NORTH SOMERSET COUNCIL

FINANCIAL REPORT 2011/12

incorporating the Statement of Accounts
and Governance Statements

Contents

Explanatory Foreword

The Statement of Accounts as set out in the following pages describes the Council's financial affairs for the year ended 31 March 2012. The format of the accounts follows best practice as defined in the Code of Practice on Local Authority Accounting 2011/12 incorporating the requirements of International Financial Reporting Standards.

By definition, the accounts are technical and this reflects the prescriptive nature of local authority accounting. The notes to the accounts are intended to assist in the understanding of the principal statements.

If any further information or explanation is required, please contact the Financial Management section on 01934 634619.

1. The Financial Statements

1.1 Movement in Reserves Statement (page 11)

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the 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 for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The Statement shows that the Council's usable reserves held at 31 March 2012 total £47.975m, which is a net decrease of £8.479m compared to the total of £56.454m held at 31 March 2011.

Of this sum, the Council's General Fund balance was £7.580m at 31 March 2012, which is a small net increase of £0.072m compared to the previous year.

In setting the 2012/13 revenue budget, the Council's assessment of an appropriate level of general non-earmarked reserves was considered to be £8m. A contribution of £0.308m in respect of pension strain costs is expected to be repaid to general reserves in the 2012/13 financial year bringing the General Fund balance to £7.888m.

Whilst this does not currently meet the £8m level, the position will be reviewed at the end of September 2012 after six months of the new financial year, when performance against the 2012/13 budget will be assessed together with any commitments against contingency and transition budgets.

1.2 Comprehensive Income and Expenditure Statement (page 12)

This Statement shows the accounting cost in the year of providing services in accordance with proper accounting practices, rather than the amount to be funded from taxation. The reconciling amounts between the accounting (surplus) or deficit and the net expenditure to be funded from taxation is summarised in the Movement in Reserves Statement.

The Statement shows that the cost of the Council providing services in 2011/12 was £227.055m greater than its income. This is principally due to two main factors; contained within Other Operating Expenditure is the accounting loss on disposal of non current assets arising from the transfer of seven schools to Academy status (see Section 7 below for further details), and also the actuarial loss of £28.451m on pension assets and liabilities.

1.3 Balance Sheet (page 13)

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

Current assets, which are those assets the Council has access to within one year, such as cash and debtors, exceed current liabilities, such as creditors, by £25.404m, a healthy position which is being managed proactively.

Long term assets, which are those assets that are not intended to be turned into cash or consumed by the Council within one year, have decreased in value by £196.453m from the previous year. This primarily relates to the disposal of Academy school property assets.

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. 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.

The second category of reserves are those that the Council is not able to use to provide services, including those that hold unrealised gains and losses (e.g. the Revaluation Reserve); those where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1.4 Cash Flow Statement (page 14)

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 extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources 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.

As at 31 March 2012, the level of cash and cash equivalents has fallen by £2.742m from the previous year, although it should be noted that the Council's overall level of current assets still remains over 40% greater than current liabilities, as set out in the previous section.

1.5 Collection Fund (page 91)

The Collection Fund details the Council's activities in collecting Council Tax and National Non-Domestic Rates (NNDR). At the year end, the Fund had a surplus balance of £0.339m of which £0.040m is due to Avon & Somerset Police, £0.014m is due to the Avon Fire Authority, with the remaining £0.285m being due to North Somerset Council.

In setting its 2011/12 budget, the Council, using latest available estimates, had assumed that there would be a prior year surplus distribution of £0.500m from the Collection Fund. The actual surplus distributed was £0.544m providing the Council with an additional £0.044m to support services.

Council Tax gross debts of £8.553m (from all previous years) were outstanding at the year end, which the Council continues to make every effort to collect. However, provision for non-collection of £5.541m has been made, and included within the accounts. NNDR arrears stood at £5.715m, with a provision of £2.762m included in the accounts for potential bad debts.

2. Revenue Outturn Compared to Budget

Whilst the Comprehensive Income and Expenditure Statement provides the statutory reporting requirement the Council monitors its budget throughout the year and the year-end position on its revenue budget showed an under spend of £0.201m or 0.13% against its annual budget of £154.293m. The breakdown of this under spend is shown in the table below:

Directorate	Revised Budget £000	Year-end Variance £000
Service Areas		
Adult Social Services and Housing	61,206	(103)
Children & Young People's Services	27,310	180
Development & Environment	35,310	(3)
Corporate Services	11,317	(358)
Severance Costs	1,130	395
Sub-total - Service Areas	**136,273**	**111**
Non Service Areas		
Capital Financing & Interest Budgets	12,768	(68)
Non Service Budgets	4,336	5
Contingency	916	(228)
Sub-total - Non-Service Areas	**18,020**	**(291)**
Net Budget Underspend	**154,293**	**(180)**
Funded By		
Council Tax	93,612	0
General Government Grants	59,661	23
Use of Reserves & Balances	1,020	(44)
Net Funding Variance	**154,293**	**(21)**
TOTAL TRANSFER TO GENERAL REVENUE RESERVES		**(201)**

Whilst all directorates have continued to reduce costs the principal adverse variance relates to an increase in severance costs, primarily due to early decisions being made to achieve savings required for the 2012/13 budget.

The variance for Children & Young People's Services includes an over spend of £0.401m relating to Children in Care; this has been partly mitigated by vacancy managements and other savings across the service. This along with other key risk areas identified in the Medium Term Financial Plan will be closely monitored throughout the 2012/13 financial year and beyond.

As can be seen above, the Council under spent on its revenue budget during the year by £0.201m. This under spend has been transferred into the General Fund Balance. The table below shows all movements within the General Fund Balance during 2011/12.

	£000	£000
General Fund Balance at 1 April 2011		7,505
Transfers into General Fund Balance		
Under spend on general fund revenue budget	201	
Repayment of pension strain costs	321	
Repayment of invest-to-save costs	73	595
Transfers out of General Fund Balance		
Support to revenue budget - one off costs	(300)	
Support to revenue budget - Office Amalgamation phase	(220)	(520)
General Fund Balance 31 March 2012		**7,580**

3. Capital Expenditure and Financing

The Balance Sheet at 31 March 2012 shows that the Council manages long term assets of £437.818m. In 2011/12 the council spent over £52m on capital projects, the major schemes being in Children and Young People's services (£18.836m), Development and Environment (£18.722m).

The total spend included continuation of enhancements to the schools estate via the Primary Capital Programme and investment in the highways network in the form of the Local Transport Plan, highways improvements and new major transport projects. The Council also invested in the refurbishment of the Town Hall and a new Waste Transfer Station, both of which will be completed in 2012/13.

The revised programme for the year totalled £60.241m of which £8.128 has been recognised as slippage and will be carried forward into 2012/13 to meet the intended expenditure.

The total capital expenditure of £52.113m was financed from borrowing (£10.930m), capital receipts and reserves (£14.670m), grants and contributions (£25.376m), direct revenue financing (£1.072m) and finance leases (£0.065m).

As at 31 March 2012, the amount of expenditure that is currently financed from long term borrowing, either external or internal had reached £116.085m. The vast majority of external long term borrowing has been arranged with the Public Works Loan Board which can offer preferential rates to Local Authorities. The total debt has been profiled to ensure prudence and affordability to the Council Tax payer with no more than £7m becoming repayable in any one financial year.

4. Pension Assets and Liabilities

The deficit recorded within the accounts relating to the Avon Pension Fund is £154.544m as at 31 March 2012, a net increase of £21.213m from the opening balance deficit of £133.331m. This movement primarily relates to the net actuarial loss for the year of £27.632m.

During 2011/12 the Council, along with other members of the Avon Pension Fund, implemented a change in the way the deficit is recovered. Instead of recovering the deficit as a percentage of current employee remuneration, the Council paid an absolute sum, thus ensuring that the required deficit payment is made and is not subject to potential underpayment due to falling staff numbers.

5. Material Assets and Liabilities

There have been no new material asset acquisitions or liabilities incurred in the reporting period.

6. New Accounting Policies

The 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom adopted FRS30: Heritage Assets. The Council has therefore introduced a new accounting policy in accordance with the standard. Further details can be found in Note 13, page 43.

7. Disposal of Non-Current Assets – Academy Schools

During the year seven schools transferred from Council control to Academy status, the result of which is that these schools revenues and associated assets have been written out of the Council's accounts.

All disposals have been reflected at nil consideration in accordance with accounting guidance and regulation resulting in a material loss of £163.116m being charged to the Comprehensive Income and Expenditure Statement

8. Overall Situation and Financial Outlook

Following the Comprehensive Spending Review of Autumn 2010, the Government planned that by the end of 2014/15, the spending reductions, together with the welfare reform contained within the Review would have meant that the additional budget deficit of approximately £86 billion (5.8% of national income) which arose between 2008 and 2010 would be cleared.

On that basis the Council had been planning on delivering £47.3m of savings over the four year period. In planning its Medium Term financial strategy, the Council recognised the need for the Council to play its part in reducing overall public spending. However, traditional approaches to budget savings would not be enough and radical change and radical thinking would be required.

It is not just about reducing expenditure – the Council will have to find new and different ways of working. However, the Council can take a degree of comfort that we are better prepared than many others, due to our established programme of prudential financial management and have already achieved savings across the council and are delivering major change programmes to do more.

In planning within the parameters set out above, it is clear that the Council has made good progress in its plans to meet the funding gap, but that further work is required, even on existing assumptions to close the total funding gap of £6.1m.

However, two factors, the results of which require further assessment since the initial projections were done, will significantly influence the above targets, and funding gaps.

Autumn Statement 2011

In response to the apparent worsening economic position, the Chancellor announced two further years of austerity, in addition to the four year period announced as part of the Comprehensive Spending Review (CSR) in the Autumn 2010 Statement. In addition to the £80bn of spending cuts identified within CSR, further reductions of £8.3bn in 2015/16 and £15.1bn in 2016/17 are now required by Government in an effort to eliminate the structural deficit.

The likely effect of this announcement is that a greater reduction in general grant will be required from local Government during 2015/16 and 2016/17, with further funding reductions in 2013 to 2015 expected.

Local Government Resource Review

The Government's response to its consultation exercise on the Local Government Resource Review, suggests that the Government is minded to use formula grant after damping as its starting point, and if this is the case, then the sum of £3.953m (2012/13 damping position) taken from North Somerset, will become embedded in the revised funding mechanisms, and will be lost from the Council on an annual basis until any further review changes this position.

Furthermore, the degree to which future New Homes Bonus receipts will be funded from general grant savings places the existing assumptions on the level of general grant expected to be received in future years, at some degree of risk. Should the level of general grant fall significantly below existing levels, the Council may need to consider utilising some of this new source of funding to meet its ongoing operational budget demands.

It is clear from the above that any thoughts that austerity measures would last for only one political term are misplaced. The Council will need to continue its medium term financial planning to ensure that it is best placed to effectively manage the financial challenge it faces and continue making decisions that are the best for the Council over a number of years rather than short term decisions that have adverse effects in future years

9. Future Developments and Changes to Statutory Function

Welfare Reform and Council Tax Support

As part of the Government's response to the financial crisis, the Welfare Reform Bill received Royal Assent on 8 March 2012. The bill follows the November 2010 White Paper, 'Universal Credit : welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

The bill provides for the abolition of Council Tax Benefit from 31 March 2013 and introduces the Local Council Tax Support Scheme which is to be administered by Local Authorities. The current Council Tax Benefit scheme reduces the amount of Council Tax individuals on low incomes pay based on a means tested income related assessment.

The new scheme is intended to:

- Deliver elements of Central Government's austerity measures by reducing grant funding by 10%
- Create the right incentives to get more people into work by ensuring work always pays
- Protect the most vulnerable in our society
- Deliver fairness to those claiming benefit and to the taxpayer
- Move from the previous Benefit payment based system to one based on providing Council Tax discounts as the means of delivering financial support

The Government is not going to prescribe a scheme at Local Authorities must adopt. However, if the Council does not have an approved scheme in place by 31 January 2013 the Department of Communities and Local Government will impose their 'default' scheme upon the Council. If this 'default' scheme was imposed we, as an Authority, would not have prepared for the 10% reduction in grant funding and our expenditure would not have been reduced and the funding gap would need to be filled from other sources Details of this scheme are not currently available although it is expected that the DCLG 'default' scheme will be very similar to the current Council Tax Benefit rules.

Therefore in the coming months, the Council will need to determine its proposed scheme, and consult with its residents on how the proposals may affect them.

Organisational Change (Public Health)

'Healthy lives, healthy people': Our strategy for public health in England' published by the Department of Health in July 2011, sets out a mission to create a new public health service with strong local and national leadership. It set out plans to create a new, dedicated public health service, Public Health England, as an executive agency to the Department of Health and give new statutory public health duties to local authorities to improve the health of their population form April 2013.

Directors of Public Health will be responsible for key public health functions, using a ring-fenced budget and their position within local authorities to tackle the wider determinants of health. Earlier this year, North Somerset received notification of a shadow ring-fenced budget of approximately £5.352m for 2012/13, in anticipation of receiving its full allocation from 2013/14.

Peter Sloman FCCA
Head of Financial Management

29 June 2012

North Somerset Council's Responsibilities

North Somerset Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Financial Management.

- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.

- approve the Statement of Accounts.

The Head of Financial Management's Responsibilities

The Head of Financial Management is responsible for the preparation of the Council's Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") which requires the Council to certify a 'true and fair view' of the financial position of the authority and its income and expenditure for the year ended 31 March 2012.

In preparing this Statement of Accounts, the Head of Financial Management has:

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

The Head of Financial Management has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

CERTIFICATE

I hereby certify that the following Statement of Accounts gives a true and fair view of the financial position of North Somerset Council as at 31 March 2012 and hereby authorise the issue of the accounts.

Peter Sloman FCCA
Head of Financial Management
25 September 2012

Cllr Terry Porter
Chairman of the Council
25 September 2012

Movement in Reserves Statement

	Note	Usable Reserves								Unusable Reserves			
		General Fund Balance	LMS School Balances	Dedicated Schools Grant	Earmarked Revenue Reserves	Earmarked Capital Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	*Total Usable Reserves*	Revaluation Balances	Adjustment Accounts	*Total Unusable Reserves*	TOTAL RESERVES
		£000	£000	£000	£000	£000	£000	£000	*£000*	£000	£000	*£000*	£000
Balance at 31 March 2010		**(6,341)**	**(5,775)**	**(1,055)**	**(21,034)**	**(3,800)**	**(13,536)**	**(2,166)**	***(53,707)***	**(325,097)**	**(23,495)**	***(348,592)***	**(402,299)**
Movements in Reserves 2010/2011													
(Surplus) / deficit on Provision of Services		(23,504)	0	0	0	0	0	0	*(23,504)*	0	0	*0*	**(23,504)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	*0*	66,379	(15,473)	*50,906*	**50,906**
Total Comprehensive Income and Expenditure		**(23,504)**	**0**	**0**	**0**	**0**	**0**	**0**	***(23,504)***	**66,379**	**(15,473)**	***50,906***	**27,402**
Adjustments between accounting basis & funding basis under regulations	*7*	16,541	0	0	0	0	5,556	(1,374)	*20,723*	11,744	(32,467)	*(20,723)*	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves		**(6,963)**	**0**	**0**	**0**	**0**	**5,556**	**(1,374)**	***(2,781)***	**78,123**	**(47,940)**	***30,183***	**27,402**
Transfers to / from Earmarked Reserves	*8*	5,799	(672)	(56)	(4,537)	327	(827)	0	*34*	0	(34)	*(34)*	**0**
Increase / Decrease in 2010/2011		**(1,164)**	**(672)**	**(56)**	**(4,537)**	**327**	**4,729**	**(1,374)**	***(2,747)***	**78,123**	**(47,974)**	***30,149***	**27,402**
Balance at 31 March 2011		**(7,505)**	**(6,447)**	**(1,111)**	**(25,571)**	**(3,473)**	**(8,807)**	**(3,540)**	***(56,454)***	**(246,974)**	**(71,469)**	***(318,443)***	**(374,897)**
Movements in Reserves 2011/2012													
(Surplus) / deficit on Provision of Services		198,020	0	0	0	0	0	0	*198,020*	0	0	*0*	**198,020**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	*0*	584	28,451	*29,035*	**29,035**
Total Comprehensive Income and Expenditure		**198,020**	**0**	**0**	**0**	**0**	**0**	**0**	***198,020***	**584**	**28,451**	***29,035***	**227,055**
Adjustments between accounting basis & funding basis under regulations	*7*	(195,202)	0	0	0	0	4,497	1,164	*(189,541)*	103,946	85,595	*189,541*	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves		**2,818**	**0**	**0**	**0**	**0**	**4,497**	**1,164**	***8,479***	**104,530**	**114,046**	***218,576***	**227,055**
Transfers to / from Earmarked Reserves	*8*	(2,893)	1,731	(885)	(1,171)	3,423	(205)	0	*0*	0	0	*0*	**0**
Increase / Decrease in 2011/2012		**(75)**	**1,731**	**(885)**	**(1,171)**	**3,423**	**4,292**	**1,164**	***8,479***	**104,530**	**114,046**	***218,576***	**227,055**
Balance at 31 March 2012 - carried forward		**(7,580)**	**(4,716)**	**(1,996)**	**(26,742)**	**(50)**	**(4,515)**	**(2,376)**	**(47,975)**	**(142,444)**	**42,577**	**(99,867)**	**(147,842)**

Comprehensive Income and Expenditure Statement

2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000		Note	2011/2012 Gross Expenditure £000	2011/2012 Gross Income £000	2011/2012 Net Expenditure £000
84,206	(24,181)	60,025	Adult Social Care		76,774	(22,006)	54,768
17,564	(14,576)	2,988	Central Services to the Public		2,146	(869)	1,277
239,351	(182,346)	57,005	Children's and Education Services		191,836	(147,713)	44,123
24,386	(8,807)	15,579	Cultural and Related Services		25,373	(4,176)	21,197
21,743	(6,766)	14,977	Environmental and Regulatory Services		29,672	(8,729)	20,943
5,375	(1,989)	3,386	Planning Services		4,051	(1,539)	2,512
20,815	(6,105)	14,710	Highways and Transport Services		14,754	(4,784)	9,970
65,866	(61,861)	4,005	Housing Services		90,304	(81,080)	9,224
7,247	(132)	7,115	Corporate and Democratic Core		6,591	(1,256)	5,335
2,384	(28,552)	(26,168)	Non Distributed Costs	*5*	2,597	(7,147)	(4,550)
488,937	**(335,315)**	**153,622**	**Cost of Services**	*30*	**444,098**	**(279,299)**	**164,799**
5,141	0	5,141	Other operating expenditure	*9*	198,057	0	198,057
33,444	(19,998)	13,446	Financing and investment income and expenditure	*10*	33,144	(21,125)	12,019
0	(195,713)	(195,713)	Taxation and non-specific grant income	*11*	0	(176,855)	(176,855)
527,522	**(551,026)**	**(23,504)**	**(Surplus) / Deficit on Provision of Services**		**675,299**	**(477,279)**	**198,020**
		66,372	(Surplus) / deficit on revaluation of non-current assets	*5*			583
		7	(Surplus) / deficit on revaluation of available-for-sale financial assets	*28.3*			1
		(15,473)	Actuarial (gains) / losses on pension assets and liabilities	*28.7*			28,451
		50,906	**Other Comprehensive Income and Expenditure**				**29,035**
		27,402	**Total Comprehensive Income and Expenditure**				**227,055**

Balance Sheet

31 March 2011 £000		Note	31 March 2012 £000
	Property, Plant and Equipment	12	
537,930	Other Land and Buildings		333,475
58,372	Infrastructure Assets		65,386
3,813	Community Assets		3,365
13,016	Vehicles, Plant, Furniture and Equipment		14,293
0	Assets Under Construction		1,728
0	Surplus Assets not held for sale		0
0	Heritage Assets	13	288
6,262	Investment Property	14	7,666
13,224	Long Term Investments	15	10,270
1,654	Long Term Debtors	16	1,347
634,271	**Long Term Assets**		**437,818**
64,739	Short Term Investments	18	55,102
609	Assets Held for Sale	22	855
66	Inventories	19	19
28,522	Short Term Debtors	20	26,292
93,936	**Current Assets**		**82,268**
(1,214)	Cash and Cash Equivalents	21	(3,956)
(6,602)	Short Term Borrowing	18	(3,657)
(42,596)	Short Term Creditors	23	(39,769)
(1,446)	Provisions	24	(1,874)
(13,311)	Capital Grants Receipts in Advance	39	(7,608)
(65,169)	**Current Liabilities**		**(56,864)**
(5)	Long Term Creditors	17	(1)
(2,063)	Provisions	24	(2,408)
(110,095)	Long Term Borrowing	18	(116,085)
(18,428)	Long-Term Liabilities - Ex Avon Debt	26	(17,691)
(157,450)	Pension Liabilities	45	(179,120)
(100)	Other Long Term Liabilities	42	(75)
(288,141)	**Long Term Liabilities**		**(315,380)**
374,897	**Net Assets**		**147,842**
(56,454)	Usable Reserves	27	(47,975)
(318,443)	Unusable Reserves	28	(99,867)
(374,897)	**Total Reserves**		**(147,842)**

Cash Flow Statement

31 March 2011 £000		Note	31 March 2012 £000
(23,504)	Net (surplus) / deficit on the provision of services		198,020
18,127	Adjustments to the net surplus / deficit on the provision of services for non-cash movements	*29.1*	(199,975)
3,675	Adjustments for items included in the provision of services that are investing or financing activities	*29.2*	3,113
(1,702)	**Net cash flows from Operating Activities**	***29.3***	**1,158**
6,933	Investing Activities	*29.4*	6,131
(3,779)	Financing Activities	*29.5*	(4,547)
1,452	**Net (increase) / decrease in cash and cash equivalents**		**2,742**
238	Cash and cash equivalents at the beginning of the reporting period	*21*	(1,214)
(1,214)	**Cash and cash equivalents at the end of the reporting period**	***21***	**(3,956)**

Notes to the Statement of Accounts

The following notes are included to aid the reader in the interpretation of the core financial statements:

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2011/2012 and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which are required to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) and the Service Reporting Code of Practice 2011/12 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

The Council operates its revenue and capital accounts on an accruals basis; activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the percentage of completion of the transaction can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately on the face of the Consolidated Income and Expenditure Statement, with supporting notes dependent on the significance of the item(s) to understanding the Council's financial performance.

