognised at fair value measured by reference to an active market. However, the types of intangible assets held by the Council are very unlikely to have readily ascertainable active market values so they are carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The useful economic lives of intangible assets disclosed in the Balance Sheet have been determined individually and range between 2 and 20 years. Most typically, 5 years is used as the average life for software. Useful lives are reviewed at the end of each reporting period and revised if necessary.

An asset is tested for impairment whenever there is an indication that the asset might be impaired:

- at the end of the first full financial year following the acquisition, and
- in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable
- Intangible assets that are not amortised over a period are reviewed for impairment at the end of each reporting period

Any losses recognised as a result of impairment are treated as follows:

- Where there is a balance of revaluation gains for 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

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

The reversal of an impairment loss is only recognised in the Comprehensive Income and Expenditure Statement if the value is directly attributable to the reversal of the event which caused the original impairment loss. 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 the Capital Receipts Reserve for any sale proceeds greater than £10,000.

i. Landfill Allowances

Under the Waste and Emissions Trading Act 2003, the Council as a waste disposal authority is issued with landfill allowance permits on an annual basis for the amount of biodegradable waste that it is allowed to landfill. If the amount of biodegradable waste sent to landfill exceeds the allowance in any one year then additional permits are required to be purchased from other authorities or a cash penalty is paid to the government for the shortfall. The scheme is known as a 'cap and trade scheme'.

The fair value of allowances held by the Council (whether issued by the government or purchased from another authority) is recognised as an intangible current asset within the Balance Sheet. The fair value of allowances issued by the government is recognised as a government grant and accounted for in accordance with paragraph 12; (i.e., it is initially recognised as deferred income on the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated). The fair value of allowances is taken as the present market value at the Balance Sheet date.

The value of allowances after the initial recognition is measured at the lower of cost and net realisable value.

An estimate of expenditure required to settle the obligation to deliver allowances equal to the biodegradable and municipal waste landfill usage to the government is recognised as a liability (provision) on the Balance Sheet. The value of the provision is measured as the present market value at the Balance Sheet date of the number of allowances required to be delivered to the government and/or the cash penalty required for any shortfall in allowances.

3.14. Interests in Companies and Other Entities

The Council has some small interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded in the Balance Sheet if the company has share capital, as financial assets at cost less any provision for losses. The Council records the name, business, shareholding, net assets and results of operations and other financial transactions of any related companies including cross-reference to where the accounts of the related companies may be acquired.

3.15. Inventories and Long-Term Contracts

Inventories held by the Council will be included in the Balance Sheet at the lower of cost and net realisable value. At present the Council has no holdings of this nature.

A long-term contract is 'A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods'. Long-term revenue contracts are charged to services in the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year and long-term capital contracts are charged to capital on the basis of the valuation certificate.

3.16. 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 revalued annually, according to market conditions at the year end. Gains and losses on revaluation or disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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 the Capital Receipts Reserve for sale proceeds above £10,000.

3.17. Jointly Controlled Operations and Jointly Controlled Assets

The Council is involved in arrangements with public sector partners to engage in joint activities that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and its partners, with the assets being used to obtain benefits for the partners. The Council accounts only for its share of the assets, liabilities, income, expenditure and cashflows held within the jointly controlled operations within its financial statements.

3.18. 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, they 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.

i. The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.
Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, at the lower of its fair value at inception or the present value of the minimum lease payment, matched by a liability for the obligation to pay the lessor – the liability is written down as the rent becomes payable), and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Assets recognised under finance leases are accounted for using the policies applied generally to Property, Plant and Equipment, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

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

Operating Leases

Where assets are acquired by the Council (as a lessee) under operating leases, the leasing rentals payable are charged to the revenue accounts of those services that use the assets as they are made.

Any hire purchase contracts that have similar characteristics to an operating lease are accounted for as an operating lease and disclosed in a note to the Balance Sheet.

ii. The Council as Lessor

Finance Leases

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

Operating Leases
An asset held by the Council for use in operating leases by a lessor is retained in the Balance Sheet and depreciated over its useful life. Rental income from operating leases, excluding charges, is recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as income is received.

This policy is a departure from the Code which states that rentals receivable should be charged to revenue on a straight-line basis over the term of the lease, even if this does not match the pattern of the payments. The Council believes that this departure from the Code is not material.

