STATEMENT OF ACCOUNTS

AND ANNUAL CORPORATE GOVERNANCE STATEMENT

2012-2013

RUSHMOOR BOROUGH COUNCIL

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Explanatory Foreword by the Director of Resources

Rushmoor Borough Council's Statement of Accounts for the year ended 31st March 2013 is set out on the following pages.

The Statement of Accounts consists of the following core financial statements and accompanying notes:

- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of the economic benefits of assets.

- **The Comprehensive Income and Expenditure Statement** combines the former Income and Expenditure Account and the Statement of Total Recognised Gains and Losses. This statement shows all income and expenditure incurred by the Council throughout the year; including day-to-day transactions from running the organisation as well as gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.

- **The Balance Sheet** shows the financial position of the Council as at 31st March 2013. It discloses the assets and liabilities for all Council services.

- **The Cash Flow Statement** summarises the Council's cash transactions for the year.

Also included in the Statement of Accounts is the following supplementary financial statement and accompanying notes:

- **The Collection Fund Statement** which is a statutory fund maintained by a Billing Authority summarising local taxes and non-domestic rates collected by the Council, along with payments to Precepting Authorities, the National Pool of non-domestic rates and its own General Fund.

The Statement of Accounts has been audited and the Independent Auditor's Report, including the Audit Opinion, is included in this document.

The Council is required to ensure that its financial management is adequate and effective and that there is a sound system of internal controls including arrangement for the management of risk. The Annual Governance Statement, approved following the annual review of this system of internal control, has been included in this document, in addition to the Statement of Accounts.

Accounting Policies

The Council's accounting policies are laid out in Note 1 to the Core Financial Statements. A number of these policies were revised in 2010/11, and again in 2011/12, following the introduction of International Financial Reporting Standards, which aimed to deliver the benefits of consistency and comparability between financial reports in the global economy and to follow private sector best practice. There were no accounting policy changes impacting on the Council in 2012/13.

Summary of Revenue Expenditure for the Year

The Council has a rigorous budget process, setting itself a four-year budget that incorporates the Council's priorities and objectives over the medium term and producing a Financial Strategy, a Medium Term Financial Forecast, detailed budget reports which are approved by Full Council each year and the annual budget book. During 2012/13, the Council successfully achieved £1.1 million reductions in net service expenditure despite the turbulent economic climate, uncertainty in the financial sector and pressures on funding.

The initial budget for 2012/13, approved by Council on 23rd February 2012, forecast net revenue expenditure of £10.796 million funded by £5.9 million from Council Tax and £4.896 million from Central Government in the form of Revenue Support Grant and Redistributed Non-domestic Rates. This allowed for a 0.0% increase in Council Tax, the inclusion of a Council Tax Freeze Grant of £0.147 million from Central Government and committed or inescapable additional items of £0.063 million. A corner stone of the budget proposals was the introduction of an 8-point plan as set out below:

- Reduce work – by looking at priorities and reviewing what we do
- Do things smarter – by looking at how we do things to reduce costs
- Increasing income/invest to save
- Reducing our core capital programme
- Reviewing our approach to financing and our Medium Term Financial Strategy
- Reviewing our management structure and costs
- Rethinking our approach to/renegotiating our contracts
- Considering the opportunity to increase Council Tax

Key to the success of this was revisiting and developing the Council's purpose and priorities in consultation with stakeholders including Members, residents, local businesses, partners and staff. These can be found on our website (www.rushmoor.gov.uk). These were in turn used to develop the Corporate Plan for 2012/13, which sets out the key activities for 2012/13, thus targeting resources to support the agreed aims of the Council. This work included working with the local enterprise partnership (Enterprise M3) to address skills and infrastructure issues across the area, partnership working to tackle local issues around community safety, health and well-being and educational attainment and completion of the Westgate development in Aldershot.

During 2012/13, a significant range of savings and improved income streams were achieved despite factors such as the prevailing economic conditions and reduced interest receipts due to continuing low interest rates. These savings were incorporated into the 2012/13 Revised Budget, approved by the Council on 19th February 2013 and increased the expected General Fund balance to £1.992 million.

The actual outturn for 2012/13 improved considerably on this position due to further savings and efficiencies being achieved, due to the continued restraint in spending exercised by Heads of Service and additional income in the latter part of the year. After allowing for transfers to the Service Improvement Fund, Stability and Resilience Reserve and other earmarked reserves, the General Fund balance stands at £2.365 million at the close of 2012/13. This is above the approved range of balances for the medium term. These transfers, and the increased level of balances, strengthens the Council's financial position by ensuring that sufficient cover has been provided against known risks such as the potential variability in income from the new Business Rates Retention Scheme introduced from 1st April 2013. It also provides resources to carry out process and service reviews and to support major invest to save schemes, as underpinned by the 8-point plan.