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

To record the cost of holding non-current assets during an accounting period, services, support services and trading accounts are debited with:

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu), earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is made at the wage or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

<u>Post Employment Benefits</u>

The entries in the Statement of Accounts in respect of post employment benefits are made in accordance with *IAS19 Employee Benefits.* Although a complex accounting standard, it is based on the simple principle that an organisation should account for post employment benefits when it is committed to give them, even if the actual giving will be many years into the future. In this way the accounts represent the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.

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

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

- The Local Government Pension Scheme, administered by Bath & North-East Somerset Council.

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

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

a) The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme:

- Liabilities 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 future earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.6%, calculated as a weighted average of "spot yields" on AA rated corporate bonds.

- Assets within the scheme attributable to the Council are included in the Balance Sheet at their fair value:

  - quoted securities – bid price
  - unquoted securities - professional estimate
  - unitised securities - average of the bid and offer rates
  - property - market value

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

  Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in Comprehensive Income and Expenditure Statement to 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/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

Actuarial gains and losses – changes in the net 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 fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged only 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 and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

b) Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued 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.

c) Somerset and Gloucestershire County Council Schemes

The Council also makes payments to Somerset County Council in respect of pension costs which relate to employees prior to Local Government Reorganisation in 1974. These costs are deemed to represent the current cost of service and are charged to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement.

viii. Events After the Balance Sheet Date

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

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

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

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

ix. Financial Instruments

Financial Liabilities

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

For 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.

Gains and losses on the repurchase or early resettlement 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 takes 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 / loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial Assets are classified into two types:

- 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 payments.

a) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at 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 principle receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

b) Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and 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 (e.g. 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 price – 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 line in the Comprehensive Income and Expenditure Statement. 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 derecognition 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).

x. <u>Government Grants and Contributions</u>

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

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

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

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

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

xi. Heritage Assets

Heritage assets are non-current assets (either tangible or intangible) with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge or culture.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see policy xvii).

Any disposals of heritage assets are accounted for in accordance to the general provisions for property, plant and equipment and in accordance with statutory accounting requirements relating to capital receipts.

Museum Collection (Artworks)
The museum collection (principally works of art) is reported in the Balance Sheet at insurance valuation based on market values. The insurance valuations are reviewed regularly by an external valuer. The assets are deemed to have indeterminate lives and a high residual value and therefore the Council does not consider it appropriate to charge depreciation.

Fountains and Monuments
The Council owns a number of fountains and monuments which are deemed to have historical importance to the locality. The Council does not consider that reliable cost or valuation information can be obtained for these assets due to a lack of comparable market values and therefore these assets are not recognised on the Balance Sheet.

xii. Intangible Assets

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'First In, First Out' costing formula.

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

xiv. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between 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 are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xv. Leases

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

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

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

The Authority as Lessee

a) 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.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and 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.

b) Operating Leases

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

The Authority as Lessor

a) Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

b) Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. <u>Overheads and Support Services</u>

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

xvii. <u>Property, Plant and Equipment</u>

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.

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis as a transaction at the end of each financial year, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Amounts in excess of £10,000 are categorised as Property, Plant and Equipment expenditure.

<u>Measurement</u>

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

Where there is not market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Revaluation

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

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

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

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

The Section 151 Officer obtains an annual appraisal of trends in property values from the Council's Head of Property and Asset Management in respect of the Council's assets. Based on this appraisal a judgement will be made as to whether any amendment to the Council's accounts is required or whether an adjustment is needed to its revaluation programme. All Property, Plant and Equipment revaluations are reflected within the accounts at the beginning of each financial year.

Impairment

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

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

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

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

The Section 151 Officer is provided with an annual statement of any of the Council's assets that suffered an impairment loss during the year.

Depreciation

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

Where an asset has a finite useful life in its existing use, it will be depreciated based on the valuation of the asset at 1 April each year calculated on the following bases:

- other land and buildings – straight-line allocation over the useful life of the property as estimated by the valuer (between 2 and 60 years)
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (between 1 and 20 years)
- infrastructure – straight-line allocation over the estimated useful life of the asset (between 20 and 60 years)
- surplus assets not held for sale – straight-line allocation over the useful life of the property as estimated by the valuer (between 2 and 60 years)

The remaining life of the Council's assets is determined by the Council's Head of Property and Asset Management or other professional staff under his/her control when the asset is acquired or at the time of five-yearly revaluation. If the existing use of an asset changes at any time or an asset becomes surplus to requirements then its finite useful life will be re-assessed.

Where an item of Property, Plant and Equipment asset which has a value in excess of £2m, and has major components whose cost is greater than 20% of the total cost of the asset, the components are depreciated separately.

Depreciation is provided on an appropriate basis according to the asset class of the component which may be different to the class of the overall asset.

Components could be:

- separate blocks / buildings within an overall asset site
- specific elements which form part of the overall asset e.g. roof, engineering, sub-structures, etc.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

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

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Disposals are reflected as a transaction at the end of the financial year.

xviii. <u>Provisions, Contingent Liabilities and Contingent Assets</u>

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

a) Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

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

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

Contingent Assets

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

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

xix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. For each reserve established, the purpose, usage and the basis of transactions is clearly identified.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

xx. Revenue Expenditure Funded from Capital Under Statute

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

xxi. VAT

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

xxii. Interest on Internal Balances

In the main, interest on internal balances is only paid where required by statute or where sums have been deposited with the Council for specific purposes, e.g. developers' contributions to developments. The exceptions to this rule are that interest is credited to the Council's insurance reserves and provisions in order to maintain their real value, or where the Council is acting as the accountable body for a partnership of which it is a member.

xxiii. Allocation between Current and Non-Current

With the exception of employee entitlements, the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Council's operational cycle. For employee entitlements, all annual leave entitlement is classified as current.

2. Accounting Standards Not Yet Adopted

The Council is required to disclose information relating to the impact of an accounting change on the financial statements as a result of adoption by The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) of a new standard that has been issued but is not yet required to be adopted.

Amendments to IFRS7 – *Financial Instruments : Disclosures* (transfers of financial assets), issued in October 2010, are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on an authority's financial position. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risk and rewards of ownership.

Transactions of this nature are not expected to occur frequently in local authorities and adoption of this standard is unlikely to have any material impact on the financial statements.

3. Critical Judgements in Applying Accounting Policies

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

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

- A High Court challenge has been made against the Council's proposals to cut funding of youth services. The Council will defend the action but at this early stage in the proceedings the case is not considered to meet the criteria for disclosure as a contingent liability.

4. Assumptions and Other Major Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate could potentially make it uncertain that the Council will be unable to sustain its current spending on repairs and maintenance, which would bring into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation would increase, and the carrying amount of the asset would fall.

It is estimated that the annual depreciation charge for buildings would increase by approximately £0.36m for each year should ever useful lives be decreased in such a way.

Pensions Liability
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of the Local Government Pension Scheme of £7.894m, and a decrease of £0.277m of the Teachers Pension Scheme.

Arrears
At 31 March 2012, the Council had a balance of sundry debtors for £8.755m. Impairment of doubtful debts is provided at varying levels dependent on the age of debt and experience of collection. However, in the current economic climate it is not certain that such an allowance will be sufficient.

If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.567m to be set aside as an allowance.

Allowances for bad/doubtful debts (non-financial assets)
Allowances for bad/doubtful debts have been calculated on the following bases:

Rent Allowances and Rent Rebate Overpayments – 100% for outstanding debt more than 1 year, 75% for outstanding debt raised in 2011/12.

Council Tax and National Non-Domestic Rates (Collection Fund) – allowance is based on an analysis of the recovery stage reached by the Council's contractor in collection sums due. These range from a 5% allowance for debt where a bill has only been raised within the last month, a 25% to 50% allowance where a summons has been issued and Liability Order raised, a 75% to 85% allowance where the debtor has been referred to the Bailiffs and a 100% allowance where there is no trace of the debtor concerned.

5. Material Items of Income and Expense

In the 2010/11 Comprehensive Income and Expenditure Statement, Non Distributed Costs included a credit of £28.552m being the past service gain arising from changes in the framework of the Local Government Pension Scheme, specifically that with effect from 1 April 2010 public sector pensions would be uprated in line with the Consumer Prices Index rather than the Retail Prices Index. There was no comparable past service gain in 2011/12.

Other Comprehensive Income and Expenditure was charged with £66.372m in 2010/11 due to a downwards revaluation in the value of Land and Buildings (Property, Plant & Equipment). The comparative net downward revaluation of non-current assets in 2011/12 is £0.583m.

In 2011/12 Other Operating Expenditure (Note 9, page 36) has been charged with £194.386m net loss on disposal of non-current assets. This is mainly due to the transfer of land and building assets to schools attaining Academy status.

6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Financial Management on 25 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

<u>Academy Schools</u>

At the Balance Sheet date a number of schools were in the process of considering transferring from Council control to Academy status, the result of which is that these schools will be written out of the Council's accounts at the date that transfer takes place. All such disposals will be reflected at nil consideration. The table below shows the net book value and estimated revenue costs / income that will be removed from the 2012/13 Statement of Accounts.

School	Date of Transfer	Net Book Value at 31-Mar-12 £000	2011/12 Gross Expenditure £000	2011/12 Gross Income £000
Nailsea Community School	01/08/2012	30,580	5,715	5,709
Herons Moor Primary School	01/09/2012	4,480	1,587	1,713
		35,060	**7,302**	**7,422**

7. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

2011/2012 ADJUSTMENTS	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movements in Unusable Reserves
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(25,308)	0	0	25,308
Revaluation losses on Property, Plant and Equipment	(13,254)	0	0	13,254
Movements in the fair value of Investment Properties	(888)	0	0	888
Capital grants and contributions applied	25,376	0	0	(25,376)
Revenue expenditure funded from capital under statute	(7,529)	0	0	7,529
Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(197,500)	0	0	197,500
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for repayment of debt	6,762	0	0	(6,762)
Capital expenditure charged against General Fund Balances	5,587	0	0	(5,587)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,371	0	(1,371)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	2,535	(2,535)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,113	(3,113)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	7,620	0	(7,620)
Contribution from the Captial Receipts Reserve to finance the payments to the Government capital receipts pool	(33)	33		
Transfer from Deferred Capital Receipts Reserve on receipt of cash	0	(43)	0	43
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	31	0	0	(31)
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(7,705)	0	0	7,705
Employer's pension contributions and direct payments to pensioners payable in the year	14,486	0	0	(14,486)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(298)	0	0	298
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	586	0	0	(586)
TOTAL ADJUSTMENTS	**(195,203)**	**4,497**	**1,164**	**189,542**

2010/2011 ADJUSTMENTS	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(29,299)	0	0	29,299
Revaluation losses on Property, Plant and Equipment	(12,235)	0	0	12,235
Movements in the fair value of Investment Properties	314	0	0	(314)
Capital grants and contributions applied	32,659	0	0	(32,659)
Revenue expenditure funded from capital under statute	(5,025)	0	0	5,025
Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,292)	0	0	4,292
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for repayment of debt	5,451	0	0	(5,451)
Capital expenditure charged against General Fund Balances	874	0	0	(874)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,504	0	(1,504)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	130	(130)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,848	(2,848)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	8,438	0	(8,438)
Transfer from Deferred Capital Receipts Reserve on receipt of cash	0	(34)	0	34
Adjustments primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	777	0	0	(777)
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	7,707	0	0	(7,707)
Employer's pension contributions and direct payments to pensioners payable in the year	15,438	0	0	(15,438)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(837)	0	0	837
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	657	0	0	(657)
TOTAL ADJUSTMENTS	**16,541**	**5,556**	**(1,374)**	**(20,723)**

8. Transfers To / From Earmarked Reserves

Earmarked Revenue Reserves result from events which have allowed funds to be set aside, surpluses generated from trading undertakings, or decisions causing anticipated expenditure to have been delayed, postponed or cancelled.

For each Reserve established the Council identifies

- the reason / purpose of the reserve
- how and when the reserve can be used
- procedures for the management and control of the reserve
- a process and timescale for review to ensure continuing relevance and adequacy.

The Council also holds Earmarked Capital Reserves. They have been established on the same basis as the revenue reserves described above, but have been created specifically for future investment on capital schemes and projects. However, a degree of flexibility is retained in their treatment depending on prevailing budget conditions.

	Balance 1 April 2011 £000	*Transfers Out £000*	*Transfers In £000*	***Balance 31 March 2012 £000***
Earmarked Revenue Reserves				
Corporate Reserves				
Insurance Reserves	(3,366)	300	(2)	**(3,068)**
Other Corporate Reserves	(1,520)	236	(1,113)	**(2,397)**
Directorate Reserves				
Adult Social Services & Housing	(1,748)	209	(633)	**(2,172)**
Children & Young Peoples' Services	(2,040)	697	(2,084)	**(3,427)**
Development & Environment	(3,211)	741	(863)	**(3,333)**
Corporate Services - Directorate & Partnership Funds	(2,925)	1,919	(1,944)	**(2,950)**
Corporate Services - Finance & Property Funds	(1,779)	1,566	(541)	**(754)**
Housing Property Funds	(561)	0	(60)	**(621)**
Directorate Earmarked Revenue Grants Reserves				
Adult Social Services & Housing	(434)	216	(401)	**(619)**
Children & Young Peoples' Services	(1,057)	787	(844)	**(1,114)**
Development & Environment	(6,886)	1,893	(1,250)	**(6,243)**
Corporate Services - General	(44)	0	0	**(44)**
Total Earmarked Revenue Reserves	(25,571)	8,564	(9,735)	**(26,742)**
Earmarked Capital Reserves				
General Capital Reserve	(3,255)	3,255	0	**0**
Earmarked Capital Reserve	(217)	168	0	**(49)**
Total Earmarked Capital Reserves	(3,472)	3,423	0	**(49)**

The purpose of each of the above reserves is as follows:

Reserve	***Purpose***
Insurance Reserves	See Note 25, Page 51.
Other Corporate Reserves	Includes the Financial Impairment Reserve.
Adult Social Services & Housing Reserves	The major reserves relate to funding for the Supporting People programme and potential service related risks.
Children & Young Peoples' Services Reserves	Reserves primarily for service transformation and one-off projects such as Harnessing Technology and Single Point of Access.
Development & Environment	Funds set aside to finance future costs including Major Planning Appeals, service risks & highways maintenance
Corporate Services – Directorate & Partnership Funds	Includes a reserve accumulated over 4 years to finance the Council's district election costs which results in a smoothing of the budget requirement over the period. Partnership funds are those held under the Council's role as an accountable body.
Corporate Services – Finance & Property Funds	The largest reserve relates to anticipated future costs arising from Property and Asset Management.
Housing Property Funds	Monies held in sinking funds to be used for repairs at leasehold properties.
Directorate Earmarked Revenue Grants Reserves	Balances of revenue grants received for specific projects which are yet to be applied.
General Capital Reserve	A general reserve available to finance approved capital expenditure.
Earmarked Capital Reserve	A number of specific capital reserves earmarked for use in delivery of approved capital investment projects.

9. Other Operating Expenditure

	2010/11 *£000*	***2011/12*** ***£000***
Parish Council Precepts	3,418	**3,393**
Other Precepts and Levies	244	**245**
Payments to the Government Housing Capital Receipts Pool	24	**33**
(Gains) / losses on the disposal of non-current assets	1,455	**194,386**
Total	5,141	**198,057**

10. Financing and Investment Income and Expenditure

	2010/11 *£000*	***2011/12*** ***£000***
Interest payable and similar charges	7,095	**7,443**
Pension interest cost and expected return on pensions assets	8,460	**5,527**
Interest receivable and similar income	(1,820)	**(1,659)**
Income and expenditure in relation to Investment Properties and changes in their fair value	(314)	**888**
Other financing & investment income and expenditure	25	**(180)**
Total	13,446	**12,019**

11. Taxation and Non-Specific Grant Income

	2010/11 £000	2011/12 £000
Council Tax income	(93,375)	**(93,858)**
Non-domestic rates	(45,385)	**(43,696)**
Non-ringfenced government grants	(22,037)	**(17,893)**
Capital grants and contributions	(34,916)	**(21,408)**
Total	(195,713)	**(176,855)**

The total for un-ringfenced government grants is comprised of:

	2010/11 £000	2011/12 £000
Revenue Support Grant	(6,590)	**(13,507)**
Area Based Grant	(15,447)	**0**
Local Services Support Grant	0	**(818)**
Council Tax Freeze Grant	0	**(2,255)**
New Homes Bonus Grant	0	**(1,313)**
Total	(22,037)	**(17,893)**

During the year the Council agreed to fund service expenditure from Local Services Support Grant (2010/11 - Area Based Grant) as follows:

	2010/11 £000	2011/12 £000
Development and Environment	919	**187**
Adult Social Services & Housing	10,571	**58**
Children and Young Peoples Services	3,783	**381**
Other Priorities	174	**192**
Total	15,447	**818**

12. Property, Plant and Equipment

12.1 Movement on Balances

Movements in 2011/2012	Land & Buildings £000	Infrastructure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2011	597,914	76,668	4,546	22,109	0	0	**701,237**
Additions	24,834	14,355	16	3,651	1,728	0	**44,584**
Revaluations - Revaluation Reserve	(20,112)	0	(60)	0	0	0	**(20,172)**
Revaluations - CI&ES	(13,072)	0	(111)	0	0	0	**(13,183)**
Derecognition - disposals	(211,202)	0	0	0	0	0	**(211,202)**
Reclassified (to) / from Held for Sale	(1,300)	0	0	0	0	0	**(1,300)**
Reclassified (to) / from Investment Property	(2,291)	0	0	0	0	0	**(2,291)**
Other movements in cost or valuation	128	0	(328)	0	0	0	**(200)**
At 31 March 2012	374,899	91,023	4,063	25,760	1,728	0	**497,473**
Accumulated Depreciation & Impairment							
At 1 April 2011	(59,984)	(18,296)	(733)	(9,093)	0	0	**(88,106)**
Depreciation for the year	(14,729)	(1,806)	(25)	(2,317)	0	0	**(18,877)**
Depreciation written out - Revaluation Reserve	21,845	0	60	0	0	0	**21,905**
Impairment (Losses) / Reversals - Revaluation Reserve	(2,403)	0	0	0	0	0	**(2,403)**
Impairment (Losses) / Reversals - CI&ES	(839)	(5,535)	0	(57)	0	0	**(6,431)**
Derecognition - disposals	14,678	0	0	0	0	0	**14,678**
Other movements in depreciation & impairment	8	0	0	0	0	0	**8**
At 31 March 2012	(41,424)	(25,637)	(698)	(11,467)	0	0	**(79,226)**
Net Book Value at 1 April 2011	**537,930**	**58,372**	**3,813**	**13,016**	**0**	**0**	**613,131**
Net Book Value at 31 March 2012	**333,475**	**65,386**	**3,365**	**14,293**	**1,728**	**0**	**418,247**

Movements in 2010/2011	Land & Buildings £000	Infrastructure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2010	668,958	59,304	3,943	17,741	7,602	1	**757,549**
Additions	29,321	17,364	606	5,072	0	0	**52,363**
Revaluations - Revaluation Reserve	(91,628)	0	0	0	0	0	**(91,628)**
Revaluations - CI&ES	(12,206)	0	(3)	0	0	0	**(12,209)**
Derecognition - disposals	(2,500)	0	0	(704)	0	0	**(3,204)**
Reclassified (to) / from Held for Sale	(1,633)	0	0	0	0	0	**(1,633)**
Other movements in cost or valuation	7,602	0	0	0	(7,602)	(1)	**(1)**
At 31 March 2011	597,914	76,668	4,546	22,109	0	0	**701,237**
Accumulated Depreciation & Impairment							
At 1 April 2010	(63,495)	(12,610)	(695)	(7,995)	0	0	**(84,795)**
Depreciation for the year	(20,277)	(1,430)	(38)	(1,802)	0	0	**(23,547)**
Depreciation written out - Revaluation Reserve	26,247	0	0	0	0	0	**26,247**
Impairment (Losses) / Reversals - Revaluation Reserve	(1,542)	0	0	0	0	0	**(1,542)**
Impairment (Losses) / Reversals - CI&ES	(945)	(4,256)	0	0	0	0	**(5,201)**
Derecognition - disposals	21	0	0	704	0	0	**725**
Other movements in depreciation & impairment	7	0	0	0	0	0	**7**
At 31 March 2011	(59,984)	(18,296)	(733)	(9,093)	0	0	**(88,106)**
Net Book Value at 1 April 2010	**605,463**	**46,694**	**3,248**	**9,746**	**7,602**	**1**	**672,754**
Net Book Value at 31 March 2011	**537,930**	**58,372**	**3,813**	**13,016**	**0**	**0**	**613,131**

12.2 Depreciation

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

- other land and buildings – between 2 and 60 years
- vehicles, plant, furniture and equipment – between 1 and 20 years
- infrastructure – between 20 and 60 years
- surplus assets not held for sale – between 2 and 60 years

Depreciation has been charged in year to the following services:

	2010/11	***2011/12***
	£000	***£000***
Development and Environment	4,881	**5,202**
Children & Young People's Services	17,444	**12,502**
Housing General Fund	37	**45**
Corporate Services	1,013	**966**
Adult Social Services	172	**162**
Total Depreciation	23,547	**18,877**

12.3 Capital Commitments

At 31 March 2012, the Council had entered into a number of contracts for the construction or enhancement of Plant, Property and Equipment in 2012/13 and future years, the most significant of which are shown below. Similar commitments as at 31 March 2011 totalled £5.729 million.