3.19. Overheads and Support Services

The costs of overheads and support service costs (e.g., legal, human resources and finance) are charged to all 'front line' services (i.e., services to the public) in accordance with the costing principles of SeRCOP. The total absorption costing principle is used in that the full cost of overheads and support services are shared between users in proportion to the benefit received with the exception of the following which are not charged to front line services:

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

3.20. Property, Plant and Equipment (PPE)

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.

i. Recognition

Items of PPE that qualify for recognition will be measured at cost and capitalised on an accruals basis. Cost is defined as either purchase price, costs attributable to bringing the asset to location and condition necessary for it to be capable of operating in the manner intended by management or the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

ii. De-Minimis

Capitalisation of expenditure on PPE is not necessary where the amounts involved are not material to the true and fair presentation of the financial position and transactions of the authority and to an understanding of the Statement of Accounts by a reader. The Council has agreed a de-minimis level of £10,000 for expenditure to be capitalised, with the exception of capital works for schools where the de-minimis level is £1,000.

iii. Measurement

Assets will be disclosed and valued on the Balance Sheet on the following bases:

Asset Category	Valuation Method
Assets under Construction	Depreciated Historic Cost
Community Assets	Depreciated Historic Cost
Council Dwellings	Fair Value (Existing Use Value – Social Housing) EUV-SH
Heritage Assets	Individual Asset Valuation
Infrastructure Assets	Depreciated Historic Cost
Investment Properties	Fair Value
Other, Land and Buildings	Fair Value (Existing Use Value) EUV
Vehicles, Plant and Equipment	EUV (DRC*)
Surplus Assets	Fair Value (Existing Use Value) EUV

* Depreciated Replacement Cost (DRC) will be used if Existing Use Value (EUV) cannot be determined.

A full valuation of a property is conducted by the Council's internal valuer, Mr. A. Spicer, the Council's Estates Unit Manager and also a Professional Member of the Royal Institution of Chartered Surveyors (RICS). The valuations have been prepared in accordance with the Practice Statements and UK Practice Statements contained in the RICS Appraisal and Valuation Standards.

The asset valuations have been prepared using the following assumptions:-

a) The Council has good title free from encumbrances;
b) There are no hazardous substances or latent defects in the properties and there is no contamination present;
c) The properties have permanent planning permission and any other necessary statutory consent for their current use;
d) Plant and machinery is included in the valuation of the property, where applicable;
e) No special circumstances beyond those likely to be considered by a prospective purchaser in the open market have been taken into account;
f) No allowance has been made for any liability to taxation, which may arise on disposal, nor for costs of acquisition or realisation.
g) All transactions agree with the Council's de-minimis level

Not all properties were specifically inspected for the purpose of asset valuations. This was neither practicable, nor considered by the valuer to be necessary, for the purpose of the valuation. However, regular inspections are made by members of the Property Section of all the Council's property assets. The inspections and report do not purport to be a building survey.

The Council operates a 5 yearly revaluation for all assets, with the exception of Council Dwellings and Investment properties which will be reviewed on an annual basis as per the Code's requirements.

Any changes in valuation will be recorded in the balance sheet as per the accounting guidelines outlined in the Code.

iv. Depreciation

Depreciation is provided for on all Property Plant and Equipment with a finite useful life, which is determined at the time of acquisition or revaluation. An exception is made for assets without a determinable useful life (e.g. freehold land and some community assets) and assets not yet available for use (e.g. assets under construction). The useful lives of assets are estimated on a realistic basis and are reviewed regular and, where necessary, revised. Where the useful life of a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining useful life.

Depreciation is calculated on the amount at which the asset is included in the Balance Sheet, whether current cost or historical cost. Depreciation has been calculated as follows:

- All assets are depreciated on straight line basis over the useful life of the asset taking into account land value and residual value with the exception of Vehicles which are depreciated on a reducing balance method.
- Investment Properties are not depreciated as per the Code's guidance; instead these are revalued on an annual basis.
- Assets under construction are also exempt from depreciation requirements as the asset is treated as non-operational and therefore only depreciated once the asset becomes operational.
- Community assets are also exempt from depreciation requirements as a determinable finite useful life cannot be obtained.