	Revised Budget 2012/13 £000	Actual 2012/13 £000	Variance £000
Service Expenditure	12,203	11,129	1,074
Grants	(965)	(1,410)	445
Other Corporate Income and Expenditure	10	(24)	34
Transfers to Earmarked Reserves	1,771	3,007	(1,236)
Revenue Contributions to Capital Programme	500	500	0
Investment Income	(2,600)	(2,628)	28
Interest Receivable	(530)	(558)	28
Transfer to/(from) General Fund Balances	406	779	(373)
NET BUDGET REQUIREMENT	**10,795**	**10,795**	**0**

	Revised Budget 2012/13 £000	Actual 2012/13 £000	Variance £000
Financed by:			
Precept on Collection Fund	5,860	5,860	0
Revenue Support Grant/Redistributed Non-Domestic Rates	4,895	4,895	0
Collection Fund Surplus	40	40	0
	10,795	**10,795**	**0**

Revenue Balances		
01 April 2012	1,586	1,586
(Use of)/contribution to balances	406	779
31 March 2013	1,992	2,365

Note: The table above does not correspond directly to any of the core statements presented in the Statement of Accounts 2012/13. This is because it contains a combination of figures from both the Comprehensive Income & Expenditure Statement and The Movement in Reserves, while omitting other figures that appear in those statements. The Summary presented above is based on the format that is used to present the revenue budget to Members and its aim is to show the effect of the year's transactions on the General Fund Balance. Accounting transactions for items such as Pension Accounting, Capital charges and Employees Benefit adjustments for example, which are all adjusted for elsewhere in the core statements, are not included here, as they have no direct impact on the level of general fund reserves.

Pensions Liability
The Council participates in the Local Government Pension Scheme (a defined benefit scheme) administered by Hampshire County Council. The pension liability shown in the Balance Sheet represents the Council's share of the Hampshire Fund's overall liability calculated by the fund actuary in accordance with IAS19. IAS19 is a complex accounting standard based on a simple principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

Whilst the Council's liability at 31st March 2013 is significant at £52.14 million, arrangements for funding the deficit are in place and reflected in the Council's medium term financial planning. Further detail on the pension liability and its significance for the Council is included in the Statement of Accounting Policies (Note 1) and Defined Benefit Pension Schemes (in the Notes to the Core Financial Statements).

Material Charges or Credits to the Accounts

Group Accounts

As at the 31st March 2012, the Council had a 50% interest in the Joint Venture Company – Westgate Aldershot Ltd. There was potential for the Council to receive future income under the Joint Venture Agreement though this was dependent upon the financial success of the Company. The Council disposed of its 50% interest in the Company on the 3rd December 2012, after completion of the Westgate development in November 2012 and receipt of £2.6 million as its share of the profit. This was credited directly to its General Fund Revenue Account.

Impairment of Assets

The present economic climate has resulted in more volatile asset values. The Council has again sought the advice of its Valuer in terms of the valuations of individual capital assets and groups of capital assets. As part of this review, impairment losses of £2.6 million were identified. Of this figure, £0.6 million was offset against previous revaluation gains for the individual assets and £2.0 million was charged directly to the relevant service revenue accounts. The Council has also recognised impairment losses of £0.3million in respect of long-term debtors in its General Fund Revenue Account.

Changes in Statutory functions

There have been no major changes in statutory functions during the year. Future service delivery in some areas of the Council's work will be affected by the agenda for Localism and Welfare Reform. For example, the administration of Housing and Council Tax benefits will be redesigned with the introduction of the Council Tax support scheme from April 2013 and further changes will stem from the introduction of Universal Credit in subsequent years.

Borrowing

Following the transfer of the Council's housing stock in 1995, the Council arranged the repayment of its remaining long-term debt, meaning that with effect from the 1st April 1996 the Council was "debt free". There is no requirement for long-term borrowing to meet its capital expenditure needs.

Capital Expenditure

The Council has plans to make significant investment for the future and has a capital programme of £13.2 million for the four years from 2013/14 to 2016/17. It is intended that this will continue to be resourced from capital receipts, government grants, other capital contributions and revenue contributions.