The significant commitments are:

	Period of Investment	***Commitment £000***
Town Hall Refurbishment	2011/13	**1,188**
Worle Sports & Learning Project	2011/13	**1,839**
Waste Transfer Station	2011/13	**778**
		3,805

12.4 Effects of Changes in Estimates

As a result of significant fluctuations within various parts of the economy in recent years, the Council's property specialists have continued to review the asset portfolio in order to consider the impacts of the specific valuation indices and cost factors relevant to the local area, and compare these to the carrying value held within the Asset Register.

The results of this work, together with revaluations undertaken as part of the rolling revaluation programme have been reflected in the movements disclosed (see Note 12.5 below). In using professionally qualified staff, both employed and contracted, the Council considers that the opportunity for material error relating to valuations is minimal.

12.5 Revaluations

The Council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of Land & Buildings are arranged by the Council's Head of Property and Asset Management A.R.I.C.S. The basis for valuation is set out in the Accounting Policies (see Note 1, xvii on page 26).

The table below reflects the Current Value of the assets valued in each of the five years, together with those assets carried at Historical Cost. As can be seen, the majority of the Council's Land & Buildings assets are held at carrying value, with a small proportion held at Historical cost as they are new asset purchases or newly built assets transferred in from the Assets Under Construction category. These assets are included within the rolling revaluation programme for 2012/13, but have also been subjected to a review during 2011/12 from the professional valuation staff to ensure that the asset values are not materially mis-stated, and will not be subject to material impairment when revalued.

	Land & Buildings £000	*Infrastructure Assets £000*	*Community Assets £000*	*Vehicles, Plant & Equipment £000*	*Investment Properties £000*	*Assets Under Construction £000*	***Total £000***
Valued at Historical Cost	1,332	65,386	2,555	14,293	0	1,728	**85,294**
Valued at Current Value in year							
2011/12	90,597	0	0	0	7,666	0	**98,263**
2010/11	169,746	0	0	0	0	0	**169,746**
2009/10	14,873	0	308	0	0	0	**15,181**
2008/09	45,992	0	80	0	0	0	**46,072**
2007/08	10,790	0	9	0	0	0	**10,799**
2006/07, or prior	145	0	413	0	0	0	**558**
Total	**333,475**	**65,386**	**3,365**	**14,293**	**7,666**	**1,728**	**425,913**

In 2011/12 the Council used professionally qualified staff appointed within the in-house valuation team to undertake the revaluations required as part of the rolling revaluation programme. Assets groups included within the 2011/12 revaluation programme included; investment properties, public conveniences, libraries, visitor attractions, residential and housing. In addition to these groups of assets, a sample of other assets from larger groups including schools, leisure centres and concessions, were revalued during the year to reduce the value of assets held at historic cost and therefore reduce the risk of material mis-statement across the asset portfolio.

Some of the revalued assets increased in value as a result of the revaluation programme, and the increase in these non-current assets resulted in £17.565m being credited to the Revaluation Reserve. However a proportion of other assets revalued decreased in value resulting in a net revaluation loss of £13.254m being charged to the Comprehensive Income and Expenditure Statement and a further £18.148m being charged against balances held in the Revaluation Reserve.

12.6 Disposal of Non Current Assets

Academy Schools

During 2011/12 a total of 7 schools transferred from the Council's control to Academy status. A significant impact of this change in status is that the school assets held by the Council at the start of the financial year were written out of the Accounts and reflected as a disposal. All such asset disposals were reflected at nil consideration resulting in a loss being charged to the Council's Comprehensive Income and Expenditure Statement.

The table below shows the net book value removed from the Balance Sheet:.

School	Date of Land & Lease Transfer	Net Book Value - 1 April 2011 £000
Backwell Comprehensive School	25/04/2011	24,443
Broadoak Comprehensive School	01/02/2012	20,832
Churchill Comprehensive School	29/06/2011	21,371
Clevedon Comprehensive School	01/02/2012	20,062
Gordano Comprehensive School	30/06/2011	37,213
Priory Community School	17/08/2011	22,310
Wyvern Community School	28/04/2011	16,885
		163,116

Trust Schools

Following the significant changes within the school asset portfolio as a result of the transfer of schools to Academy status, the Council reviewed its treatment of the remaining assets held within the asset group. It was clearly recognised that the Worle and Westhaven Trust, comprising of 2 schools assets, had reached a level of operational maturity that transferred significant influence and control away from the Council.

A significant impact of this change is that the school assets held by the Council at the start of the financial year were written out of the Accounts and reflected as a disposal. All such asset disposals were reflected at nil consideration resulting in a loss being charged to the Council's Comprehensive Income and Expenditure Statement.

School	Date of Disposal	Net Book Value - 1 April 2011 £000
Westhaven School	31/03/2012	5,737
Worle School	31/03/2012	25,502
		31,239

13. Heritage Assets

13.1 Reconciliation of the Carrying Value of Heritage Assets

Movements in 2011/12	*Museum Collection £000*	***Total Heritage Assets £000***
Cost or valuation		
At 1 April 2011	0	**0**
Additions	0	**0**
Transfers from Property, Plant & Equipment	200	**200**
Disposals	0	**0**
Revaluations	88	**88**
	288	**288**
Depreciation & Impairment		
Impairment (Losses) / Reversals - Revaluation Reserve	0	**0**
Impairment (Losses) / Reversals - CI&ES	0	**0**
	0	**0**
Net Book Value at 31 March 2012	**288**	**288**

13.2 Assets Reported in the Balance Sheet

The museum collection (principally artworks) is reported in the Balance Sheet at insurance valuation. The insurance valuations were obtained using an external valuer, with the most recent valuation being carried out as part of a museum service review in 2011. The assets within the collection are deemed to have indeterminate lives, hence the Council does not consider it appropriate to charge depreciation.

13.3 Assets Not Reported in the Balance Sheet

The Council owns a number of fountains and monuments which are deemed to have historical importance to the locality. The Council considers that reliable cost or valuation information cannot be obtained for these assets due to a lack of comparable market values and therefore these assets are not recognised on the Balance Sheet.

14. Investment Properties

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

Rental income from investment property received in the year was £0.212m (2010/11 - £0.280m). There are no direct operating expenses arising from these properties.

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

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

	2010/11 *£000*	***2011/12*** ***£000***
Balance at 1 April	6,604	6,262
Additions:		
- Transfer from Other Land & Buildings	0	2,292
- Subsequent Expenditure	167	0
Disposals	(823)	0
Net gains / losses from fair value adjustments	314	(888)
Balance at 31 March	6,262	**7,666**

15. Long Term Investments

The Council's long term investments consist of:

	2010/11 *£000*	***2011/12*** ***£000***
Loans and Receivables		
- Externally Managed Investments	6,057	**6,080**
- Internally Managed Investments	5,765	**4,189**
- Repair & Renewal Fund - 3.5% Conversion Stock	1	**1**
	11,823	**10,270**
Available for Sale Investment	1,401	**0**
Total Long Term Investments	13,224	**10,270**

16. Long Term Debtors

The following are included in the Council's long term debtors:

	2010/11 £000	**2011/12 £000**
Loans and Receivables (Note 18)		
- Mortgages	292	**249**
- Other Long Term Debtors	1,194	**935**
	1,486	**1,184**
Operating Lease Incentives	168	**163**
Total Long Term Debtors	1,654	**1,347**

17. Long Term Creditors

The long-term creditor represents a lease incentive. This is where the Council, as lessee, has received by way of a rent free period or reduced rentals early on in the lease term. Under IFRS the lease payments are charged to the CIES equally over the lease term with the resultant impact as noted above. The lease property incentive will be fully written out by June 2013.

18. Financial Instruments

18.1 Categories of Financial Instruments

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

	Long Term		*Current*	
	2010/11 £000	***2011/12 £000***	*2010/11 £000*	***2011/12 £000***
Investments				
Loans and receivables	11,823	**10,270**	54,232	**55,102**
Available-for-sale financial assets	1,401	**0**	10,507	**0**
	13,224	**10,270**	64,739	**55,102**
Debtors				
Loans and receivables	1,484	**1,184**	0	**0**
Financial assets carried at contract amounts	0	**0**	12,229	**9,620**
	1,484	**1,184**	12,229	**9,620**
Total Financial Assets	14,708	**11,454**	76,968	**64,722**
Borrowings				
Financial liabilities at amortised cost	(110,071)	**(116,085)**	(6,578)	**(3,633)**
Credit Cover arrangements (Leases)	(24)	**0**	(24)	**(24)**
	(110,095)	**(116,085)**	(6,602)	**(3,657)**
Creditors				
Financial liabilities carried at contract amounts	0	**0**	(12,851)	**(13,831)**
	0	**0**	(12,851)	**(13,831)**
Total Financial Liabilties	(110,095)	**(116,085)**	(19,453)	**(17,488)**

18.2 Events with Material Effect - Impairment of Financial Assets

Impairment of Deposits with Icelandic Banks

Early in October 2008, several Icelandic banks collapsed and went into administration. North Somerset Council had one investment of £3m deposited in Landsbanki, which was due to mature on 28 November 2008. All monies continue to remain subject to the respective legal administration and receivership processes.

Previous valuations of the remaining assets and liabilities of Landsbanki Bank indicated that some recovery of the investment was likely, however the level of recovery was still subject to decisions to be determined by the Icelandic Courts, the primary issue being the assumption that local authority deposits with the banks had priority creditor status, and would therefore be repaid ahead of any creditors that did not have priority status.

In April 2011 the Reykjavik District Court issued a verdict confirming the local authorities' claims qualified for priority creditor status under Article 112 of the Icelandic Bankruptcy legislation, which although appealed against, the ruling was subsequently upheld by the Icelandic Supreme Court. The Council's Accounts have therefore been prepared on the basis of this final ruling, and are reflecting a recovery rate of 100%.

Since these rulings were finalised the Landsbanki Winding Up Board made their first distribution to creditors in February 2012, and at that time the Council has received repayment of approximately one third of its investment.

Recoveries are expressed as a percentage of the Council's claim in the administration process, and are based upon the value of the matured deposit together with interest at the contractual rate, and then adjusted for the time value of money for the period until full repayment is made.

All decisions relating to the amounts and timings of repayments will be made by the resolution committee and the WInding Up Board, however in calculating the reversal of the prior year impairment assessment, the Council has anticipated phased repayments will be received until December 2019.

18.3 Income, Expense, Gains and Losses

2010/11				***2011/12***		
Financial Assets		*Financial Liabilities carried at Amortised Cost*		***Financial Assets***		***Financial Liabilities carried at Amortised Cost***
Loans & Receivables £000	*Available-for-Sale £000*	*£000*		***Loans & Receivables £000***	***Available-for-Sale £000***	***£000***
0	0	6,412	Interest expense	0	0	6,424
0	7	0	Losses on derecognition	0	1	0
25	0	0	Impairment losses	(182)	0	0
25	7	6,412	**Total expense in Surplus or Deficit on the Provision of Services**	**(182)**	**1**	**6,424**
(1,542)	(112)	0	Interest income	(1,208)	(78)	0
(139)	0	0	Interest income accrued on impaired financial assets	(137)	0	0
(1,681)	(112)	0	**Total income in Surplus or Deficit on the Provision of Services**	**(1,345)**	**(78)**	**0**
(1,656)	(105)	6,412	**Net Gain / (Loss) for the Year**	**(1,527)**	**(77)**	**6,424**

18.4 Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment dates from the PWLB have been applied to provide the fair value under the PWLB debt redemption procedures
- The fair values of non-PWLB debt have been calculated using the same procedures and interest rates, which provide a reasonable approximation for the fair value of these instruments
- For investments maturing after 12 months of the balance sheet date, prevailing benchmark market rates have been applied to provide the fair value
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2011		***31 March 2012***	
	Carrying amount £000	*Fair Value £000*	***Carrying amount £000***	***Fair Value £000***
Loans and receivables	66,055	66,231	**65,372**	**65,590**
Available-for-Sale financial assets	11,908	11,908	**0**	**0**
Short-term debtors	12,229	12,229	**9,620**	**9,620**
Long-term debtors	1,484	1,484	**1,184**	**1,184**
Total Financial Assets	91,676	91,852	**76,176**	**76,394**
Financial liabilities	(116,697)	(126,391)	**(119,742)**	**(147,034)**
Short-term creditors	(12,851)	(12,851)	**(13,831)**	**(13,831)**
Total Financial Liabilities	(129,548)	(139,242)	**(133,573)**	**(160,865)**

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

The fair value of financial assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

Available for sale assets are carried in the balance sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

19. Inventories

The table below shows the movement in inventories during the year:

	Balance at 1 April £000	*Purchases £000*	*Sales £000*	*Written Off £000*	***Balance at 31 March £000***
Movements in 2011/2012					
Bar and Catering Stock	23	40	(60)	0	**3**
Controlled Stationery	13	4	(7)	0	**10**
Green Sacks	30	21	(45)	0	**6**
	66	65	(112)	0	**19**
Movements in 2010/2011					
Bar and Catering Stock	32	37	(46)	0	**23**
Controlled Stationery	14	10	(14)	3	**13**
Green Sacks	45	25	(40)	0	**30**
	91	72	(100)	3	**66**

20. Debtors

	2010/11 £000	***2011/12 £000***
Central Government Bodies	8,197	**6,082**
Other Local Authorities	360	**3,273**
NHS Bodies	2,116	**512**
Public Corporations and Trading Funds	0	**0**
Other Entities and Individuals	13,104	**11,867**
Total Short Term Debtors	23,777	**21,734**
Prepayments	4,745	**4,558**
Total Short Term Debtors and Prepayments	28,522	**26,292**

21. Cash and Cash Equivalents

	2010/11 £000	***2011/12 £000***
Cash held by the Council	19	**18**
Bank current accounts	(1,233)	**(3,974)**
Short-term deposits with Building Societies	0	**0**
Total Cash and Cash Equivalents	(1,214)	**(3,956)**

22. Assets Held For Sale

	Current Assets 2010/11 £000	**2011/12 £000**
Balance at 1 April	0	**609**
Assets newly classified as held for sale		
- Property Plant and Equipment	1,633	**1,293**
Revaluation gains / losses	(26)	**(71)**
Assets sold	(998)	**(976)**
Balance at 31 March	609	**855**

23. Creditors

	2010/11 £000	***2011/12 £000***
Central Government bodies	(5,779)	**(7,153)**
Other Local Authorities	(4,075)	**(3,926)**
NHS Bodies	(1,534)	**(36)**
Public Corporations and Trading Funds	(75)	**(25)**
Other Entities and Individuals	(30,995)	**(28,553)**
Total Short Term Creditors	(42,458)	**(39,693)**
Finance lease obligations due within 12 months	(138)	(76)
Total Short Term Creditors including finance lease obligations	(42,596)	**(39,769)**

24. Provisions

This heading reflects monies held where the Council has an obligation which is likely to lead to a payment but the exact amount and timing of the payment is unknown.

	Balance 1st April 2011 £000	*Additional Provisions Made £000*	*Amounts Used £000*	***Balance 31st March 2012 £000***
Insurance Provisions				
- General Fund	(1,920)	(1,205)	696	**(2,429)**
- Sheltered Leasehold	(56)	(14)	0	**(70)**
- Housing	(4)	0	0	**(4)**
NNDR Revaluation Provisions	(246)	(185)	75	**(356)**
Customer Delivery Provision	(35)	0	30	**(5)**
Sporting Provisions	(23)	0	23	**0**
IT Data Capture & Projects	(16)	0	0	**(16)**
Planning Appeals Provision	(212)	0	0	**(212)**
Homecare Provision	(18)	0	0	**(18)**
Homelessness Review	(10)	0	0	**(10)**
Severance Costs Provision	(969)	(588)	969	**(588)**
Procurement Contract Provision	0	(150)	0	**(150)**
Property Rental Income Provision	0	(51)	0	**(51)**
Carbon Reduction Scheme Provision	0	(192)	0	**(192)**
Benefits Subsidy Provision	0	(181)	0	**(181)**
Total Provisions	(3,509)	(2,566)	1,793	**(4,282)**
Expected future timing of associated outflows of economic benefit:				
Less than 1 year	(1,446)			(1,874)
Over 1 year, less than 5 years	(1,812)		(2,127)	
Over 5 years	(251)		(281)	**(2,408)**
	(3,509)			**(4,282)**

Provision	***Description***
Insurance Provisions	Provisions set-aside to finance the estimated costs of reported insurance claims
NNDR Revaluation Provision	to finance the costs associated with the delivery of past NNDR Revaluations
Planning Appeals Provision	to finance the estimated costs of known planning appeals
Housing Provisions	to finance the costs associated with the homelessness review, and the outstanding severance costs of the homecare service transition project
Severance Costs Provision	to finance severance costs relating to decisions made prior to the Balance Sheet date to terminate officers employment

The most significant provision relates to insurance claims. These claims have been reported to the Council and financially assessed by either the Council's in-house team, or by the specialist claims handlers who estimate a reserve, or future financial cost, based upon the individual case facts and current industry sector guidelines. The provision above reflects the current value of all claims reserves, with no additional costs during the year arising from the increased passage of time or changes in the discount rate as these costs will be financed from the insurance reserve.

25. Insurance Provisions and Reserves

The insurance provisions and reserves balance stood at £5.792m as at 31 March 2012. Identified outstanding potential commitments at this date stand at approximately £2.503m and are reflected in the insurance provisions shown in Note 24, page 50. However, as always with insurance claims, they can take time to materialise and therefore the Council has set-aside reserves totalling £3.068m to meet any further potential claims yet to be reported.

The Council generally insures its portfolio of properties for most of the major perils but bears the first £100,000 (i.e. excess) of claims. This excess is paid from the Council's insurance reserves subject to a total 'stop-loss' for all claims of £300,000 for the year, i.e. the total call on the reserves in any one year is limited to this amount. The movement in this reserve is shown in Note 8, page 35.

The Council's liability insurances are generally subject to an excess of £50,000 for all claims payable from the Insurance Reserves, but once again this is subject to a 'stop-loss' of £1.1m for the year. Motor claims are traditionally insured but subject to an excess of £250 for accidental damage.

The major areas of risk not covered either by external insurance policies or the internal insurance fund are as follows:

- Spontaneous combustion
- Asbestosis
- Accidental damage unless specifically referred to on the "All Risks" cover
- Theft or damage to property in the open
- Infrastructure (roads, bridges, street furniture, sea defences etc.).

Any costs arising from such risks are charged to the relevant accounts of the council.

The Council's insurance arrangements for 2011/12 include a 'stop-loss' facility for both liability and property insurance policies. This means that the Council's own financial liabilities arising from the payments of excesses is limited, or capped, at a specified level. Each insurance year has its own stop-loss limit.

26. Ex-Avon County Council Debt (Long Term Liabilities)

Following Local Government Reorganisation, the responsibility for administering Avon County Council's outstanding debt was transferred to Bristol City Council. All the unitary authorities in the ex-Avon area make annual contributions equivalent to principal and interest towards the long-term debts.

It should be noted that the North Somerset Council share of the former Avon County debt figures shown below, are incorporated within the Council's Long-Term Liabilities on the Balance Sheet.