A change from one method of providing depreciation to another is only made where the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the fixed asset is depreciated using the revised method over the remaining useful life, beginning in the period in which the change is made.

v. Impairment

The value at which each category of assets is included in the Balance Sheet is reviewed at each year-end. Where there is reason to believe that its value has changed materially in the period, the recoverable amount of the asset is estimated and where this is less than the carrying amount, an impairment loss is recognised for the shortfall. Events and changes in circumstances that indicate a reduction in value may have incurred include:

- a significant decline in an asset's market value during the period
- evidence of obsolescence or physical damage to the asset
- a significant adverse change in the statutory or other regulatory environment in which the Council operates
- a commitment by the Council to undertake a significant reorganisation.
  Where impairment losses are identified, they are accounted for as follows:
- Where there is a balance of revaluation gains for 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
- If there is insufficient or no balance in the Revaluation Reserve , the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

vi. Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered through a sale rather than continuing use, it is reclassified as an Asset Held for Sale only if the following criteria is met:

a) The asset must be available for sale in its present condition subject to terms that are usual and customary for sales of such assets.
b) The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
c) The asset must be actively marketed for a sale at a price that is reasonable in relation to the current value.
d) The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Immediately before reclassification it is revalued and carried at the lower of this figure 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 losses previously recognised in the Surplus or Deficit on Provision of Services. Assets Held for Sale are not depreciated.

If an asset no longer meets the criteria to be classified as Assets Held for Sale, they are classified back to non-current assets 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 if they had not been classified as Held for Sale) and their recoverable amount at the date of the decision not to sell. Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an item of Property, Plant, Equipment or Asset Held for Sale is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal.

Amount received in excess of £10,000 are categorised as capital receipts. The proportion that is required to be paid over to Central Government for housing disposals is appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

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

3.21. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. The Council has one PFI contract with Reading and Bracknell Councils for waste disposal under the RE3 Partnership. The Council receives the benefit of the services that are provided under its PFI scheme and ownership of the property, plant and equipment will pass to the partnership at the end of the contract for no additional charge. The Council carries its share of the property, plant and equipment used under the contracts on the Balance Sheet.

The original recognition of these assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge of 6.9% on the outstanding Balance Sheet liability, debited to Financing and Investment Income line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – Proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

3.22. Provisions, Contingent Liabilities and Contingent Assets

i. Provisions

Provisions are made for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:

- the Council has a legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefits or service potential will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events. When payments for expenditure are incurred to which the provision relates they are charged direct to the provision carried in the Balance Sheet. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation (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 expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised as income for the relevant service only when it is virtually certain that reimbursement will be received if the obligation is settled.

In the case of a provision for bad or doubtful debts, the carrying amount of debtors is adjusted and known uncollectable debts are written off.

ii. Contingent Liabilities

Contingent liabilities are not recognised in the accounting statements; they are disclosed by way of notes if there is a possible obligation that may require a payment or a transfer of economic benefits. For each class of contingent liability, the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement will be disclosed.

iii. Contingent Assets

Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. The disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

3.23. Reserves

Transfers to and from reserves are distinguished from service expenditure. The movements in reserves available to this Council are detailed in a note to the financial statements. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so there is no net charge against council tax for the expenditure.

Capital reserves are not available for revenue purposes and some of them can only be used for specific statutory purposes. The Revaluation Reserve and Capital Adjustment Account are non-distributable reserves. The Capital Receipts Reserve is a reserve established for specific statutory purposes.

The Major Repairs Reserve is required by statutory provision to be established in relation to the HRA in England.

3.24. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure classified as capital under statute, formerly known as deferred charges, represents expenditure that may be capitalised but does not result in the creation of non-current assets. The expenditure has been charged 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 there is no impact on the level of council tax.

3.25. VAT

VAT payable is included as an expense, whether of a capital or revenue nature, only to the extent that it is irrecoverable. VAT receivable is excluded from income.

3.26. Group Accounts

The Code requires the Council to consider all their interests and to prepare a full set of group accounting statements where they have material interests in subsidiaries, associates and joint ventures. The Council has investigated all potential interests that could qualify for group accounts and has determined it has three group relationships which qualify for the preparation of group accounts.