Summary of Capital Expenditure for the Year

	Revised Budget 2012/13 £000	Actual 2012/13 £000	Variance 2012/13 £000
Capital Expenditure :			
Property, Plant and Equipment	6,935	5,664	(1,271)
Intangible Assets	213	121	(92)
Grants To Registered Social Landlords	280	54	(226)
Improvement Grants	780	613	(167)
Total Capital Expenditure	**8,208**	**6,452**	**(1,756)**
Capital Financing :			
Capital receipts	5,603	4,601	(1,002)
Government grants and other contributions	1,905	1,151	(754)
Direct revenue contributions	700	700	0
Total Capital Financing	**8,208**	**6,452**	**(1,756)**

Impact of the Current Economic Climate

Effect on spending plans and budgeted income

In common with most local authorities, Rushmoor has seen a further reduction (around 9%) in its income from government grant in 2012/13 due to the austerity measures introduced by central government to tackle the national budget deficit. Similarly, the Council's income from its investments has continued to decline as remaining longer-term investments mature and are replaced by more liquid investments at much lower levels of interest. The Council has also faced declining income streams due to the economic climate in areas such as planning fees, land charges and parking income. These reductions were anticipated and accommodated through the implementation of a programme of reductions in spending and increases in income both now and into the future which will ensure that the Council maintains a strong financial position.

Adequacy of balances to withstand future financial pressures

As part of the Council's Medium Term Financial Strategy, and in recognition of the uncertainty that the Council faces due to the state of the current economic climate and the effect of government policy changes, the target range for its General Fund revenue balances has been increased to £1 million to £2 million during the course of 2012/13. Due to the improvement in the Council's financial position during the year, it has been possible to increase the level of these balances to just above this range, i.e. £2.365 million, in addition to providing for future invest-to-save schemes and allowing for sums to mitigate against known risks to the financial position. This leaves the Council in a strong position with which to start the new financial year.

The Council has developed an 8-point plan to tackle the challenges ahead, which centres on aligning the Council's work with its priorities in order to reduce work, and reviewing how we do that work in order to reduce costs.

Further information about the statements is available from the Head of Financial Services, Council Offices, Farnborough Road, Farnborough, Hampshire GU14 7JU. The statements are also available on the Council's website – www.rushmoor.gov.uk

Peter Gardner
Director of Resources

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

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

Councillor Martin J. Tennant

Chairman of the Licensing and General Purposes Committee

Date: 23rd September 2013

The Chief Financial Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

  The Chief Financial Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of Rushmoor Borough Council and of its expenditure and income for the year ended 31st March 2013.

Peter Gardner

Director of Resources (Chief Financial Officer)

Date: 23rd September 2013

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, 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. 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.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance 1st April 2011	1,750	2,170	23,697	18	**27,635**	29,804	**57,439**
Movement in reserves during 2011/12							
Surplus or (deficit) on the provision of services	1,345	0	0	0	**1,345**	0	**1,345**
Other Comprehensive Income and Expenditure	0	0	0	0	**0**	(8,829)	**(8,829)**
Total Comprehensive Income and Expenditure	1,345	0	0	0	**1,345**	(8,829)	**(7,484)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	(819)	0	3,384	(18)	**2,547**	(2,547)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	526	0	3,384	(18)	**3,892**	(11,376)	**(7,484)**
Transfers to/from Earmarked Reserves (Note 8)	(690)	1,019	0	0	**329**	(329)	**0**
Increase/Decrease in 2011/12	(164)	1,019	3,384	(18)	**4,221**	(11,705)	**(7,484)**
Balance at 31st March 2012 carried forward	1,586	3,189	27,081	0	**31,856**	18,099	**49,955**
Movement in Reserves during 2012/13							
Surplus or (deficit) on the provision of services	(62)	0	0	0	**(62)**	0	**(62)**
Other Comprehensive Income and Expenditure	0	0	0	0	**0**	(3,463)	**(3,463)**
Total Comprehensive Income and Expenditure	(62)	0	0	0	**(62)**	(3,463)	**(3,525)**
Adjustments between accounting basis and funding basis under regulations (Note 7)	3,586	0	(4,601)	25	**(990)**	990	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	3,524	0	(4,601)	25	**(1,052)**	(2,473)	**(3,525)**
Transfers to/from Earmarked Reserves (Note 8)	(2,745)	2,805	0	0	**60**	(60)	**0**
Increase/Decrease in 2012/13	779	2,805	(4,601)	25	**(992)**	(2,533)	**(3,525)**
Balance at 31st March 2013 carried forward	**2,365**	**5,994**	**22,480**	**25**	**30,864**	**15,566**	**46,430**