	2010/11 £000	***2011/12 £000***
Total Avon CC Debt Outstanding	95,558	**91,736**
North Somerset Share of LGR Debt Outstanding	17,993	**17,273**
Total Interest Paid in Year	847	**854**
Avon Debt Repayments - Minimum Revenue Provision	750	**720**
NSC Share of Converted Debt Rescheduling Costs	435	**418**
Interest Paid in Year	20	**21**
Avon Debt Restructuring Repayments - Minimum Revenue Provision	18	**17**
NSC Share of Other Debt Rescheduling Costs Outstanding		
Interest Paid in Year	35	**34**
Premiums & Discounts in Year	14	**14**
Share of Post 1996 Probation Advances	1,982	**1,953**
Total for both LGR and Debt Restructuring		
North Somerset Debt Outstanding	18,428	**17,691**
Interest Paid in Year	903	**908**
Premiums & Discounts in Year	14	**15**
Debt Repayments - Minimum Revenue Provision	768	**737**
Post 1996 Probation Advances	2	**2**

27. Usable Reserves

Movements in the Council's usable reserves are summarised in the Movement in Reserves Statement (page 11) and Notes 7 and 8 (pages 33 to 36).

Movement in the Dedicated Schools Grant is detailed in Note 38 (page 72).

LMS School Balances

The balance of £4.716m (£6.447m - 2010/11) consists of the balances that are held by North Somerset's schools under the LMS scheme, together with DCSF Standards Fund Grant which will be utilised by schools in the summer period of 2012 and are not available to the Council for general use.

28. Unusable Reserves

28.1 Summary of Unusable Reserves

	Balance 1 April 2011 £000	*Net Movement in Year £000*	***Balance 31 March 2012 £000***	*Further Details*
Revaluation Balances				
Revaluation Reserve	(246,973)	104,529	**(142,444)**	Note 28.2
Available-for-Sale Financial Instruments Reserve	(1)	1	**0**	Note 28.3
	(246,974)	104,530	**(142,444)**	
Adjustment Balances				
Capital Adjustment Account	(232,316)	92,652	**(139,664)**	Note 28.4
Financial Instruments Adjustment Account	686	(31)	**655**	Note 28.5
Collection Fund Adjustment Account	(583)	298	**(285)**	Note 28.6
Pensions Reserve	157,451	21,670	**179,121**	Note 28.7
Accumulated Absences Account	3,590	(586)	**3,004**	Note 28.8
Deferred Capital Receipts Reserve	(297)	43	**(254)**	Note 28.9
	(71,469)	114,046	**42,577**	
Total Unusable Reserves	(318,443)	218,576	**(99,867)**	

28.2 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11 £000	***2011/12 £000***
Balance brought forward - 1 April	(325,089)	**(246,973)**
Upward revaluation of assets	(16,083)	**(17,565)**
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	80,914	**18,148**
Surplus / deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	64,831	**583**
Difference between fair value depreciation and historical cost depreciation	10,122	**6,622**
Accumulated gains on assets sold or scrapped	3,163	**97,324**
Amount written off to the Capital Adjustment Account	13,285	**103,946**
Balance carried forward - 31 March	(246,973)	**(142,444)**

28.3 Available-for-Sale Financial Instruments Reserve

This Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

	2010/11 £000	***2011/12 £000***
Balance brought forward - 1 April	(8)	**(1)**
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	7	**1**
Balance carried forward - 31 March	(1)	**0**

28.4 Capital Adjustment Account

The balance on the Account represents timing differences arising from the difference arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

The Account contains accumulated gains and losses on Investment Property and gains recognised on donated assets that have yet to be consumed by the Authority; revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007 (the date the Revaluation Reserve was created) are also contained in the Account.

	2010/11 *£000*	***2011/12*** ***£000***
Balance brought forward - 1 April	(223,523)	**(232,316)**
Reversal of items relating to capital expenditure debited or credit to the Comprehensive Income and Expenditure Statement		
Charges for depreciation of non-current assets	23,547	**18,877**
Charges for impairment of non-current assets	5,752	**6,431**
Revaluation losses on Property, Plant and Equipment	12,235	**13,254**
Revenue expenditure funded from capital under statute	5,025	**7,529**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,486	**197,500**
	49,045	**243,591**
Adjusting amounts written out of the Revaluation Reserve		
Amounts written out on disposal or sale of non-current assets	0	**(97,325)**
Historical cost depreciation adjustment	(9,938)	**(6,622)**
	(9,938)	**(103,947)**
Net written out amount of the cost of non-current assets consumed in the year	39,107	**139,644**
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	(8,438)	**(7,620)**
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(32,660)	**(25,376)**
Application of grants to capital financing from the Capital Grants Unapplied Account	(129)	**(2,535)**
Statutory provision for the financing of capital investment charged against the General Fund Balance	(5,452)	**(6,762)**
Capital expenditure charged against the General Fund Balance	(907)	**(5,587)**
	(47,586)	**(47,880)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(314)	**888**
Balance carried forward - 31 March	(232,316)	**(139,664)**

A credit balance on the Account shows that capital finance has been set aside at a faster rate than non-current assets have been consumed, and the Council has a nominal surplus when comparing financing to consumption of resources.

A debit balance on the Account shows that non-current assets have been consumed in advance of their being financed, and the Council has a nominal deficit when comparing financing to consumption of resources.

28.5 Financial Instruments Adjustment Account

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

	2010/11 £000	**2011/12 £000**
Balance brought forward - 1 April	1,464	**687**
Proportion of premiums incurred in previous financial years to the charged against the General Fund Balance in accordance with statutory requirements	(31)	**(31)**
Impairment incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(746)	**0**
Balance carried forward - 31 March	687	**656**

28.6 Collection Fund Adjustment Account

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

	2010/11 £000	**2011/12 £000**
Balance brought forward - 1 April	(1,420)	**(583)**
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calcuated for the year in accordance with statutory requirements	837	**298**
Balance carried forward - 31 March	(583)	**(285)**

28.7 Pensions Reserve

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

	2010/11 *£000*	***2011/12*** ***£000***
Balance brought forward - 1 April	196,069	**157,451**
Actuarial (gains) or losses on pensions assets and liabilities	(15,473)	**28,451**
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(7,707)	**7,705**
Employer's pensions contributions and direct payments to pensioners payable in the year	(15,438)	**(14,486)**
Balance carried forward - 31 March	157,451	**179,121**

The amounts shown above bring together adjustments for both the Local Government Pension Scheme (Note 45.2, page 80) and Unfunded Teachers' Discretionary Benefits (Note 45.3, page 84) as follows:

	2011/12	
	Local Government Pension Scheme *£000*	*Teachers' Discretionary Benefits* *£000*
Balance brought forward - 1 April	133,331	24,120
Actuarial (gains) or losses on pensions assets and liabilities	27,632	819
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	6,366	1,339
Employer's pensions contributions and direct payments to pensioners payable in the year	(12,785)	(1,701)
Balance carried forward - 31 March	154,544	24,577

28.8 Accumulated Absences Account

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

	2010/11 £000	***2011/12 £000***
Balance brought forward - 1 April	4,247	**3,590**
Settlement or cancellation of accrual made at the end of the preceding year	(4,247)	**(3,590)**
Amounts accrued at the end of the current year	3,590	**3,004**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(657)	**(586)**
Balance carried forward - 31 March	3,590	**3,004**

28.9 Deferred Capital Receipts Reserve

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

	2010/11 £000	***2011/12 £000***
Balance at 1 April	(330)	**(296)**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	**0**
Transfer to the Capital Receipts Reserve upon receipt of cash	34	**43**
Balance carried forward - 31 March	(296)	**(253)**

29. Notes to the Cash Flow Statement

29.1 Adjustments to the net (surplus) / deficit on the provision of services for non-cash movements

	2010/11 £000	***2011/12 £000***
Depreciation and impairment	(41,534)	**(38,562)**
(Increase) in impairment allowance for bad debts	(639)	**(1,117)**
(Increase)/decrease in creditors	7,838	**4,104**
Increase/(decrease) in debtors	(880)	**332**
Increase/(decrease) in inventories	(25)	**(47)**
Pension liability	23,145	**6,781**
Carrying amount of non current assets sold	(4,292)	**(197,500)**
Provisions	(734)	**(773)**
Movements in the value of investment properties	314	**(888)**
Grants applied to the financing of capital expenditure	34,162	**26,746**
Other non-cash items charged to the net surplus or deficit on the provision of services	772	**949**
Net adjustments for non-cash movements	18,127	**(199,975)**

29.2 Adjustments for items included in the surplus or deficit on provision of services that are investing and financing activities

	2010/11 £000	***2011/12 £000***
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,675	**3,113**

29.3 Operating Activities

The cash flows for operating activities include the following:

	2010/11 £000	***2011/12 £000***
Interest received	(2,879)	**(1,337)**
Interest paid	7,297	**7,081**

29.4 Investing Activities

	2010/11 £000	***2011/12 £000***
Purchase of property, plant and equipment, investment property and intangible assets	49,645	**43,126**
Purchase of short-term and long-term investments	225,908	**269,139**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,882)	**(3,113)**
Proceeds from short-term and long-term investments	(243,705)	**(282,051)**
Other receipts from investing activities	(22,033)	**(20,970)**
Net cash flows from Investing Activities	6,933	**6,131**

29.5 Financing Activities

	2010/11 £000	***2011/12 £000***
Cash receipts of short- and long-term borrowing	(8,951)	**(39,533)**
Cash payments for the reduction of the outstanding liabilities relating to finance lease	160	**154**
Repayments of short- and long-term borrowing	7,120	**36,467**
Other payments for financing activities	(2,108)	**(1,635)**
Net cash flows from Financing Activities	(3,779)	**(4,547)**

30. Segment Reporting

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Executive on the basis of budget reports analysed across service directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure; depreciation, revaluation and impairment losses are charged to services in the Comprehensive Income and Expenditure Statement
- the cost of retirement benefits is based on cash flows – i.e. payment of employer's pensions contributions rather than the current service cost of benefits accrued in the year
- not all overheads and support services are fully recharged during the year for management reporting purposes

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

	2011/2012						
	Children and Young People £000	**Dedicated Schools Budget £000**	**Adult Social Care and Housing £000**	**Development and Environment £000**	**Finance & Property £000**	**Corporate Services £000**	**TOTAL £000**
Employee Expenses	17,995	86,214	12,942	12,703	6,451	5,266	141,571
Other Service Expenses	21,303	44,089	67,697	31,789	20,170	4,957	190,005
Transfer Payments	0	0	33	0	77,528	0	77,561
Support Services	4,326	5,340	2,765	9,450	10,097	1,448	33,426
Total Expenditure	43,624	135,643	83,437	53,942	114,246	11,671	442,563
Fees, Charges & Other Service Income	(7,419)	(12,555)	(13,024)	(16,867)	(24,315)	(6,271)	(80,451)
Grants & Contributions	(8,333)	(123,088)	(9,253)	(1,582)	(80,451)	(2,203)	(224,910)
Total Income	(15,752)	(135,643)	(22,277)	(18,449)	(104,766)	(8,474)	(305,361)
Net Expenditure 2011/2012	**27,872**	**0**	**61,160**	**35,493**	**9,480**	**3,197**	**137,202**

	2010/2011						
	Children and Young People £000	**Dedicated Schools Budget £000**	**Adult Social Care and Housing £000**	**Development and Environment £000**	**Finance & Property £000**	**Corporate Services £000**	**TOTAL £000**
Employee Expenses	19,703	106,911	14,097	15,337	8,904	6,230	171,182
Other Service Expenses	29,507	52,591	71,142	39,515	19,803	12,494	225,052
Transfer Payments	0	0	0	0	74,070	0	74,070
Support Services	3,295	3,088	2,343	8,330	5,714	1,318	24,088
Total Expenditure	52,505	162,590	87,582	63,182	108,491	20,042	494,392
Fees, Charges & Other Service Income	(9,697)	(7,854)	(13,641)	(20,312)	(19,103)	(12,956)	(83,563)
Grants & Contributions	(14,017)	(154,736)	(22,866)	(5,509)	(79,776)	(4,018)	(280,922)
Total Income	(23,714)	(162,590)	(36,507)	(25,821)	(98,879)	(16,974)	(364,485)
Net Expenditure 2010/2011	**28,791**	**0**	**51,075**	**37,361**	**9,612**	**3,068**	**129,907**

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

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

	2010/11 £000	***2011/12 £000***
Net Expenditure in the Directorate Analysis	129,907	**137,202**
Net expenditure of services and support services not included in the analysis	10,522	**(5,427)**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	10,625	**27,611**
Amounts included in the analysis and not included in the Comprehensive Income and Expenditure Statement	2,568	**5,413**
Cost of Services in Comprehensive Income and Expenditure Statement	153,622	**164,799**

30.2 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2011/2012	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIE Statement £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	TOTAL £000
Employee Expenses	141,571	223	(5,746)	0	(6,424)	**129,624**	0	**129,624**
Other Service Expenses	189,905	20,193	6,594	(30,110)	(18,235)	**168,347**	0	**168,347**
Transfer Payments	77,561	0	0	0	0	**77,561**	0	**77,561**
Support Services Recharges	33,426	22	0	(16)	(3,527)	**29,905**	0	**29,905**
Depreciation, amortisation and impairment	0	0	38,562	0	0	**38,562**	0	**38,562**
Interest Payments	0	0	0	0	0	**0**	33,144	**33,144**
Precepts & Levies	0	0	0	0	0	**0**	3,638	**3,638**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	33	**33**
Gain / Loss on Disposal of Non-Current Assets	0	0	0	0	0	**0**	194,385	**194,385**
Total Expenditure	442,463	20,438	39,410	(30,126)	(28,186)	**443,999**	231,200	**675,199**
Fees, Charges & Other Service Income	(80,451)	(7,016)	(11,799)	17,163	28,186	**(53,917)**	0	**(53,917)**
Grants & Contributions	(224,810)	(18,849)	0	18,376	0	**(225,283)**	(21,408)	**(246,691)**
Interest and Investment Income	0	0	0	0	0	**0**	(21,125)	**(21,125)**
Income from Council Tax	0	0	0	0	0	**0**	(93,858)	**(93,858)**
Government Grants & Contributions	0	0	0	0	0	**0**	(61,588)	**(61,588)**
Total Income	(305,261)	(25,865)	(11,799)	35,539	28,186	**(279,200)**	(197,979)	**(477,179)**
Surplus / Deficit on the Provision of Services	**137,202**	**(5,427)**	**27,611**	**5,413**	**0**	**164,799**	**33,221**	**198,020**

2010/2011	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIE Statement £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	TOTAL £000
Employee Expenses	171,182	0	(32,262)	0	0	**138,920**	0	**138,920**
Other Service Expenses	225,052	12,486	1,364	(26,525)	(666)	**211,711**	0	**211,711**
Transfer Payments	74,070	0	0	0	0	**74,070**	0	**74,070**
Support Services Recharges	24,087	0	0	0	(1,385)	**22,702**	0	**22,702**
Depreciation, amortisation and impairment	0	0	41,534	0	0	**41,534**	0	**41,534**
Interest Payments	0	0	0	0	0	**0**	15,580	**15,580**
Precepts & Levies	0	0	0	0	0	**0**	3,661	**3,661**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	24	**24**
Gain / Loss on Disposal of Non-Current Assets	0	0	0	0	0	**0**	1,455	**1,455**
Total Expenditure	494,391	12,486	10,636	(26,525)	(2,051)	**488,937**	20,720	**509,657**
Fees, Charges & Other Service Income	(83,563)	(1,964)	(11)	13,680	2,051	**(69,807)**	0	**(69,807)**
Grants & Contributions	(280,921)	0	0	(33)	0	**(280,954)**	(34,916)	**(315,870)**
Interest and Investment Income	0	0	0	0	0	**0**	(2,134)	**(2,134)**
Income from Council Tax	0	0	0	15,447	0	**15,447**	(93,375)	**(77,928)**
Government Grants & Contributions	0	0	0	0	0	**0**	(67,422)	**(67,422)**
Total Income	(364,484)	(1,964)	(11)	29,094	2,051	**(335,314)**	(197,847)	**(533,161)**
Surplus / Deficit on the Provision of Services	**129,907**	**10,522**	**10,625**	**2,569**	**0**	**153,623**	**(177,127)**	**(23,504)**

31. Overheads and Support Services

The cost of the Council's support services recharged to service accounts in the year are shown in the table below.

	2010/11 £000	***2011/12 £000***
Financial Services	8,315	**12,455**
Legal Services	1,224	**1,239**
Personnel Services	1,334	**1,181**
Information Technology	1,460	**446**
Corporate Administration	1,142	**1,507**
Property Related Services	2,386	**2,789**
Internal Insurance Premiums	1,416	**1,964**
Central Expenses (postages, photocopiers, telephones, etc.)	1,359	**970**
Recruitment & Retention	165	**172**
Central Office Accommodation	3,901	**7,228**
Total Support Service Recharges	22,702	**29,951**

The total cost for 2011/12 shown above reflects the revised organisational approach to delivery of support services through strategic partnership arrangements which now encompass functions previously accounted for as direct service costs. The total cost shown in respect of Central Office Accommodation includes technical accounting adjustments for non current assets.

32. Trading Operations

The Council operates a trading unit for Grounds Maintenance operations, where the service manager is required to achieve a break-even position in–year after meeting statutory capital charges.

	2010/11	***2011/2012***		
	Surplus / (Deficit) £000	*Income £000*	*Expenditure £000*	***Surplus / (Deficit) £000***
Activities				
Grounds Maintenance	100	759	(645)	**114**
Contract Services - Notional Reserve				
Balance at 1 April	0			**0**
Surplus / (Deficit) for Year	100			**114**
Depreciation	(9)			**(9)**
Contribution from / (to) General Fund	(91)			**(105)**
Balance at 31 March	0			**0**

Grounds Maintenance Operations are included in the Comprehensive Income and Expenditure Statement as part of the cost of Environmental and Regulatory Services as an integral part of the Council's services to the public.

33. Landfill Allowances Trading Schemes

The Landfill Allowances Trading Scheme (LATS) allocates tradable landfill allowances to each Waste Disposal Authority (WDA) in England up to a specified level set by DEFRA, known as the 'cap'. WDAs may use their allowances to meet the liabilities for actual landfill usage or sell them to another WDA. Authorities that use more landfill than their cap must purchase allowances from another authority to enable them to meet their liability, or pay a financial penalty to DEFRA if they fail to acquire sufficient allowances.

For 2011/12 the Council received allowances of 34,371 tonnes and the estimated landfill usage is 18,898 tonnes. The Council has not bought or sold any allowances in year and any unsold or unused allowances are not permitted to be carried forward and therefore the remaining 15,473 permits have been valued at nil at the Balance Sheet date.

The following amounts are included in the Statement of Accounts:

	2010/11	***2011/12***
Comprehensive Income and Expenditure Account	*£000*	***£000***
Cultural, Environmental, Regulatory & Planning Services		
- Gross Income	(491)	**(100)**
- Gross Expenditure	491	**100**
Net Cost	0	**0**
Balance Sheet 2011/2012		
Current Assets : Landfill Usage Allowances		
- On recognition	491	**100**
- Movement	(491)	**(100)**
	0	**0**
Current Liabilities : Liability to DEFRA for Estimated Landfill Usage		
- On recognition	(16)	**0**
- Movement	16	**0**
	0	**0**
Useable Reserves : General Fund		
- On recognition	(475)	**(100)**
- Movement	475	**100**
	0	**0**

In June 2011, DEFRA published a Review of Waste Policy which announced the ending of the Landfill Allowances Trading Scheme in England after 2012/13.

34. Pooled Budgets

Section 75 of the Health Act 2006, the NHS Bodies and the Local Authorities Partnership Arrangements Regulations 2000, enable the establishment of joint working arrangements between NHS bodies and local authorities.

An agreement with North Somerset Primary Care Trust exists for the provision of an Integrated Community Equipment Service. The gross expenditure on this service was £1.534m (2010/11 – £1.407m) of which £0.471m (2010/11 – £0.559m) was provided by the Council. The remaining sum of £1.063m (2010/11 – £0.848m) was provided by the Primary Care Trust.

35. Members' Allowances

The Council is required by the Accounts and Audit Regulations to disclose annually the amounts paid to each elected councillor (Member) under its scheme of Members' Allowances. There are two types of allowance:

- **Basic Allowance** – payable to all Councillors.
- **Special Responsibility Allowance** – payable to certain Councillors to reflect significant additional responsibilities.