Wokingham Enterprises Ltd is a wholly owned subsidiary of Wokingham Borough Council set up for the purposes of enabling the regeneration of the town centre of Wokingham and specifically for the purchase of land and buildings, such as Peach Place, within the town centre for redevelopment. The company operates the same financial year and under the same accounting policies as Wokingham Borough Council.

Optalis Ltd is a wholly owned subsidiary of Wokingham Borough Council set up to provide community care services to members of the public on behalf of the Council and to the private sector. The company was established June 2011 and the 2011/12 accounts will be the first to incorporate summary account for Optalis Ltd.

Wokingham Housing Ltd is a wholly owned subsidiary of Wokingham Borough Council set up for the purposes of increasing the provision of affordable housing within the Wokingham Borough through redevelopment and housing services to the community. The company was established January 2012 but was dormant in 2011/12 therefore the 2012/13 accounts will be the first to incorporate summary accounts for Wokingham Housing Ltd.

5. FINANCIAL STATEMENTS

MOVEMENT IN RESERVES STATEMENT

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Schools & Dedicated Schools Grant Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total WBC Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance at 31st March, 2011 brought forward	(9,322)	(4,137)	(1,316)	(7,351)	(9,721)	(338)	(6,658)	(38,844)	(578,841)	(617,683)
Movement in Reserves during 2011/12:										
(Surplus) or Deficit on the Provision of Services	44,884	0	94,956	0	0	0	0	139,840	0	139,840
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	29,231	29,231
Total Comprehensive Income and Expenditure	44,884	0	94,956	0	0	0	0	139,840	29,231	169,071
Adjustments between Accounting Basis & Funding Basis under Regulations (note 7)	(51,047)	0	(94,913)	0	2,360	307	(15,760)	(159,053)	159,053	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(6,163)	0	43	0	2,360	307	(15,760)	(19,213)	188,285	169,071
Transfers to/from Earmarked Reserves (Note 8)	6,242	(5,338)	0	(903)	0	0	1	0	0	0
(Increase) / Decrease in 2011/12	78	(5,338)	43	(903)	2,360	307	(15,761)	(19,213)	188,285	169,071
Balance at 31st March 2012 carried forward	(9,243)	(9,475)	(1,273)	(8,255)	(7,362)	(31)	(22,419)	(58,057)	(390,556)	(448,613)

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Schools & Dedicated Schools Grant Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total WBC Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance at 31st March, 2010 brought forward - Restated	(7,916)	(4,654)	(1,305)	(4,756)	(4,613)	(1,181)	(1,687)	(26,112)	(591,753)	(617,864)
Movement in Reserves during 2010/11 – RESTATED:										
(Surplus) or Deficit on the Provision of Services	(18,239)	0	49,630	0	0	0	0	31,391	0	31,391
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(30,919)	(30,919)
Total Comprehensive Income and Expenditure	(18,239)	0	49,630	0	0	0	0	31,391	(30,919)	472
Adjustments between Accounting Basis & Funding Basis under Regulations (Note 7)	14,755	0	(49,641)	0	(5,108)	843	(4,971)	(44,122)	43,832	(290)
Net Increase / Decrease before Transfers to Earmarked Reserves	(3,484)	0	(11)	0	(5,108)	843	(4,971)	(12,731)	12,913	(108)
Transfers to/from Earmarked Reserves (Note 8)	2,078	517		(2,595)	0	0	0	0	0	0
Increase / Decrease in 2010/11	(1,406)	517	(11)	(2,595)	(5,108)	843	(4,971)	(12,731)	12,913	182
Balance at 31st March 2011 carried forward	(9,322)	(4,137)	(1,316)	(7,351)	(9,721)	(338)	(6,658)	(38,842)	(578,841)	(617,683)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2010/11				2011/12		
Gross Expenditure £,000	Gross Income £,000	Net Expenditure £,000		Gross Expenditure £,000	Gross Income £,000	Net Expenditure £,000
3,353	(3,327)	26	Central Services to the Public	3,039	(2,468)	571
6,999	(1,455)	5,544	Cultural and Regulated Services	6,742	(1,600)	5,142
14,441	(473)	13,968	Environmental and Regulatory Services	15,545	(1,835)	13,710
5,734	(2,811)	2,923	Planning Services	5,300	(2,219)	3,081
192,153	(146,801)	45,353	Education and Children's Services	167,214	(139,714)	27,500
15,210	(2,546)	12,664	Highways and Transport Services	15,717	(3,347)	12,371
13,809	(14,697)	(888)	Local Authority Housing (HRA)	13,149	(13,746)	(597)
29,304	(27,404)	1,900	Other Housing Services	29,801	(29,109)	692
56,229	(16,405)	39,824	Adult Social Care	55,486	(17,163)	38,323
26,743	(1,474)	25,269	Exceptional Costs (Note 5)	95,486	(91)	95,395
7,582	(3,816)	3,766	Corporate and Democratic Core	4,369	0	4,369
1,641	2,545	4,186	Non-distributed Costs	(2,440)	0	(2,440)
373,197	**(218,663)**	**154,534**	**Cost of Services**	**409,408**	**(211,290)**	**198,117**
		0	Acquired Operations			0
		2,761	Other Operating Expenditure (Note 9)			68,734
		9,377	Financing and Investment Income and Expenditure (Note 10)			2,551
		(135,281)	Taxation and Non-specific Grant Income (Note 11)			(129,562)
		31,391	**(Surplus) or Deficit on Provision of Services**			**139,840**
		7,885	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets			(20,359)
		(38,804)	Actuarial (Gains) / Losses on Pension Liabilities			49,590
		(30,919)	**Other Comprehensive Income and Expenditure**			**29,231**
		472	**Total Comprehensive Income and Expenditure**			**169,071**