Councillor	Members Basic Allowance £	Special Responsibility Allowance £	Employers Pension Contribution £	Employers National Insurance £	Travel Expenses & Subsistence £	Total £
Elfan Ap Rees	8,112	17,919	4,972	2,617	1,041	**34,661**
Nigel Ashton	8,112	25,596	0	3,680	1,691	**39,079**
Felicity Baker	8,112	15,360	0	2,265	1,749	**27,486**
Angela Barber	8,112	826	0	261	718	**9,917**
Karen Barclay	8,112	0	0	145	101	**8,358**
Robert Bateman	8,112	264	0	180	0	**8,556**
Mike Bell	7,218	2,460	0	350	0	**10,028**
Christopher Blades	8,112	0	0	144	125	**8,381**
Ericka Blades	785	0	0	12	0	**797**
Jeremy Blatchford	8,112	15,360	0	2,269	2,064	**27,805**
Mary Blatchford	8,112	3,555	0	635	305	**12,607**
Anthony Bryant	8,112	15,360	4,483	2,265	1,288	**31,508**
Mark Canniford	7,218	0	0	120	0	**7,338**
Charles Cave	7,218	0	0	120	965	**8,303**
Robert Cleland	8,112	0	0	145	189	**8,446**
Andrew Cole	8,112	826	1,707	126	975	**11,746**
William Collins	785	0	150	3	0	**938**
Thomas Collinson	2,704	0	0	49	127	**2,880**
Robert Cook	8,112	661	1,676	241	1,408	**12,098**
Geoffrey Coombs	4,552	0	0	72	0	**4,624**
Susan Creasey	785	0	0	12	0	**797**
Peter Crew	7,196	0	0	120	0	**7,316**
John Crockford-Hawley	7,218	0	0	120	0	**7,338**
Donald Davies	7,153	0	0	121	1,033	**8,307**
Steven Edwards	785	0	0	12	0	**797**
Carl Francis-Pester	8,112	0	0	144	516	**8,772**
Stephen Fudge	7,153	0	0	120	0	**7,273**
Robert Garner	8,112	826	0	260	1,127	**10,325**
Catherine Gibbons	7,153	0	0	120	0	**7,273**
Hugh Gregor	8,112	0	0	147	931	**9,190**
Anne-Marie Gregory	785	0	0	12	0	**797**
Colin Hall	8,112	6,710	1,549	718	557	**17,646**
Ann Harley	8,112	991	0	282	677	**10,062**
Guljinder Hayer	785	0	0	12	0	**797**
David Hitchins	7,218	0	0	120	0	**7,338**
Andrew Horler	785	619	0	65	0	**1,469**
Christopher Howell	785	0	0	12	0	**797**
Jill Iles	8,112	4,474	0	764	659	**14,009**
David Jolley	8,112	4,474	2,404	761	616	**16,367**
Philip Judd	8,112	0	0	144	0	**8,256**
Edward Keating	785	0	0	12	36	**833**
Michael Kellaway-Marriott	785	496	245	71	314	**1,911**
Teresa Kemp	8,112	6,399	0	1,027	1,181	**16,719**
Chris Kimitri	785	0	0	12	0	**797**
Clare Kingsbury-Bell	7,218	0	0	120	0	**7,338**
Sub-total c/fwd	266,318	123,176	17,186	21,007	20,393	**448,080**

Councillor	Members Basic Allowance £	Special Responsibility Allowance £	Employers Pension Contribution £	Employers National Insurance £	Travel Expenses & Subsistence £	Total £
sub total b/fwd	266,318	123,176	17,186	21,007	20,393	**448,080**
Nanette Kirsen	785	1,164	0	150	422	**2,521**
Reyna Knight	8,112	6,399	0	1,029	1,624	**17,164**
Linda Knott	7,153	0	0	120	71	**7,344**
Anthony Lake	6,747	10,116	0	1,352	0	**18,215**
Thomas Leimdorfer	8,112	4,136	0	715	0	**12,963**
Timothy Marter	8,112	661	1,676	108	285	**10,842**
Alan McMurray	8,112	0	0	144	241	**8,497**
Keith Morris	785	372	0	56	0	**1,213**
Anthony Moulin	8,112	3,355	0	607	371	**12,445**
John Norton-Sealey	8,112	0	1,549	145	298	**10,104**
Ian Parker	8,112	0	0	144	0	**8,256**
Dawn Parry	785	0	0	12	0	**797**
David Pasley	8,112	6,238	0	1,005	418	**15,773**
Amratlal Patel	785	0	0	12	0	**797**
Dawn Payne	8,112	0	0	144	170	**8,426**
Robert Payne	7,218	0	0	120	0	**7,338**
Nicholas Pennycott	7,153	0	0	121	417	**7,691**
Marcia Pepperall	8,112	4,474	2,404	761	0	**15,751**
Lisa Pilgrim	7,998	5,591	0	904	0	**14,493**
David Poole	7,218	0	0	120	893	**8,231**
Ian Porter	8,112	5,591	0	916	0	**14,619**
Terence Porter	8,112	0	1,549	144	0	**9,805**
Howard Roberts	785	0	0	12	0	**797**
Sonia Russe	7,153	0	0	120	0	**7,273**
David Shopland	0	0	0	0	0	**0**
Deborah Stone	8,112	0	0	144	0	**8,256**
Annabel Tall	7,153	0	0	120	230	**7,503**
Arthur Terry	8,112	0	0	144	209	**8,465**
Richard Tucker	7,153	2,237	0	414	0	**9,804**
Stanley Vyce	785	0	150	3	0	**938**
Clive Webb	8,112	6,399	2,772	686	25	**17,994**
Elizabeth Wells	8,112	0	0	145	619	**8,876**
Rosslyn Willis	8,112	0	0	145	608	**8,865**
Deborah Yamanaka	8,112	330	0	190	320	**8,952**
Stephen Harvey	17	0	0	0	0	**17**
Alethea Peacock	6,399	0	0	0	0	**6,399**
Total 2011/12	**488,406**	**180,239**	**27,286**	**31,959**	**27,614**	**755,504**
Total 2010/11	**483,990**	**208,738**	**33,288**	**43,643**	**27,133**	**796,792**

36. Officer Remuneration

The remuneration paid to the Council's senior employees is as follows. A senior employee is an employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989.
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

At North Somerset Council the disclosures relate to the Chief Executive Officer and those officers that form the Council's Corporate Management Team. Details are shown in the tables below. No bonuses or benefits in kind were paid to Senior Officers in the year.

2011/2012 Senior Officer Remuneration

Post	Salary (incl. fees & allowances) £	Expense Allowances £	Compensation for Loss of Employment	Total Remuneration excl. pension contributions £	Pension Contributions £	Total Remuneration incl. pension contributions £
Chief Executive	144,817	0	0	144,817	27,660	**172,477**
Director of Adult Social Services & Housing	103,865	0	0	103,865	19,838	**123,703**
Director of Development & Environment	103,865	0	0	103,865	19,838	**123,703**
Director of Finance & Resources[1]	99,919	0	39,200	139,119	13,226	**152,345**
Director of Children & Young Peoples Services	111,654	0	0	111,654	21,326	**132,980**
Head of Performance Improvement & HR	81,304	0	0	81,304	15,529	**96,833**
Head of Legal & Democratic Services	74,251	0	0	74,251	14,182	**88,433**
Head of Financial Management[2]	11,382	0	0	11,382	2,174	**13,556**
Strategic Policy Development Manager	62,403	0	0	62,403	11,919	**74,322**
	793,460	**0**	**39,200**	**832,660**	**145,692**	**978,352**

[1] This post was deleted from the Council's establishment with effect from 31 January 2012.

[2] This post was incorporated into the Council's Corporate Management Team with effect from 1 February 2012; the annualised salary for this post is £68,293

2010/2011 Senior Officer Remuneration

Post	Salary (incl. fees & allowances) £	Expense Allowances £	Total Remuneration excl. pension contributions £	Pension Contributions £	Total Remuneration incl. pension contributions £
Chief Executive	144,817	0	144,817	26,936	**171,753**
Director of Adult Social Services & Housing	103,865	0	103,865	19,319	**123,184**
Director of Development & Environment	103,865	0	103,865	19,319	**123,184**
Director of Finance & Resource[1]	104,634	0	104,634	19,462	**124,096**
Director of Children & Young Peoples Services[2]	94,551	0	94,551	17,586	**112,137**
Head of Performance and Human Resources	81,304	113	81,417	15,123	**96,540**
Head of Legal & Democratic Services	71,270	0	71,270	13,256	**84,526**
Strategic Policy Development Manager	62,403	0	62,403	11,607	**74,010**
	766,709	**113**	**766,822**	**142,608**	**909,430**

[1] Director of Finance & Resources was also acting Director of Children & Young Peoples Services for the period 1st to 30th April 2010

[2] Service from 4 May 2010 - the annualised salary for the post is £104,062

The Council's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown in the table below. The numbers below cover all Council activities, including the employment of teachers within schools and include those senior officers detailed above.

Remuneration Band	***No. of Employees***	
	2010/11	***2011/12***
£50,000 - £54,999	84	**86**
£55,000 - £59,999	30	**36**
£60,000 - £64,999	26	**27**
£65,000 - £69,999	5	**10**
£70,000 - £74,999	11	**10**
£75,000 - £79,999	2	**2**
£80,000 - £84,999	3	**4**
£85,000 - £89,999	2	**1**
£90,000 - £94,999	2	**2**
£95,000 - £99,999	1	**1**
£100,000 - £104,999	3	**2**
£110,000 - £114,999	0	**1**
£140,000 - £144,999	1	**1**

37. External Audit Costs

In 2011/12 North Somerset Council incurred the following fees relating to external audit and inspection.

	2010/11 *£000*	***2011/12*** ***£000***
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	230	**217**
Fees payable to the Audit Commission in respect of statutory inspection	17	**17**
Fees payable to the for the certification of grant claims and returns	19	**35**
Fees payable in respect of other services provided by the appointed auditor	2	**9**
Total Audit Costs	268	**278**

Fees payable for other services provided relate to costs in respect of Contingency Planning.

38. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008.

The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2011/12 and the balances carried over as at 31 March 2012 are as follows:

	Central Expenditure £000	*Individual Schools Budget £000*	***Total £000***
Brought forward from 2010/11	1,110	0	**1,110**
Final DSG for 2011/12	17,484	91,895	**109,379**
Agreed Budgeted Distribution in 2011/12	18,594	91,895	**110,489**
Actual central expenditure for the year	16,598	0	**16,598**
Actual ISB deployed to schools in year	0	91,895	**91,895**
Total Expenditure in 2011/12	16,598	91,895	**108,493**
Total Carry Forward of Grant to 2012/13	**1,996**	**0**	**1,996**

39. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2010/11	***2011/12***
	£000	***£000***
Credited to Taxation and Non-Specific Grant Income		
Revenue Support Grant	(6,590)	**(13,507)**
Area Based Grant	(15,477)	**0**
Local Services Support Grant	0	**(818)**
Council Tax Freeze Grant	0	**(2,255)**
New Homes Bonus Grant	0	**(1,313)**
Capital Grants and Contributions	(34,916)	**(21,408)**
	(56,983)	**(39,301)**
Credited to Cost of Services		
Housing Benefit Subsidy	(59,420)	**(62,861)**
Council Tax Benefit Subsidy	(13,784)	**(13,794)**
Housing & Council Tax Benefit Subsidy Administration	(1,817)	**(1,755)**
Other Corporate Services Grants	(842)	**(359)**
Dedicated Schools Grant	(112,703)	**(109,379)**
Standards Fund (including Pupil Premium Grant)	(12,870)	**(2,083)**
School Standards Grant	(5,657)	**0**
Sixth Form Funding & Special Education	(8,069)	**(3,816)**
General Sure Start / Early Intervention	(4,559)	**(6,721)**
Other Children's & Education Services Grants	(2,327)	**(4,307)**
Learning Disability & Health Reform Grant	0	**(5,795)**
Supporting People (incl. A&B Handy Person Grants)	(1,439)	**0**
Other Adult Social Care Services Grants	(1,352)	**(286)**
DfT Winter Damage (Highways)	(307)	**(732)**
Other Development & Environment Grants	(1,526)	**(279)**
Housing Services Grants	(57)	**(117)**
	(226,729)	**(212,284)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the provider should those conditions not be met. The balances at the year-end are as follows:

	2010/11	***2011/12***
	£000	***£000***
Capital Grant & Contribution Receipts in Advance		
Capital Maintenance	0	**(791)**
Devolved Formula Grant	(2,886)	**(774)**
Basic Need Grant	0	**(1,388)**
14-19 ICT Diploma	(2,546)	**(505)**
Kitchen Refurbishment	(1,272)	**(714)**
Primary Capital Programme	(2,590)	**(761)**
Weston Sea Defences	(994)	**(279)**
Growth Point Funding	(1,613)	**(1,183)**
Other	(1,410)	**(1,213)**
	(13,311)	**(7,608)**

40. Related Parties

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

Central Government

Central Government has effective control over the general operations of the North Somerset Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and also prescribes the terms of many of the transactions that the Council has with other parties.

Details of grants received from Government departments and carried in the Balance Sheet at 31 March 2012 are shown in Note 39, page 73.

In addition the Council has applied the following significant capital grants for the financing of capital expenditure during 2011/12:

Awarding Body	***Type of Grant***	***Amount £000***
Department for Education	Capital Maintenance	**2,970**
Department for Education	Devolved Formula Capital	**2,748**
Department for Education	Primary Capital Programme	**1,829**
Department for Education	14-19 Diploma Grants	**2,042**
Department for Education	Basic Need	**1,750**
Dept. for Communities & Local Government	Regional Housing Pot & Disabled Facilities Grant	**964**
Dept. for Communities & Local Government	Growth Point Funding	**906**
Environment Agency	Sea Defences	**700**
Department for Transport	Local Transport Plan	**5,370**
Department for Transport	GBBN Grant	**1,721**
Dept. for Environment, Food & Rural Affairs	Waste Grant	**876**

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. All Members, together with the Council's Corporate Management Team, have been asked to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the financial year.

The Head of Financial Management has reviewed the declarations and there are no disclosures that could be considered material or deemed necessary to be reported within the accounts. Details of all interests are recorded in the Register of Members' Interest, open to public inspection by appointment at the Town Hall.

Avon Pension Fund

The details of the payments made to the Council's Pension Fund are provided in Note 45.2, pages 80 to 83.

Other Public Bodies

Any significant transactions with such bodies (e.g. Parish Precepts) are disclosed elsewhere within this Statement of Accounts.

41. Capital Expenditure and Financing

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

The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2010/11	***2011/12***
	£000	***£000***
Opening Capital Financing Requirement	131,680	**141,649**
Capital Investment in Year		
Property, Plant and Equipment	52,363	**44,584**
Investment Properties	167	**0**
Revenue Expenditure Funded from Capital Under Statute	5,025	**7,529**
	57,555	**52,113**
Source of Finance		
Capital Receipts and Reserves	(8,471)	**(11,333)**
Government Grants and Contributions	(32,789)	**(28,712)**
Revenue Provisions	(874)	**(1,073)**
Minimum Revenue Provision & Voluntary Set Aside	(5,452)	**(6,762)**
	(47,586)	**(47,880)**
Net Increase in Capital Financing Requirement	9,969	**4,233**
Closing Capital Financing Requirement	141,649	**145,882**
Explanation of movement in year:		
Increase in underlying need to borrow supported by Government assistance	6,800	**569**
Increase in underlying need to borrow unsupported by Government assistance	8,621	**10,361**
Assets acquired under finance lease	0	**65**
Minimum Revenue Provision & Voluntary Set Aside	(5,452)	**(6,762)**
Net Increase in Capital Finance Requirement	9,969	**4,233**

The Minimum Revenue Provision shown above comprises:

	2010/11	***2011/12***
	£000	***£000***
Minimum Revenue Provision	(4,528)	**(4,681)**
Avon Loan Debt Minimum Revenue Provision	(768)	**(737)**
Voluntary Revenue Provision	(156)	**(1,344)**
	(5,452)	**(6,762)**

Revenue Expenditure Funded by Capital Under Statute incurred and written out during the year are as follows:

	2010/11 £000	**2011/12 £000**
Disabled Facilities Grants	1,607	**1,360**
Private Sector Renewal	271	**273**
Assistance to Housing Associations	65	**268**
VA & Academy Schools	718	**4,443**
Capital Works and Grants - Non Council Property (incl. Youth Centres)	1,617	**1,185**
Infrastructure Projects	747	**0**
	5,025	**7,529**

42. Leases

42.1 Authority as Lessee

Finance Leases

The Council has acquired vehicles and print room equipment under finance leases. The assets acquired under these leases are carried as Vehicles, Plant, Furniture and Equipment under Property, Plant and Equipment in the Balance Sheet at a net value of £0.200m (2010/11 – £0.258m).

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the assets acquired and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts;

	2010/11 £000	**2011/12 £000**
Finance Lease Liabilities	238	**150**
Finance costs payable in future years	37	**32**
Minimum Lease Payments	275	**182**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

The minimum lease payments will be payable over the following periods

	Minimum Lease Payments		***Finance Lease Liabilities***	
	2010/11 £000	**2011/12 £000**	2010/11 £000	**2011/12 £000**
Not later than one year	171	**93**	138	**76**
Later than one year and not later than five years	104	**89**	100	**75**
Minimum Lease Payments	275	**182**	238	**151**

Operating Leases
The Council utilises a number of administrative buildings and its fleet of vehicles by entering into operating leases, with typical lives of five years for vehicles and equipment and 148 years for property. The future minimum lease payments due under non-cancellable leases in future years are:

	2010/11 *£000*	***2011/12*** ***£000***
Not later than one year	1,382	**1,378**
Later than one year and not later than five years	1,867	**1,647**
Later than five years	58	**318**
Total	3,307	**3,343**

The Authority has sub-let some of its office accommodation held under these operating leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £0.277m (£0.077m at 31 March 2011).

The amount paid under these arrangements and charged to Cost of Services in the Comprehensive Income and Expenditure Statement during the year was £2.305m (2010/11 – £1.791m).

	2010/11 *£000*	***2011/12*** ***£000***
Minimum lease payments	1,486	**2,006**
Contingent rents	304	**299**
Sublease payments receivable	(76)	**(277)**
Net Charge to Cost of Services	1,714	**2,028**

42.2 Authority as Lessor

Finance Leases
The Council does not own any property that it leases out under finance leases.

Operating Leases
The Council owns various commercial and investment property that it leases out under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

	2010/11 *£000*	***2011/12*** ***£000***
Not later than one year	475	**1,209**
Later than one year and not later than five years	891	**3,265**
Later than five years	3,471	**4,670**
Total	4,837	**9,144**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £0.286m of contingent rents were receivable by the Authority (2010/11 – £0.201m).

The gross value of assets which were held for use in operating leases was £11.102m valued at 31 March 2012. (31 March 2011: £7.548m)

43. Termination Benefits

43.1 Redundancy and compensation

An amount of £1.261m (2010/11 – £1.326m) has been reflected within the Comprehensive Income and Expenditure Statement in respect of severance payments during the year. All payments are within the limits permitted by statute and the superannuation and compensation regulations, applicable at the time of the payment.

43.2 Pension Strain

During 2011/12, a sum of £0.405m (2010/11 – £0.881m) was charged to services in the Comprehensive Income and Expenditure Statement in respect of pension strain costs, and at the year-end, the balance shown in Creditors in the Balance Sheet for these transactions was £0.075m. Any additional contributions (strain contributions and augmentation contributions) that are due to be paid in the year by the Council under any agreement with the pension fund are recognised immediately as an expense.

	2010/11		***2011/12***	
	No. of Packages	*£000*	*No. of Packages*	***£000***
Charged and Accrued for within the Comprehensive Income & Expenditure Statement				
- Severance Payments		746		**832**
- Pension Strain Costs		492		**247**
	79	1,238	78	**1,079**
Provided for with the Comprehensive Income & Expenditure Statement				
- Severance Payments		580		**429**
- Pension Strain Costs		389		**158**
	12	969	63	**587**
Total Severance Payments charged to Services:				
- Severance Payments		1,326		**1,261**
- Pensin Strain Costs		881		**405**
	91	2,207	141	**1,666**

43.3 Exit Packages

The total cost of £1.666m (2010/11 - £2.207m) shown above reflects the value of the exit packages which have been agreed, accrued and provided for and charged to the Council's Comprehensive Income and Expenditure Statement for the current year.

The total number and value of the exit packages, grouped into bands of £20,000 up to £100,000 and bands of £50,000 thereafter, are as follows:

	2010/11 No. of Packages	*2010/11* £000	***2011/12* No. of Packages**	***2011/12* £000**
Up to £20,000	60	378	**110**	**417**
£20,001 to £40,000	14	408	**18**	**535**
£40,001 to £60,000	5	239	**10**	**454**
£60,001 to £80,000	7	519	**1**	**69**
£80,001 to £100,000	1	95	**1**	**83**
£100,000 to £150,000	4	568	**1**	**108**
	91	2,207	**141**	**1,666**

44. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12 the Council paid £6.372m to Teachers' Pensions in respect of teachers' retirement benefits, representing 13.65% of pensionable pay. The figures for 2010/11 were £8.078m and 13.67% respectively. There were no contributions remaining payable at the year-end.

The Council is also responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 45.3, page 84.

45. Defined Benefit Pension Schemes

45.1 Participation in Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two schemes:

- the Local Government Pension Scheme known as the Avon Pension Fund, administered by Bath & North-East Somerset Council;

- arrangements for the award of discretionary post retirement benefits upon early retirement; this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

45.2 Local Government Pension Scheme

The Local Government Pension Scheme is a funded defined benefit scheme based on final pensionable salary. This means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Transactions Relating to Post-Employment Benefits

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

	2010/11	***2011/12***
	£000	***£000***
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- Current Service Cost	11,064	**9,325**
- Past Service Cost / (Gain)	(27,146)	**0**
- Settlements & Curtailments	1,147	**(7,229)**
Financing and Investment Income and Expenditure		
- Interest Cost	24,928	**23,461**
- Expected return on assets in the scheme	(17,864)	**(19,191)**
Net Charge to Surplus or Deficit on Provision of Services	**(7,871)**	**6,366**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- Actuarial Gains and Losses	(14,897)	**27,632**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(22,768)	**33,998**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on Provision of Services for post employement benefits in accordance with the Code	7,871	**(6,366)**
Actual amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to the scheme	13,741	**12,785**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £154.487m.

Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2010/11		***2011/12***	
	Funded	*Unfunded*	***Funded***	***Unfunded***
	£000	*£000*	***£000***	***£000***
Opening Balance at 1 April	(430,670)	(15,231)	**(420,664)**	**(15,584)**
Current Service Cost	(11,064)	0	**(9,325)**	**0**
Interest Cost	(24,103)	(825)	**(22,631)**	**(830)**
Contributions by Scheme participants	(4,167)	0	**(3,600)**	**0**
Actuarial Gains / (Losses)	8,464	(1,382)	**(15,216)**	**(353)**
Benefits paid	15,735	996	**15,854**	**998**
Past Service (Costs) / Gains	26,288	858	**0**	**0**
Settlements / Curtailments	(1,147)	0	**12,804**	**0**
Closing Balance at 31 March	(420,664)	(15,584)	**(442,778)**	**(15,769)**

Reconciliation of fair value of the scheme (plan) assets:

	2010/11	***2011/12***
	£000	***£000***
Opening Balance at 1 April	276,062	**302,918**
Expected Return	17,864	**19,191**
Actuarial Gains / (Losses)	7,815	**(12,063)**
Employers' Contributions	13,741	**12,785**
Settlements	0	**(5,575)**
Contributions by Scheme participants	4,167	**3,600**
Benefits Paid	(16,731)	**(16,852)**
Closing Balance at 31 March	302,918	**304,004**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £7.128m (2010/11 – £20.970m).

Scheme History

The underlying assets and liabilities for post-employment benefits attributable to the Council at 31 March are as follows:

	2007/08	*2008/09*	*2009/10*	*2010/11*	***2011/12***
	£000	*£000*	*£000*	*£000*	***£000***
Estimated Liabilities in scheme - Present Value	(381,661)	(326,454)	(445,901)	(436,248)	**(458,547)**
Estimated Assets in scheme - Fair Value	247,348	204,545	276,061	302,918	**304,004**
Net Asset / (Liability)	(134,313)	(121,909)	(169,840)	(133,330)	**(154,543)**

The liabilities show the underlying commitments that the authority has in the long run, in order to pay post-employment benefits. The total liability of £458.547m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance on the Pensions Reserve of £154.543m. Statutory arrangements for funding the deficit mean that the financial position of the authority remains in a sound position as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary; finance is only required to be raised to cover discretionary benefits when the pensions are paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £12.272m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Mercer Limited, an independent firm of actuaries, estimates for the Avon Pension Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The main assumptions used in their calculations have been:

	2010/11	***2011/12***
Rate of RPI inflation	3.4%	**0.0%**
Rate of CPI inflation	2.9%	**2.5%**
Rate of increase in salaries	4.40%	**4.00%**
Rate of increase in pensions	2.9%	**2.5%**
Rate for discounting scheme liabilities	5.5%	**4.9%**
Mortality Assumptions		
Longevity at 65 for current pensioners	Years	**Years**
Men	22.7	**22.8**
Women	25.6	**25.7**
Longevity at 65 for future pensioners in 20 years time	Years	**Years**
Men	25.0	**25.1**
Women	28.0	**28.1**
Take-up of option to convert annual pension into retirement grant	50%	**50%**

The Local Government Pension Scheme's assets are valued at fair value, principally bid price for investments, totalling £304.004m for the Fund as a whole at 31 March 2012 (£302.918m at 31 March 2011).

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

	Long Term Return	*31 March 2011*		***31 March 2012***	
	%	*£000*	*%*	***£000***	***%***
Equity Investments	7.0	189,627	62.6	**177,235**	**58.3**
Government Bonds	3.1	39,379	13.0	**39,217**	**12.9**
Other Bonds	4.1	23,931	7.9	**35,872**	**11.8**
Cash / Liquidity	0.5	6,361	2.1	**4,864**	**1.6**
Property	6.0	18,175	6.0	**22,496**	**7.4**
Other	7.0	25,445	8.4	**24,320**	**8.0**
Totals		302,918	100.0	**304,004**	**100.0**

History of Experience Gains and Losses

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

	2007/08	*2008/09*	*2009/10*	*2010/11*	***2011/12***
	£000	*£000*	*£000*	*£000*	***£000***
Differences between expected and actual return on assets	9.3%	29.7%	21.0%	2.6%	**4.0%**
Experience gains and losses on liabiltiies	9.6%	24.3%	22.5%	2.2%	**0.0%**

45.3 Unfunded Teachers' Discretionary Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year in relation to unfunded Teachers' Discretionary Benefits:

	2010/11 *£000*	***2011/12*** ***£000***
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- Past Service Cost / (Gain)	(1,406)	**0**
- Settlements & Curtailments	174	**82**
Financing and Investment Income and Expenditure		
- Interest Cost	1,396	**1,257**
Net Charge to Surplus or Deficit on Provision of Services	**164**	**1,339**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- Actuarial Gains and Losses	(576)	**819**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(412)	**2,158**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on Provision of Services for post employement benefits in accordance with the Code	(165)	**(1,339)**
Actual amount charged against the General Fund Balance for pensions in the year		
Retirement benefits payable to pensioners	1,697	**1,701**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £0.845m.

<u>Liabilities in Relation to Teachers' Discretionary Benefits</u>

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2010/11 *£000*	***2011/12*** ***£000***
Opening Balance at 1 April	(26,229)	**(24,120)**
Interest Cost	(1,396)	**(1,257)**
Actuarial Gains / (Losses)	576	**(819)**
Benefits paid	1,697	**1,701**
Past Service (Costs) / Gains	1,406	**0**
Settlements / Curtailments	(174)	**(82)**
Closing Balance at 31 March	(24,120)	**(24,577)**

The Discretionary Benefits arrangements have no assets to cover its liabilities.

Basis for Estimating Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The assumptions are based on those adopted for the 31 March 2010 valuation of the Avon Pension Fund (Note 45.2, pages 80 to 83), other than those shown below.

	2010/11	***2011/12***
Rate of RPI inflation	3.3%	**0.0%**
Rate of CPI inflation	2.8%	**2.3%**
Rate of increase in pensions	2.8%	**2.3%**
Rate for discounting scheme liabilities	5.4%	**4.6%**
Mortality Assumptions		
Longevity at 65 for current pensioners	Years	**Years**
Men	22.7	**22.8**
Women	25.6	**25.7**

45.4 Somerset and Gloucestershire County Council Scheme

In addition to the above described schemes, during the year the Council also made payments to Somerset County Council of £12,803 (£10,784 - 2010/11) and to Gloucestershire County Council of £2,197 (£3,868 - 2010/11) in respect of pension costs of former employees.

These costs relate to employees prior to Local Government Reorganisation in 1974. These costs are deemed to represent the current cost of service, in accordance with the requirements of IAS19, and have been charged to Non Distributed Costs in the Comprehensive Income and Expenditure Statement.

Due to the lack of information available and relative immateriality of these transactions, no attempt has been made to calculate the respective net liability or asset represented by these future pension commitments.

46. Contingent Liabilities and Contingent Assets

46.1 Contingent Liabilities

Each Director has to produce an Annual Assurance Statement for their Directorate and within these Statements, they are required to identify whether there is any potential litigation or claims that may affect the financial statements. There are two significant risks to the financial statements.

Municipal Mutual Insurance Ltd. (MMI)
The following latest report from Municipal Mutual Insurance Ltd. (MMI) informs the Council of a possible future financial exposure.

Municipal Mutual Insurance Ltd. went into 'run-off' on 30 September 1992. For the policy years prior to 1992/93, North Somerset faces a potential liability. If in future MMI has insufficient funds to meet future claims with regard to this period, then the 'MMI Scheme of Arrangement' will be triggered. The scheme creditors, of whom North Somerset are one, would be liable to repay the total value of claim payments received to date, less £50,000.

After pursuing a Supreme Court Appeal, judgement was handed down on 28 March 2012 which provided clarification sought in respect of the Company's liability. The judgement means that in all probability the Company will not have a solvent run-off. Further legal, financial and actuarial advice is being sought from professional advisors to determine the full implications of the judgement and the most appropriate way forward for the Company.

As at 31 March 2012 the Council had a potential maximum financial exposure of approximately £526,477.

Companies Limited by Guarantee
The Council has links to a number of companies that are limited by guarantee; these are companies that bring together like minded organisations to achieve common goals. The companies cannot tie the Council to contracts or agreements without its consent and the Council is not able to secure assets of the companies or be liable for its debts, nor can it dissolve the companies unilaterally. The Council does not stand as guarantor for any of the companies. The total maximum exposure arising from these arrangements is £19 and the Council does not consider there to be any significant risk or expectation that the liability will be realised.

46.2 Contingent Assets

There are no contingent assets to disclose at the Balance Sheet date.

47. Nature and Extent of Risks Arising from Financial Instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the authority

- liquidity risk – the possibility that the Council might not have funds available to met its commitments to make payments

- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by all directorates with specific support from officers within the Corporate Services directorate, under policies approved by Council in the Annual Investment Strategy. This provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the strict criteria set within the Council's approved Treasury Management Strategy, which does include a degree of reliance upon credit reference ratings.

However, the Council's Strategy mitigates a proportion of credit risk by setting limits to restrict the total amounts invested with individual counter-parties at any one time. The in-house treasury team could not invest more than £4m, and the external cash managers not more than £3m to any one investor during 2011/12. The only exception to this principle during the year related to deposits made with the Government's Debt Management Office, no limit was applied as it was deemed extremely secure.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2012 £000 (A)	*Historical experience of default % (B)*	*Historical experience adjusted for Market Conditions % (C)*	*Estimated maximum exposure to default & uncollectability £000 (A x C)*
Loans & Receivables				
Deposits with banks & financial institutions	65,372	1.260%	1.260%	**824**
Long Term Debtors	1,184	0.000%	0.000%	**0**
Financial Assets carried at Contract Amounts				
Customers (Trade Debtors)	8,755	6.476%	6.476%	**567**
Other Debtors (Accruals)	865	0.000%	0.000%	**0**
Totals	76,176			**1,391**

The Council does not generally allow credit for customers, such that £6.368m of the Trade Debtor balance shown above is past its due date as follows:

	£000
Less than 30 days	**1,509**
30 to 60 days	**1,052**
Over 60 days	**3,807**
	6,368

The historical experience of default for banks and financial institutions has been taken from Moody's, one of the credit rating organisations used by the Council. Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict criteria for investment counterparties in order to mitigate this risk wherever possible.

Credit limits and ratings are monitored throughout the reporting period, and adjustments made to the Strategy if appropriate. As reported in Note 18.2 (page 46), the Council had one investment of £3m with the Icelandic bank Landsbanki, for which an impairment assessment has been carried out in accordance with recommended guidelines published by CIPFA..

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than £7m of loans are due to mature within any one year through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

	PWLB £000	A Bonds £000	Mortgages £000	Other £000	Credit Cover £000	**Total £000**
Less than one year	0	3,105	0	528	24	**3,657**
Between one and two years	0	2,058	0	0	0	**2,058**
Between two and five years	10,862	0	0	0	0	**10,862**
Between five and ten years	10,344	0	0	0	0	**10,344**
More than ten years	92,475	0	346	0	0	**92,821**
Totals	113,681	5,163	346	528	24	**119,742**

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

Market Risk

Interest Rate Risk

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise; a 1% increase would result in additional costs of £1.197m
- borrowings at fixed rates – the fair value of the liabilities will fall; a 1% increase in the average interest rate would result in a £5.774m reduction in the fair value
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise; a 1% increase would result in a £1.004m increase in income
- investments at fixed rates – the fair value of the assets will fall; a 1% increase in the average interest rate would result in a £17.069m reduction in the fair value

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

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Price Risk

As at 31 March 2012 the Council held no investments which may be exposed to the risk of changes in the prices, for example Certificates of Deposit or Gilts.

Foreign Exchange Risk

The Council has one financial asset denominated in foreign currency and therefore does have exposure to gains or losses arising from movements in exchange rates. The financial asset is held in Icelandic Krona and a 5% movement in the exchange rate would result in a gain or loss of £1,000 on the value of the investment held.

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Collection Fund Account

This account reflects the Council's statutory responsibility as a billing authority to maintain a separate Collection Fund, which shows the transactions in relation to council tax and non-domestic rates, and illustrates the way in which these have been distributed to preceptors and the General Fund.

2010/11			***2011/12***	
£000		*Note*	***£000***	***£000***
	Income			
(98,185)	Council Tax Payers	*CF1*		(98,586)
(13,614)	Transfers from General Fund - Council Tax Benefit			(13,642)
(49,591)	Business Rate Payers	*CF2*		(53,288)
(161,390)				**(165,516)**
	Expenditure			
110,432	Precepts	*CF3*		111,518
	Business Rates			
49,331	- Payments to National Pool	*CF2*	53,029	
259	- Costs of Collection		259	53,288
575	Increase / (Decrease) in Provision for Bad Debt			417
	Contributions - Previous Year's Fund Surplus			
1,503	- General Fund			544
207	- Avon & Somerset Police			76
75	- Avon Fire Authority			28
162,382				**165,871**
992	**Movement on Collection Fund Revenue Account**			**355**
	Collection Fund Revenue Account	*CF5*		
(1,686)	Balance as at 1 April			(694)
992	Movement on Fund Balance			355
(694)	Balance as at 31 March			**(339)**

CF1. Council Tax System

Under the council tax system, North Somerset Council must collect each year enough money from local residents to cover the cost of the services we provide, not funded by sources such as Government grants and fees and charges. We must also collect North Somerset's share of the cost of services provided by Avon & Somerset Police, Avon Fire Authority and the Parish and Town Councils.

Council Tax is payable on any dwelling which is not exempt. The amount of council tax that each household must pay depends upon the valuation band in which the property is placed and the Parish or Town in which the dwelling is situated.

In order to set the council tax, we must estimate the number of dwellings in each of eight valuation bands and convert these estimates into an "equivalent number of Band D dwellings". The table below shows the calculation for 2011/12.

Valuation Bands	Estimated number of taxable dwellings after effect of exemptions and discounts	Ratio	Equivalent number of Band D dwellings
A - up to £40,000	10,049	6/9	6,699
B - £40,001 to £52,000	17,273	7/9	13,435
C - £52,001 to £68,000	18,866	8/9	16,770
D - £68,001 to £88,000	14,745	9/9	14,745
E - £88,001 to £120,000	11,103	11/9	13,570
F - £120,001 to £160,000	5,682	13/9	8,207
G - £160,001 to £320,000	3,032	15/9	5,053
H - over £320,001	208	18/9	416
	80,958		78,895
Allowance for Losses on Collection			(872)
Allowance for New Properties			368
			78,391

The total number of "equivalent Band D dwellings" is divided into the total cost of services to arrive at an "average Band D Tax" per dwelling. Dwellings in bands below "Band D" will pay proportionately less than this average and dwellings in bands above "Band D" will pay proportionately more than this average.

The above calculations resulted in an "average Band D Tax" of £1,422.56 per dwelling for 2011/12 (2010/11 - £1,423.32) after taking into account Parish variations and providing a 1.1% provision for unpaid bills (2010/11 – 1.1%).

The actual Council Tax income for 2011/12 was £112,227,241.71, dividing this figure by the "average Band D Tax" results in an actual tax base of 78,891 dwellings. The difference between this and the total "equivalent Band D dwellings" of 78,391 reflects:

- Variations in the property market
- Changes in the number of exempt dwellings
- Changes in the number of dwellings qualifying for discounts

CF2. National Non-Domestic Rates

Under the existing system all business premises must pay a tax known as National Non-Domestic Rates (NNDR). The tax is collected using local rateable values which are then multiplied by a uniform rate.

All authorities must collect the total NNDR payable (less certain reliefs and other deductions) for their area and pay this into a national fund. Central Government re-distribute the fund to all authorities based on a standard amount per head of the local adult population.

	2010/11	***2011/12***
Total Non-domestic Rateable Value at 31 March	£147,117,114	**£146,920,683**
National Non-domestic Rate Multiplier - Standard	43.3p	45.8p
National Non-domestic Rate Multiplier - Small Business	42.6p	45.0p

CF3. Precepts

Precepts shown on the Fund Account are detailed below:

	2010/11 £000	***2011/12 £000***
Avon & Somerset Police Authority	13,037	**13,172**
Avon Fire Authority	4,685	**4,733**
North Somerset Council (including Parishes)	92,710	**93,612**
Total Precepts	110,432	**111,517**

CF4a. Tax Payers' Arrears

	31 March 2011 £000	***31 March 2012 £000***
Council Tax Arrears	8,238	**8,553**
Business Rates Arrears	5,539	**5,715**
Gross Tax Payers' Arrears at 31 March	13,777	**14,268**
Council Tax Prepayments	(1,205)	**(1,049)**
Business Rates Prepayments	(347)	**(154)**
Total Tax Payers' Prepayments at 31 March	(1,552)	**(1,203)**
Total Net Tax Payers' Arrears as at 31 March	12,225	**13,065**

CF4b. Provision for Tax Payers' Bad Debts

	2010/11 £000	**2011/12 £000**	**2011/12 % of arrears at 31 March**
Council Tax	4,851	**5,541**	**64.78%**
Business Rates	2,763	**2,762**	**48.33%**
Total Tax Payers' Bad Debt Provision	7,614	**8,303**	

CF5. Breakdown of Prior Years' Tax Payers' Surplus/(Deficit) Held for Distribution

	2010/11 £000	**2011/12 £000**
Total prior years' surplus / (deficit) balance divided as follows:	694	**339**
Council tax belonging to North Somerset Council (see Note 28.6)	583	**285**
Council tax belonging to Precepting bodies, included within creditors in Balance Sheet		
- Avon & Somerset Police Authority	82	**40**
- Avon Fire Authority	29	**14**

CF6. Balance Sheet Items apportionment

The Council Tax Collection Fund balance sheet items have been apportioned between the precepting authorities as shown in the table below.

	Total £000	North Somerset Council £000	Police & Fire Creditor £000
Debtors	**8,553**	7,168	1,385
Bad Debt Provision	**(5,541)**	(4,644)	(897)
Prepayments & Overpayments	**(2,570)**	(2,153)	(417)
Surplus	**(339)**	(285)	(54)

The Council's Balance Sheet contains only one entry with regard to NNDR, either a government debtor or creditor. In 2011/12 the NNDR transactions resulted in a Government debtor of £2.453m, which is included in the Balance Sheet (2010/11 - £3.864m debtor).

1. Scope of Responsibility

1.1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.

1.3. The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* in September 2008. A copy of our code is available from our website http://www.n-somerset.gov.uk/.

1.4. This Statement explains how North Somerset Council has complied with our Local Code of Corporate Governance and also meets the requirements of:

- The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, specifically Regulation 4(2) in respect of the preparation and publication of a Statement on Internal Control; and

- The recent Accounts and Audit (England) Regulations 2011, specifically Regulation 4 (2) in respect of the annual review of the effectiveness of its system of internal control and Regulation 4 (4) in respect of the preparation and publication of an Annual Governance Statement.

1.5. The governance framework described in this Statement has been in place at the Council for the year ended 31 March 2012, and up to the date of the approval of the statement of account.

2. The Purpose of the Governance Framework

2.1 The governance framework comprises both the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community.

2.2 It enables the Council to monitor the achievement of its aims and corporate priorities and to consider whether those aims and corporate priorities have led to the delivery of appropriate, cost-effective services.

2.3 The system of internal control is a significant part of the framework and is designed to identify and manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives, and so does not provide absolute assurance of effectiveness.

3. The Governance Framework

The key elements of the Council's governance framework (in bold) and the systems and processes in place to fulfil their objectives (underlined) are described below.

The documents referred to may be viewed on our public website http://www.n-somerset.gov.uk/.

3.1 Identifying and communicating the Council's vision of its purpose and intended outcomes for the public and service users.

The Corporate Plan
The Corporate Plan 2011-2015, approved by Full Council on 15th November 2011, established the Council's vision, aims, priorities and values. It is the Council's medium-term delivery plan for realising its contribution towards the long-term vision for the district, as set out in the North Somerset Sustainable Community Strategy 2008-2026.

Other factors that influence the content of the Corporate Plan are:

- residents' views and outcomes from consultation and engagement activities;
- political objectives;
- central government plans/targets;
- legislation;
- regional plans/targets;
- partners from across all sectors; and
- Town and Parish Council plans and objectives.

Members and senior management have agreed targets and measures to enable progress to be monitored against each of the six corporate aims defined in the plan. The Council's Corporate Management Team, its most senior officer group, monitors Key Corporate Performance Indicators (KCPIs) regularly. Quarterly progress reports for the KCPIs identified in the Corporate Plan are presented to the Council's Executive and to Policy and Scrutiny Panels.

The North Somerset Sustainable Community Strategy
The Sustainable Community Strategy 2008-2026 "Improving our Communities Together" was launched on 22nd April 2008. The North Somerset Partnership brings together representatives from the public, business, voluntary and community sectors who have contributed to the formation of the plan.