BALANCE SHEET

1st April, 2010 Restated	31st March, 2011 Restated		Notes	31st March, 2012
£,000	£,000			£,000
804,893	737,273	Property, Plant & Equipment	12	690,440
24,095	27,460	Investment Property	15	28,272
748	690	Intangible Assets	13	1,476
7,966	12,479	Long Term Investments	48	13,592
11	4	Long Term Debtors	48	2
837,713	**777,906**	**Long Term Assets**		**733,782**
5677	5,106	Short Term Investments	48	19,291
0	0	Assets Held for Sale	20	149
0	0	Inventories	16	0
268	0	Intangible Current Assets		0
16,558	12,507	Short Term Debtors	18	18,433
31,730	37,208	Cash and Cash Equivalents	19	21,399
54,233	**54,821**	**Current Assets**		**59,272**
(3,171)	(2,508)	Cash and Cash Equivalents	19	(4,915)
0	0	Short Term Borrowing	48	0
(30,828)	(29,061)	Short Term Creditors	21	(27,269)
(5,918)	(5,493)	Provisions	22	(3,510)
(39,917)	**(37,062)**	**Current Liabilities**		**(35,694)**
0	0	Long Term Creditors	48	0
(48,046)	(48,083)	Long Term Borrowing	48	(134,752)
(10,286)	(10,003)	PFI and Finance Lease Liabilities	48	(9,669)
(147,011)	(93,941)	Pensions Liability	46	(145,700)
0	0	Other Long Term Liabilities		0
(28,819)	(25,955)	Capital Grants Receipts in Advance	38	(18,626)
(234,162)	**(177,982)**	**Long Term Liabilities**		**(308,747)**
617,867	**617,683**	**Net Assets**		**448,613**
(26,114)	**(38,842)**	**Usable Reserves**	**23**	**(58,057)**
(591,753)	**(578,841)**	**Unusable Reserves**	**24**	**(390,556)**
(617,867)	**(617,683)**	**Total Reserves**		**(448,613)**

CASH FLOW STATEMENT

2010/11 Restated £,000		Notes	2011/12 £,000
31,391	Net (Surplus) or Deficit on the Provision of Services		139,840
(72,820)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-cash Movements		(73,297)
37,612	Adjustments for Items Included in the Net Surplus or Deficit on the Provision Of Services that are Investing or Financing Activities		10,379
(3,816)	Net Cash Flows from Operating Activities		76,922
(1,828)	Investing Activities	26	29,635
(497)	Financing Activities	27	(88,341)
(6,140)	Net (Increase) or Decrease in Cash and Cash Equivalents		18,216
(28,559)	Cash and Cash Equivalents at the Beginning of the Reporting Period		(34,700)
(34,700)	**Cash and Cash Equivalents at the End of the Reporting Period**	**19**	**(16,484)**