The Sustainable Community Strategy sets out the vision and shared priorities to improve the economic, social and environmental well-being of the area, and shows how the partners will work together to develop sustainable communities. The Sustainable Community Strategy has its own Performance Management Framework, which the Partnership Board and its Delivery Partnerships use to monitor progress against its long-term ambitions and shared priorities.

3.2 Reviewing the Council's vision and its implications for the Council's governance arrangements.

The Council's Vision
The vision, stated in the Corporate Plan 2011-2015 is "To provide clear leadership, quality services and an affordable Council tax".

The vision has implications for many of the systems and processes that comprise the Council's governance arrangements, including the Management Competency Framework (Leadership First), the Performance Management Framework and the Medium Term Financial Plan.

3.3 Measuring the quality of services for users, ensuring they are delivered in accordance with the Council's objectives and that they represent the best use of resources.

Performance Management Framework
The Corporate Plan and Performance Plan set out the aims and priorities for the Council, which are supported by measurable Performance Indicators and associated targets. These are also reflected in directorate business plans, service and team plans and individual appraisals.

Performance is managed through the Council's Performance Management Framework which ensures that the Executive and Scrutiny Panels have quarterly reports on issues of substance emerging from an analysis of the Key Performance Indicators. These are a basket of measures, which include local and statutory targets, and allow managers and members to assess whether the Council is delivering on its priorities as set out in the Corporate Plan 2011-2015. The budget and progress against key corporate strategic projects are monitored this way.
Directors with their staff monitor performance quarterly, covering relevant key corporate performance indicators, key corporate strategic projects and directorate service priorities. Services and teams will regularly monitor performance of their Service plans and escalate appropriate matters to Directorate management teams.

3.4 Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and Officer functions, with clear delegation arrangements and protocols for effective communication.

The Constitution
The Council has a published Constitution reviewed annually, last updated in November 2011. It sets out how the Council operates, its decision making arrangements and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.

There are clear rules of procedure for running meetings of the Council and its committees, and clearly defined structures for the reports considered at them. Reports contain clear reasons for decisions together with legal, financial, risk and equality considerations. At each Council or business meeting, members are required at the outset to declare any relevant interests.

The structure of the Council and its committees and agendas and minutes of all public meetings are available on the Council's website.

Corporate Management Team
The Corporate Management Team is the senior officer management team, which works closely with the Executive Members to ensure a corporate approach to delivering the Council's vision, aims and priorities.

The Corporate Management Team is made up of the Chief Executive Officer and the three Directors. The Head of Performance Improvement & Human Resources, the Strategic Policy Development Manager, Head of Legal & Democratic Services and Head of Financial Management are co-opted members and can attend Corporate Management Team meetings. Its role is to help the Council translate its policies into practice; to guide the strategic direction of the organisation; and to support managers and staff in the development and delivery of services.

The Corporate Management Team meets very regularly, based on a pre-determined work plan. Key messages from meetings are agreed and are passed on to staff through a staff newsletter 'The Knowledge'.

3.5 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

Standards Committee
The Standards Committee is made up of four councillors, three parish councillors and three independent people, with the following roles and responsibilities in relation to councillors, co-opted members and church and parent governor representatives:

- Promoting and maintaining high standards of conduct by advising and training on matters relating to the Members Code of Conduct;
- Advising the Council on the adoption or revision of the Members Code of Conduct and monitoring its operation;
- Granting dispensations relating to interests set out in the Members Code of Conduct;
- Dealing with reports from a case tribunal, and any report from the Monitoring Officer or any matter which is referred by an ethical standards officer to the Monitoring Officer; and
- Taking an overview of the Anti-Fraud & Corruption Policy (which incorporates a “whistle-blowing” policy), complaints handling, Ombudsman investigations and the Constitution.

Members and Officers Codes of Conduct
The Members and Officers Codes of Conduct outline existing laws, regulations and conditions of service and provide further guidance to assist the Council and its employees in their day-to-day work, recognising that the public is entitled to expect the highest standards of conduct from all members and officers of the Council.

Members are encouraged to undertake training relevant to the area of decision making in which they are involved. New members joining the Council receive an induction folder and induction training.

The Constitution also contains a Member-Officer Protocol which shows how both parties should behave in their working relationship.

3.6 Reviewing and updating Standing Orders, Financial Regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls to manage risks.

Financial Management
The Council’s Financial Regulations - Accountability and Responsibility Framework sets out the means by which the Council will discharge its responsibilities under the Local Government Act 1972 (and other legislation) and forms part of the Constitution.

The overall financial arrangements are governed by its (published) Medium Term Financial Plan which sets out the strategic financial framework and is monitored regularly by managers.

Corporate Procurement Strategy
A draft Corporate Procurement Strategy was consulted on during 2011/12 and approved by the Corporate Management in May 2012. The Procurement Strategy will be incorporated into Constitution revisions during 2012.

A set of Contract Standing Orders defines the broad framework for procurement competition and decision making in a transparent, legitimate and fair manner, and governs the purchasing of goods, services and works. These Orders are reviewed annually as part of the Constitution.

Risk Management
The Risk Management Strategy 2011-15 was approved by the Audit Committee in July 2011.

The Strategic Risk Register is a live document managed by the Corporate Risk Management Group, Corporate Management Team and the Audit Committee on a regular basis.

The Audit Committee approve the Annual Risk Management Improvement Plan and monitor progress in implementing the agreed actions. They also receive the Risk Management Annual Report.

The Corporate Risk Management Group is attended by the Executive Member for Human Resources, Asset Management and Finance and meets on a quarterly basis to consider progress in integrating risk management into the culture of the Council and the identification and management of risks. It is supported by the Operational Risk Management Working Group.

3.7 Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010).

To enable the authority's financial arrangements to conform with the key CIPFA governance requirements, the Head of Financial Management, in his role as the Council's s.151 Officer has ensured that:

- the Council's finance function is resourced fit for purpose; and
- is professionally qualified and suitably experienced.

The objectives of the Council's financial arrangements are aligned with the key objectives defined by CIPFA.

3.8 Carrying out the core functions of an Audit Committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities.

Audit Committee
The Audit Committee is made up of five elected members and two independent people who meet formally three times per annum and in additional attend workshops on key issues three times per annum.

The purpose of the Audit Committee is to provide an independent overview of the adequacy of the internal control environment and associated risk management framework, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

The Audit Committee also has a wider role in oversight of the Council's Audit, compliance and fraud arrangements as defined in its charter.

3.9 Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

Statutory Officers
The Chief Executive Officer (Head of Paid Service), the Head of Financial Management (Section 151 Officer) and the Head of Legal & Democratic Services (Monitoring Officer) are the Council's Statutory Officers.

The Statutory Officers meet every quarter or on an ad-hoc basis to discuss all significant control matters that may have an impact on delivery of objectives.

Committee Report Sign-Off
The Section 151 Officer and the Monitoring Officer approve, from a financial/risk management and legal/constitutional perspective, reports to the Executive and Council prior to submission for decision.

3.10 Whistle blowing and receiving and investigating complaints from the public;

Anti-Fraud & Corruption Policy Statement
An Anti-Fraud and Corruption Policy Statement was approved by the Council on 5 January 2010, and demonstrates the Council's commitment to act with integrity and promote high standards.

The policy is a mechanism for staff and members of the public to report their concerns and recognises the role the public can play in alerting the Council to areas where there is a suspicion of fraud.

Counter Fraud Strategy
The Counter Fraud Strategy was approved by the Audit Committee in July 2011. The investigation of allegations of fraud by the public are included.

Customer Complaints
The Council has a comprehensive customer complaints procedure and monitors its performance in responding to complaints. If not satisfied with the outcome of a complaint, the public may request that their complaint be examined by the Local Government Ombudsman.

3.11 Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training;

Appraisal Scheme
The Council has a system of staff appraisal which is an integral part of the Council's performance management arrangements, is aligned to the business planning process and ensures the Council uses and develops its staff efficiently.

Leadership Development Framework (Leadership First)
The Council believes that continuous personal development by its managers is a key factor in its ongoing success. It therefore has a comprehensive programme of leadership development underpinned by a set of Leadership Standards of values and behaviours.

Corporate Training
All staff are provided within induction training upon commencement of their employment with the Council and all elected members are provided with induction training upon their election to office.
The Council has a comprehensive programme of training courses for officers, managers and elected members.

3.12 Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Citizens Panel
The Citizens Panel gives the public the opportunity to influence the Council's policies, decisions and services.

It is made up of around 1,400 representative local residents. The aim of the Panel is to improve the Council's understanding of what the public in the district want, think and feel and to help the Council improve its services.

North Somerset Life
North Somerset Life is the council's magazine which is sent out monthly to 94,000 homes across the district. It is read by 145,000 people every month. It is also available from council offices, libraries, leisure centres and schools, as well as an online version.

Marketing and Communications Strategy
The council's marketing and communications strategy is currently being rewritten, there having previously been one in place from 2008-11. The replacement document will set out a clear plan for ensuring effective communication with residents, communities and stakeholders.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
Regular surveys: Investment in a statistically robust biennial survey of residents, from 2012. this will provide regular, comparable feedback on public concerns including satisfaction with services. It is the source of a number of the council's key performance indicators.

Transparency in consultations: The council conducts around 80 public consultation projects per year. A public-facing list of council consultations has been in place since 2007 (called "eConsult" see, http://www.n-somerset.gov.uk/consult). Online users can sign up to be auto-alerted about new consultations according to their interests. All public consultations are reported publically in a timely way.

3.13 Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005), and reflecting these in the Council's overall governance arrangements.

North Somerset Partnership
North Somerset Council is a key partner in the North Somerset Partnership, which is the Local Strategic Partnership for the area and brings together representatives from the public, business, voluntary and community sectors in the local authority area. The Partnership is governed by an Executive and Board, has a defined performance framework with clear roles and responsibilities.

Children's and Families Partnership
The Children's Trust Management Board has been replaced by a more streamlined Children and Families Partnership. The Partnership is made up of leaders of the main statutory and non-statutory agencies responsible for children and young people's services within North Somerset. Terms of reference and other governance arrangements are clear, and the Partnership is continuing the close working between agencies established over recent years.

West of England Partnership/Local Enterprise Partnership (LEP)
The West of England Partnership comprises the four unitary authorities, Bristol, Bath and North East Somerset, North Somerset and South Gloucestershire and other social, economic and environmental partners.

In June 2011 it established a Local Enterprise Partnership (LEP) operating as a company Limited by Guarantee governed by a Board comprising Council Leaders which meets regularly with a remit to deliver sustainable economic growth and competitiveness, focusing on "People, Business and Place".

Strategic Schools Forum (SSF)
The Strategic Schools Forum is a partnership arrangement with schools and other providers. The funding under the control of the SSF (in excess of £130m) represents the majority of the total funding available to support children and young people in the North Somerset area and there is clear alignment between the priorities of the Children's and Families Partnership and use of Strategic Schools Forum resources.

Responsible Authorities Group (RAG)
The Responsible Authorities Group is a statutory requirement of the 1998 Crime and Disorder Act and includes the Executive Member with responsibility for Community Services and Safety and the Chief Executive Officer, and his equivalents in the Police Authority, Primary Care Trust, Fire and Rescue Service, and Probation Service.

Strategic Partnership (Agilisys and Liberata)
Governance is controlled by two boards. A Strategic Partnership Board which meets quarterly comprising an Executive member, a Director of the Council and senior executives from Agilisys and Liberata, it monitors overall delivery and ensures alignment of overall partnership objectives. An Operations Board meeting regularly, comprising senior managers from the Council's Client Team, together with the Agilisys Partnership Director and Liberata Service Centre Director, to monitor work programmes and delivery against agreed plans and Key Performance Indicators.

4. Review of Effectiveness

4.1 Processes for Maintenance and Review of the Effectiveness of the Governance Framework

The Council annually reviews the effectiveness of its governance framework. The review is informed by the work of the internal auditor's Annual Assurance Report and statements from Directors and senior managers within the Council who have responsibility for the governance and internal control environment, and also by comments from external auditors and other review agencies and inspectorates.

This Annual Governance Statement describes the framework for Corporate Governance. The publication of the Statement represents the end result of the review of the effectiveness of the governance framework, including the system of internal control and the process of risk management.

The Chief Executive Officers and the Directors completed and signed a Director's Undertaking on the governance, internal control, risk management and information governance arrangements within their Directorate and areas of management responsibility.
Any significant issues identified in the Annual Assurance Statements are detailed in section 6 of this Statement.

In accordance with Regulation 4 (4) of the Accounts and Audit (England) Regulations 2011, the Annual Governance Statement is certified by the Leader and Chief Executive Officer and accompanies the Annual Financial Statements which are reported to Council and signed by the Chairman of the Council.

The Head of Financial Management chairs the Finance Standards and Strategy Group which is the Council's designated Corporate Governance Group. This group evaluates and reviews this statement, before recommending it to the Audit Committee for approval.

The Local Code of Corporate Governance, is considered by the Standards Committee. It underpins this Annual Governance Statement.

The Information Governance group, chaired by the Monitoring Officer, is the designated governance group for information security and governance arrangements.

Internal Audit - Audit, Risk and Information Service
The Council's Audit Charter sets out the responsibilities of Directors and Service Managers for ensuring that internal control arrangements are sufficient to address the risks facing their Services including the risk of fraud and corruption. The Audit, Risk and Information Service monitors internal audit, risk and control matters and reports to the Audit Committee.

The Head of Audit, Risk and Information considers the main financial and operational systems of the Council annually and in conjunction with Directors produces an Audit Plan focussed on key risks. The plan is adjusted throughout the year to take account of a changing risk environment.

The Head of Audit, Risk and Information provides an annual assurance report to the Audit Committee (referred to the Executive and the Standards Committee) which provides assurance about the Council's systems of internal control. The report for 2011-12 will be submitted to the Audit Committee and provides an overall opinion on all of the Council's core financial systems and also provides for reporting of key matters identified through the annual audit coverage, any significant control issues are included in section 6 of this statement.

On behalf of the Council the Audit Committee conducted a review of the effectiveness of internal audit. To achieve this, the Audit Committee Chair appointed a working party consisting of the Chair, one Audit Committee Member and one independent person Member of the Audit Committee.

The recommendation from the working party, accepted by the Audit Committee, is that "'*Following the review of the effectiveness of internal audit, it is the opinion of the Audit Committee that overall the internal audit function of North Somerset Council in 2011-2012 provided an appropriate level of assurance that the Council's governance, internal control and risk management arrangements are satisfactory. The Audit Committee commends the achievements of the Service, but has concerns about the quality and extent of assurance that might be available to Members going forward.*'"

4.2 Other Contributory Review/Assurance Mechanisms

Finance Standards & Strategy Group
See above.

Transformation Board
The Transformation Board is a cross-Council group that co-ordinates the Council's major business change initiatives. The Programme contains key projects that contribute to the Corporate Aim of *Improving the Way We Work*, and specifically to improve performance, reduce costs and achieve better customer focus by making changes to the way that services are delivered.

External Audit and Inspection
The Council is regularly inspected by the Audit Commission and other inspectorates such as Ofsted and the Care Quality Commission to provide a picture of how it is performing.

The External Auditors, the Audit Commission, report formally to the Council in an Annual Audit Letter, which for 2010/11, was presented to the Executive on 25th October 2011. This report identified:

- The Council's governance is robust and means the Council can deliver better outcomes for local people;
- An unqualified audit opinion was issued on the 2010/11 financial statements;
- The arrangements for achieving value for money were satisfactory. The Council met all of the value for money criteria;
- The Council has satisfactory arrangements to manage its assets and workforce.

Improvements in controls were identified as necessary during work conducted in 2010/11. The Council’s replacement financial management system was expected to address these improvements. The External Auditors opinion for 2010/11 remains that potential, limited weaknesses in controls in the Council’s creditors and debtors systems require further assurance.

4.3 Annual Review of the Council’s Corporate Governance Arrangements

The Audit, Risk and Information Service carry out an annual review of the Council’s Corporate Governance arrangements which includes their compliance with the six principles of the Local Code of Corporate Governance (referred to above), and the following specific focus areas:

- risk management;
- internal control;
- standards of conduct;
- roles and responsibilities of Officers and Members;
- service delivery arrangements; and
- community focus.

The annual review for 2011/12 confirmed that the Council’s Corporate Governance arrangements were satisfactory. There were no significant issues identified and the six principles of the Local Code of Corporate Governance were being complied with.

Performance Management Framework
A review of a sample of the council’s key performance indicators confirmed that overall arrangements for ensuing the quality of data are satisfactory. However, the review identified that for a small sample of indicators, improvements are needed to ensure that the indicators are fit for purpose. The council is making the required changes to ensure these indicators meet the expected standards.

Risk Management Arrangements
The council’s risk management arrangements were subject to a independent review in 2010/11. Subsequently the council has substantially revised its approach to risk management to reflect the rapidly changing environment and best practice. This includes development of a revised strategy, a fundamental re-evaluation of the strategic risks affecting the council and a refocus and streamlining of operational risk management. During 2011/12 the revised approach has been fully implemented. An independent (peer) review of the effectiveness of the new arrangements has been commissioned to commence June 2012.

5. Annual Governance Statement for 2010-11 - Update on Significant Issues during 2011-12

<table>
<tr><th>Issue in 2010-11 & Mitigating Actions for 2011-12</th><th>Progress in 2011-12</th></tr>
<tr><td colspan="2">5.1 - Information Governance, Information Security & e-safety</td></tr>
<tr><td>Freedom of Information Act (FOIA) and Data Protection Act (DPA)

• The Council’s performance is being monitored for the three months April – June 2011 due to previous performance issues. The Council is due to provide final performance data to the Information Commissioner’s Office (ICO) in August 2011.

• There remains a risk that the ICO may consider further action should the Council’s performance not improve sufficiently.</td><td>FOI:
Performance has improved through 2011/12, with the average FOI response time remaining below 20 working days. The Chief Executive Officer has signed a formal Undertaking to the ICO committing to ensure that sufficient resources are allocated to request handling and it will ‘endeavour to consistently provide responses to requests within the statutory timescales.’
No longer considered a significant control issue.

DPA (Subject Access Requests):
There remain a number of issues in processing Subject Access Requests (SAR) within statutory timescales, primarily the lack of resource to review the social care case files being requested. The most recent figures, for Q4 2011-12, showed that of the 16 current requests, nine are already beyond the statutory deadline with a number in excess of 100 days.

Performance has been highlighted in the Corporate Management Team’s Quarterly Balanced Scorecard and raised at each Information Governance Group meeting and the C&YPS Directorate have recently agreed to fund resource for two days a week for six months to address the current backlog.
Control issue remains and appears in section 6 of this statement.</td></tr>
</table>

Issue in 2010-11 & Mitigating Actions for 2011-12	Progress in 2011-12
Information Sharing arrangements between the Council and partner organisations	
The sharing of personal information between organisations is essential for the delivery of joined up, effective services. Information between the Adult Social Services & Housing and Children & Young People's Service Directorates and partner organisations is extensive in the context of the protection of vulnerable children and adults. The sharing must also comply with the Data Protection Act (DPA) to ensure that the rights of individuals to privacy are met. An audit review of Information Sharing Arrangements concluded that the governance of the arrangements for sharing between ASS&H and C&YPS and its partners are in need of improvement.	ASS&H and C&YPS agreed to undertake a review of information sharing to establish the full extent and processes of information sharing. While some work was completed it is still not clear that information sharing with partner agencies always occurs in a controlled manner (e.g. covered by sharing agreements, supported by documented procedures that frontline staff are aware of and adhere to). In view of the above **the control issue remains and is included within the brrader information security issue in section 6 of this statement.**
Information Governance in Schools	
Schools are responsible for their compliance with the information governance legislation (Data Protection Act, Freedom of Information Act, and Environmental Information Regulations). Audit reviews of information governance and ICT arrangements in Secondary Schools identified the following weaknesses: • Encryption – majority of schools are not using encryption to protect laptops and removable media; • Passwords – controls do not meet industry best practice; • Backups – procedures insufficiently robust; • Policies and Procedures – incomplete, weak governance. **e-Safety in Schools** Recent incidents within North Somerset schools have highlighted the need to comprehensively review e-Safety arrangements. Internal audit have, through collaborative review with a small number of	Good progress was made in raising the profile of information governance and e-safety in schools was completed in 2011-12: • An Information Governance awareness session was delivered a Primary Chair and Governors meeting in June 2011; the council's Governor Services Team in July 2011; members of the Learning Exchange, Vulnerable Learners Service and the Music Service, and to Secondary and Special School SILPs, both in January 2012. • The Head of Audit, Risk and Information and Information Governance and Compliance Manager met the Avon and Somerset Police representative for coordinate e-safety in the area. • A review of North Somerset Safeguarding Children Board 'E-Safety Strategy 2010-2013' – focusing on the extent to which the Strategy's six-point Action Plan has been delivered within North Somerset schools – was completed. This made a number of recommendations… • A launch event, led by the Chief Executive Officer, to raise awareness of

Issue in 2010-11 & Mitigating Actions for 2011-12	Progress in 2011-12
North Somerset Schools, and also the work in relation to information governance outlined above, identified that the risks to both pupils and schools staff arising from modern communications media, particularly the internet, but also mobile phones, require review leading to appropriate management actions.	the current e-Safety and Information Governance landscape was delivered at the end of November 2011. This involved a number of workshops and presentations, addressing e-safety, information security and freedom of information. • A review of the e-Safety and Information Governance arrangements in a sample of schools, using self-assessment tools and in-depth reviews to focus on the quality and content of current policies and arrangements, was completed. The findings have been circulated to all schools in a user-friendly report in order to both raise awareness of the major issues and provide examples of best practice. Schools have been made aware of the services the council can offer to further compliance in these areas – for example, leading schools through the completion of detailed assessments, providing expertise in respect of improvement plans to achieve their strategic aims, support to ensure the delivery of action plans towards achievement of the School's strategic aims. Despite the above there is limited evidence that schools are accessing the support or tools available and further assurance will be sought in 2012. In view of this **Control issue remains and appears in section 6 of this statement.**

<table>
<tr><th>Issue in 2010-11 & Mitigating Actions for 2011-12</th><th>Progress in 2011-12</th></tr>
<tr><td colspan="2">5.2 – ICT Asset management</td></tr>
<tr><td>An internal audit review of ICT assets and inventories concluded that organisational control over ICT assets and inventories remains ineffective. This issue was included in the Annual Governance Statement until recently and the current weaknesses appear to be those that have pertained previously:

• The management of ICT assets is not currently in line with best practice guidelines. The asset register does not give sufficient and accurate details on the location, specification, configuration and current ownership of assets.

• The asset register is not updated to reflect all changes in starters, leavers, internal transfers and restructures.

• Information security issues arise from the weaknesses in controls around staff internal transfers.</td><td>Progress has made in the 2011/12 on the actions to mitigate this control issue:

• Agilisys have developed an action plan detailing their approach and objectives to improve the management of the ICT assets and provide a commitment to working towards best practice guidelines.

• Asset discovery software is actively used to identify redundant or under utilised assets.

• A robust change management system that captures all changes to ICT assets is being progressed to ensure that all changes, modifications and allocations are accurately captured and recorded.

• A review of the allocation of software licences and their usage is underway to ensure that the Council has sufficient software licenses for its usage, that the software licences are appropriately allocated, matched to installations, and being deployed in an efficient manner.

• Agilisys and Internal Audit are working together on improvements to processes around staff internal transfers; a plan to align information access to current roles; the detail of the asset register and how to ensure the asset register meets Council objectives in terms of managing risks for information security and business continuity.

Much of the improvements are either only recently delivered or on track to complete in 2012, it has not been possible to provide assurance over new and developing improvements and on that basis the control issue remains and appears in section 6 of this statement.</td></tr>
</table>

<table>
<tr><th>Issue in 2010-11 & Mitigating Actions for 2011-12</th><th>Progress in 2011-12</th></tr>
<tr><td colspan="2">5.3 – Contract Management</td></tr>
<tr><td>Internal audit reviews and a report commissioned from external consultants have identified weaknesses in the operation and management of some of the Council’s contracts.

This work has identified widespread general areas for improvement in governance, contract and performance management arrangements across a number of the council’s contracts.

A particular incident in relation to the waste collection service identified a lack of control over the contingency planning.</td><td>A contract management strategy, incorporating an action plan for improvement, was approved by the Executive in December 2011. This is now being rolled out across the directorates through:

• Process guidance for contract managers in both hard copy and intranet formats;

• Emphasising risk management as an important activity at both procurement stage and throughout contract management;

• Identifying and encouraging principles of good governance in contract management;

• The creation of a performance management framework, through which the success of the highest value, highest risk contracts can be monitored;

• The creation of a contract management champions group; and

• The identification of competencies for individual contract managers, with training and development to help meet unmet needs.

A rolling programme of detailed contract reviews is underway, selecting contracts that are high risk, high value or underperforming. Two such reviews have been completed to date and two more are underway.

Corporate capacity and expertise has been created in contract management, to provide a support structure, drive the strategy and oversee change.
No longer considered a significant control issue.</td></tr>
</table>

6. Significant Governance, Internal Control and Risk Management Issues for 2011-12

Issue in 2011-12	Mitigating Actions for 2012-13
6.1 - Information Governance, Information Security	
Information Security The Council was fined £60,000 for an information security breach in 2011/12, this along with high number of reported internal information security issues represents a significant control issue in relation to: 1. information sharing; 2. office moves; and 3. handling of paper records.	A revised approach and detailed programme of work is to be delivered during 2012-13 to achieve a corporate Information Security Management System in line with the Code of Practice ISO 27001. Further, a brief for a C&YPS-specific Information Governance Task Force has also been agreed, with work planned to address a number of specific information security issues in the directorate. Annual compliance with mandatory information security training will be reviewed. Technological solutions to deliver secure sharing of information will be assessed and deployed where appropriate. A protocol for office moves is in force ahead of the Town Hall moves planned in Summer 2012.
Data Protection Act (Subject Access Requests) The Council's performance on fulfilling subject access requests is not acceptable and although resources have been applied later in 2011/12, it is too early to gauge whether these measures will be effective.	Performance will continue to monitored in the Corporate Management Team's Quarterly Balanced Scorecard and raised at each Information Governance Group meeting and the C&YPS Directorate have recently agreed to fund resource for two days a week for six months to address the current backlog. The Director of CYPS and CMT will monitor progress through the first quarter of 2012/13 to ensure a marked improvement in response times.

Issue in 2011-12	Mitigating Actions for 2012-13
6.2 – Safeguarding in Schools & E-Safety	
Hillside First School At a court hearing in May 2011 a teacher pleaded guilty to sexual offences and summarily dismissed from his teaching post and following a further court appearance in June 2011 was given an indeterminate prison sentence for public protection. The serious case review stated that "overall there was a significant failure to comply with the principles of the guidance designed to promote safer working practice within schools. Combined with the failure to formally report the majority of concerns it must be presumed that staff were both unaware of the guidance and inhibited from following their normal professional instincts and there was a lamentable failure by management to create an environment in which the needs of the child were paramount and good practice was promoted". **E-Safety** Irrespective of the issues arising from the serious case review detailed above the issues of e-safety within schools was included in the 2010/11 Annual Governance Statement and insufficient progress has been made to provide an adequate level of assurance that this significant control issue has been addressed. (see 5.1).	The serious case review into incidents at Hillside First School introduced a range of new governance systems to ensure that improvements are made to arrangements to keep children safe in school. The Strategic Schools Forum have recently agreed to make a one off funding allocation to schools of just over £500k to support the implementation of the recommendations of the serious case review. Following the Headteacher launch event, led by the Chief Executive Office, an e-safety toolkit has been issued to schools and arrangements developed to offer each school a half days individual support on the completion of the toolkit. A training session on the toolkit was run for schools in November 2011 and this was raised again through designated teacher training in February and March 2012. The North Somerset Safeguarding board and, particularly, in respect of North Somerset Council actions, the Director of CYPS will closely monitor the effectiveness of these new arrangements in 2012/13. A designated Officer within CYPS will take responsibility for driving forward progress in this area and tracking schools engagement and access to the services and support available. Funding will be sought from the Strategic Schools Forum for a teaching and learning e-safety specialist in order to increase the resource support available to schools. Internal Audit will review the South West Grid for Learning policies in respect of e-safety to ensure they are fit for purpose and utilised by schools.

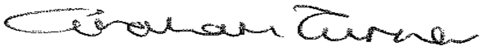
Issue in 2011-12	Mitigating Actions for 2012-13
6.3 – ICT Asset Management	
The control issue regarding ICT Asset Management were included in 2010/11 Annual Governance Statement and insufficient progress has been made to provide an adequate level of assurance that this significant control issue has been addressed. (see 5.2)	Following the refurbishment of the Town Hall and the associated relocation of personnel a physical baseline audit will be undertaken across the authority to ratify the asset information held in the Configuration Management Database. From April 2012, report on a monthly basis a complete list of those IT assets that should be visible to central monitoring tools that have not been seen for more than three weeks and automatically initiate a follow up process to locate those assets. Develop automated workflow within the Service Management tool, Hornbill, by the end of September 2012 to ensure that incident management, change management and asset management processes are aligned. Ensure that new procurement processes to be introduced in June 2012 to incorporate robust asset management controls. By the end of September 2012 undertake a comprehensive review of the corporate starters and leavers policies to embed best practice asset management controls. Develop a number of role-based profiles that limit access to only those information resources required for that role. Ensure that from October 2012 all new starters in the organisation are assigned one such profile. Complete readiness for pre-accreditation inspection against IT Service Management standard, ISO20000 by March 2013.

Issue in 2011-12	Mitigating Actions for 2012-13
6.4 – Direct Payments	
The internal audit review of Personalised Budgets highlighted specific areas for improvement in controls and processes, however, ASSH are unable to provide reasonable assurance that controls are sufficient and effective due to the conflict between Government guidance, financial accountability, capacity of staff and the threat of legal challenge by service users and families.	The current payments are made four weekly in arrears, therefore reducing financial risk and increasing theability to withhold funds pending escalation process or non-return of excess funds. Planned business process changes, to be fully completed by September 2012, will escalate non-compliance with quarterly returns and / or identified misuse, which will convert cash budgets back to managed budgets. This will include revision to the legal agreement signed by service users and requirements more prominent in service user correspondence. AIS Project (including mySupport and Electronic Social Care Records) will reduce the reliance on paper files and enhanced functionality will improve exception reporting. The overall project completion is by 31 March 2013 although increased functionality and electronic records will be adopted as it becomes available. Workforce remodelling project identified the need to strengthen reviewing capacity as a priority and will be considered in conjunction with consultation on the Integrated Care Organisation consultation.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We propose to take appropriate steps during the 2012-13 year to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: **Nigel Ashton**
Leader of the Council



Signed: **Graham Turner**
Chief Executive Officer

Date: **July 2012**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH SOMERSET COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of North Somerset Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of North Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Financial Management and auditor

As explained more fully in the Statement of the Head of Financial Management's Responsibilities, the Head of Financial Management is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Financial Management; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of North Somerset Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, North Somerset Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of North Somerset Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Stephen Malyn
District Auditor

Audit Commission
Westward House
Lime Kiln Close
Stoke Gifford
Bristol
BS34 8SR

26 September 2012

Glossary of Terms and Abbreviations

A

Accounting Period
The period of time covered by the accounts, normally a period of 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Statements
The Council's Core Financial Statements and Supplementary Financial Statements.

Accruals
Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which no payment has yet been made or received at the Balance Sheet date.

Actuarial Gains or Losses (Pension Schemes)
The changes in actuarial deficits or surpluses that arise because events have not matched previous assumptions and/or actuarial assumptions have changed.

Amortisation
A term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred charges) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for non-current assets.

Appointed Auditors
External auditors of local authorities appointed by the Audit Commission. They may be from the Commission itself or a major accountancy firm.

Approved Institutions
Funds that are not immediately required may be invested but only with third parties meeting the credit rating criteria approved annually as part of the Council's Treasury Management Policies and Practices.

Asset
An item having value in monetary terms. *See also Current Assets, Non-Current Assets and Financial Asset.*

Audit of Accounts
An independent examination of the Council's financial affairs.

B

Billing Authority
A local authority responsible for collecting Council Tax and National Non-Domestic Rates.

Budget
The forecast of net revenue and capital expenditure over an accounting period.

C

Capital Expenditure
Expenditure for the acquisition, provision or improvement of non-current assets, which will be of long-term value to the Council, providing services beyond the current accounting period.

Capital Financing
The raising of money to pay for capital expenditure through borrowing, usable capital receipts, capital grants and contributions or use of reserves.

Capital Financing Requirement (CFR)
The Capital Financing Requirement shows the amount of funds required by the Council as a result of capital investment and resources set aside in the year.

C

Capital Programme
The capital schemes the Council intends to carry out over a specified time period.

Capital Receipts
Money received from the disposal of non-current assets or the repayment of grants and loans, which is available for financing future capital expenditure.

Collection Fund
A statutory fund maintained by a billing authority, which is used to record local taxes and Non-Domestic Rates collected by the authority, along with payments to precepting authorities, the national pool of Non-Domestic Rates and the billing authority's General Fund

Community Assets
Assets which the Authority intends to hold in perpetuity, that have no determinable finite useful life and that may have restrictions on their disposal, e.g. parks, historical buildings. *See also Non-Current Assets.*

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same

Contingency
Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset
A possible asset that arises from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability
A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or

- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount cannot be measured with sufficient liability.

Council Tax
The main source of local taxation for local authorities. Council Tax is levied on households within its area by the billing authority and the proceeds are paid into the Collection Fund for distribution to precepting authorities and the Authority's General Fund.

Council Tax Benefit
Assistance provided by billing authorities to adults on low incomes to help pay their Council Tax bill. The cost to authorities of council tax benefit is largely met by government grant.

Creditors
Amounts owed by the Authority for works completed, goods received or services rendered before the end of the accounting period but for which payments have not been made.

Current Assets
Assets which can be expected to be consumed or realised during the next accounting period.

Current Liabilities
Amounts which will become due or could be called upon during the next accounting period.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

C

Curtailment (Pensions)
An event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

D

Debtors
Amounts due to the Authority for works completed, goods received or services rendered before the end of the accounting period but for which payments have not been received.

Depreciation
The estimated benefit of an asset consumed during the accounting period, owing to age, wear and tear, deterioration or obsolescence.

Direct Revenue Financing (DRF)
Resources provided from an authority's revenue budget to finance the cost of capital projects.

E

Equity
The Authority's value of total assets less total liabilities.

Equity Instrument
A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Exceptional Items
Events or transactions that fall within the ordinary activities of the Authority and need to be disclosed separately due to their size to give fair presentation of the accounts.

Expected Returns on Assets (Pensions)
The average rate of return, including both income and changes in fair value, but net of scheme expenses, expected over the remaining life of the pension.

External Audit
The independent examination of the activities and accounts of local authorities in order to give an opinion as to whether the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices, and to ensure the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Extraordinary Items
Abnormal material items, which fall outside the ordinary activities of the Authority and which are not expected to reoccur.

F

Fair Value (FV)
The price an asset could be exchanged for in an arm's length transaction less any grant.

Fees and Charges
Income raised by charging users of services for facilities, e.g. leisure centres, trade refuse, etc.

Finance Leases
A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The present value is calculated using the interest rate implicit in the lease.

F

Financial Asset
A right to future economic benefits controlled by the Authority that is represented by:

- cash
- an equity instrument of another entity
- a contractual right to receive cash (or another financial asset) from another entity
- a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial Instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability
An obligation to transfer economic benefits controlled by the Authority that is represented by:

- a contractual obligation to deliver cash (or another financial asset) to another entity
- a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Authority.

G

General Fund (GF)
The main revenue fund of a billing authority, used to meet day-to-day spending.

Government Grants
Grants made by the Government towards either revenue or capital expenditure to support the cost of provision the Authority's services. These grants may be specifically towards the cost of particular schemes or to support the revenue spend of the Authority.

Gross Expenditure
The total cost of providing the Authority's services before taking into account income from government grants and fees and charges for services.

Growth
Any increase in spending from one year to another which enables the Authority to pay for more services rather than to meet higher costs.

H

Housing Benefit (Rent Allowance)
An allowance to persons on low (or no) income to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but central government refunds part of the cost of the benefit provided and of the running costs of the service to local authorities.

I

Impairment
A reduction in the value of a fixed asset, below its carrying amount on the Balance Sheet.

Income
Amounts that the Authority receives or expects to receive from any source, including fees and charges, sales and grants.

I

Individual Schools Budget
That part of the local schools budget which must be delegated to schools via the school's funding formula.

Infrastructure Assets
Non-current assets belonging to the Authority which do not necessarily have a resale value e.g. highways, and for which a useful life span cannot be readily determined.

Intangible Assets
Non-financial assets which do not have physical substance but are identified and controlled by the Authority through legal rights e.g. IT Software.

Interest Costs (Pensions)
The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Interest Receivable
The money earned from the investment of surplus cash.

Inventories
Items of raw materials and stores an authority has procured to use on a continuing basis and which it has not yet used.

Investment Property
Land and Buildings non-current assets held only for investment potential.

J

Joint Arrangement
An arrangement under which the participants engage in joint activities but do not create a legal entity because it would not carry on a trade or business of its own.

L

Liability
A liability is where the Authority owes payment to an individual or another organisation. *See also Contingent Liability, Current Liabilities and Financial Liability*

Local Management in Schools (LMS)
A system of delegation of management responsibility and budgets to schools, which has applied since 1990/91, introduced by the Education Reform Act 1988.

Long Term Assets
Non current and other assets which can be expected to be of use or benefit the Authority in providing its service for more than one accounting period.

Long Term Liabilities
Amounts which will become due or could be called upon beyond the next accounting period.

M

Materiality
The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements to a reader.

Minimum Revenue Provision (MRP)
The minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for repayment of debt as required by the Local Government Act 2003.

N

National Non-Domestic Rates (NNDR)
A levy on businesses, based on a national rate in the pound set by the Government, multiplied by the rateable value of the premises they occupy.

Net Book Value (NBV)
The amount at which non-current assets are included in the balance sheet.

Net Debt
The Authority's total borrowings less cash investments.

Net Expenditure
Gross expenditure less specific service income.

Non-Current Assets
Property, plant and equipment and other assets that bring longer term benefit or service potential to the Authority.

Non-Operational Assets
Assets held by the Authority but not directly occupied, used or consumed in the direct delivery of services, e.g. assets in the course of construction and surplus land.

O

Operating Leases
A lease other than a Finance Lease (see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding un-discharged obligations in relation to such leases.

Operational Assets
Non-current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Outturn
Actual income and expenditure in a financial year (accounting period).

P

Past Service Costs (Pensions)
The increase in the present value of the defined benefit scheme liabilities, related to employee service in prior periods, arising as a result of, or improvement to, retirement benefits.

Pension Fund
An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of its participants; it is financed from contributions from the employing authority, the employee and investment income.

Post Balance Sheet Events
Those (non-adjusting) events, both favourable and unfavourable, of such materiality that their disclosure is required for the fair presentation of the Statement of Accounts, which occur between the Balance Sheet date and the date on which the Accounts are signed by the responsible financial officer.

Precept
A levy made by one statutory body (Precepting Authority) on another to meet the net cost of its services.

Precepting Authorities
Those authorities that are not Billing Authorities; i.e. do not collect the Council Tax and National Non-Domestic Rates. Police authorities are 'major' precepting authorities and town and parish councils are 'local' precepting authorities.

P

Prior Period Adjustments
Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions
Amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise, e.g. bad debts.

Prudence
The concept that income should only be anticipated to the extent that it will be received, as cash or other assets, with reasonable certainty and full and proper allowance should be made for all known and foreseeable losses and liabilities.

Prudential Code
The CIPFA Prudential Code for Capital Finance in Local Authorities – the guidance applicable from April 2004 for the greater freedom for authorities to borrow to fund capital investment (under the Local Government Act 2003). This Code requires the Authority to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

Public Works Loan Board (PWLB)
A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source.

R

Rateable Value
The annual assumed rental value of a hereditament that is used for NNDR purposes.

Revenue Expenditure Funded by Capital Under Statue (REFCUS)
Expenditure of a capital nature but for which there is no tangible asset, e.g. renovation grants

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

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

Examples of related parties to an authority include Central Government, Local Authorities and other bodies precepting or levying demands on the Council Tax, its Members, its Chief Officers and its Pension Fund.

For individuals identified as related parties, it is also presumed that members of the close family, or the same household, or any partnerships, companies in which the individual or a member of their close family, or the same household has a controlling interest, are deemed to be related parties.

Related Party Transactions
The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. The materiality of related party transactions is judged not only in terms of their significance to the Authority, but also in relation to its related party.

R

Reserves
Amounts set aside in the accounts for the purpose of meeting general, future expenditure. Reserves may also be used to smooth the cost of certain activities over a number of years. A distinction is drawn between reserves and provisions (see above), which are set up to meet known liabilities.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Revenue Expenditure
Spending on day-to-day items including employees' pay, premises and transport costs and supplies and services.

Revenue Support Grant
A general grant paid by the Government to Council's contributing towards the costs of their services.

S

Specific Grants
The term used to describe all government grants, including supplementary and special grants, to local authorities other than Revenue Support Grant and capital grants.

Supported Borrowing
The amount of Authority borrowing towards which the Government provides financial support through the annual Revenue Support Grant.

T

Temporary Borrowing
Money borrowed for a period of less than one year.

Total Cost
The actual cost of services reflecting all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

U

Unsupported (or Prudential) Borrowing
Any borrowing the Authority undertakes that is above and beyond the level of Supported Borrowing which the Government helps to fund and which therefore the Authority has to fund completely from its own resources.

W

Work In Progress
The cost of work carried out on an uncompleted project at the Balance Sheet date, which should be accounted for within the accounting period.

Abbreviations used in the Statement of Accounts

CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department for Communities and Local Government
DFE	Department for Education
DFT	Department for Transport
DEFRA	Department for Environment, Food & Rural Affairs
IFRS	International Financial Reporting Standard
LAAP	CIPFA's Local Authority Accounting Panel
SERCOP	Service Expenditure Reporting Code of Practice