Comprehensive Income and Expenditure Statement

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

2011/12				2012/13		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
7,636	(5,840)	1,796	Central Services to the Public	8,054	(5,904)	2,150
5,435	(1,538)	3,897	Cultural and Related Services	6,503	(1,367)	5,136
7,548	(2,370)	5,178	Environmental and Regulatory Services	7,871	(2,588)	5,283
2,620	(1,246)	1,374	Planning Services	3,584	(1,145)	2,439
3,314	(3,910)	(596)	Highways and Transport Services	3,094	(3,989)	(895)
35,876	(33,702)	2,174	Other Housing Services	38,527	(36,811)	1,716
96	(76)	20	Adult Social Care	90	(72)	18
1,443	(15)	1,428	Corporate & Democratic Core	1,585	(6)	1,579
47	0	47	Non Distributed Cost	28	0	28
64,015	**(48,697)**	**15,318**	**Cost of Services**	**69,336**	**(51,882)**	**17,454**
10	(1,039)	(1,029)	Other operating expenditure (Note 9)	67	(61)	6
5,862	(8,511)	(2,649)	Financing and investment income and expenditure (Note 10)	5,645	(10,116)	(4,471)
0	(12,985)	(12,985)	Taxation and non-specific grant income (Note 11)	0	(12,927)	(12,927)
		(1,345)	**(Surplus) or Deficit on Provision of Services**			**62**
		(601)	Surplus or deficit on revaluation of Property, Plant and Equipment			(1,137)
		9,430	Actuarial gains/losses on pension assets / liabilities			4,600
		8,829	**Other Comprehensive Income and Expenditure**			**3,463**
		7,484	**Total Comprehensive Income and Expenditure**			**3,525**

Balance Sheet

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

31 March 2012 £000		Notes	31 March 2013 £000
48,768	Property, Plant and Equipment	12	47,144
258	Heritage Assets	13	258
15,592	Investment Property	14	20,455
704	Intangible Assets	16	572
2,004	Long Term Investments	17	4
417	Long Term Debtors	17	77
67,743	**Long Term Assets**		**68,510**
21,812	Short Term Investments	17	21,539
21	Inventories	18	13
3,551	Short Term Debtors	19	5,398
12,143	Cash and Cash Equivalents	20	12,421
37,527	**Current Assets**		**39,371**
5,391	Short Term Creditors	21	6,461
0	Short Term Provisions	22	41
5,391	**Current Liabilities**		**6,502**
312	Long Term Provisions	22	382
47,402	Other Long Term Liabilities	23	52,692
2,210	Capital Grants Receipts in Advance	36	1,875
49,924	**Long Term Liabilities**		**54,949**
49,955	**Net Assets**		**46,430**
31,856	Usable Reserves	24	30,864
18,099	Unusable Reserves	25	15,566
49,955	**Total Reserves**		**46,430**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the 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.

2011/12 £000		2012/13 £000
1,345	Net surplus or (deficit) on the provision of services	(62)
6,104	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 26)	4,020
(4,274)	Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing or financing activities (Note 27)	(207)
3,175	Net cash flows from Operating Activities	3,751
2,585	Investing Activities (Note 29)	(189)
(1,529)	Financing Activities (Note 30)	(3,284)
4,231	Net increase or decrease in cash and cash equivalents	278
7,912	Cash and cash equivalents at the beginning of the reporting period	12,143
12,143	**Cash and cash equivalents at the end of the reporting period**	**12,421**

The Council's cash flow statement has been compiled using the indirect method whereby the statement is prepared using the Surplus or Deficit on the Provision of Services and cash flows are derived by adjusting for non-cash items, removing the effect of accruals and extracting transactions relating to investing or financing activities

Notes to the Accounts

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31st March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require that it is prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Council Accounting in the United Kingdom 2012/13* and the *Service Reporting Code of Practice 2012/13*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 8 of the 2011 Act.

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

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, including services provided by employees, are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is 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 no more than one month 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, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

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 prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations.

vii. Employee Benefits

<u>Benefits Payable During Employment</u>

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

<u>Termination Benefits</u>

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 relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

The Council participates in the Local Government Pensions Scheme, administered by Hampshire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

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

Liabilities are discounted to their value at current prices, using a discount rate of 4.3% (based on the indicative rate of return on high quality corporate bonds derived from the Aon Hewitt UK Corporate AA Curve – Swaps Extrapolation, which in turn is derived from the iBoxx Corporate Bond Index).

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

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net 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 Hampshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund 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.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Reporting Period

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

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

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

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.

As Rushmoor Borough Council is debt-free, there is no requirement for borrowing other than in the short term for cash flow purposes. During 2012/13, no short-term borrowing took place and therefore the only financial liabilities were trade creditors that occur in the normal course of business and a liability arising from an embedded lease in the Council's contract for Waste, Recycling and Grounds Maintenance. The amount presented in the balance sheet in respect of the embedded finance lease is the outstanding principal repayable. Interest payable in the year is calculated and charged to the Comprehensive Income and Expenditure Statement. Financial liabilities entered into with a duration of less than 12 months, such as trade creditors, are recognised at their nominal value.

Financial Assets

Financial assets are classified into three types:

(i) loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

(ii) available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

(iii) fair value through profit and loss – assets acquired for the purpose of selling in the near term, or part of a portfolio of financial instruments managed together where there is evidence of recent, short-term profit taking or a derivative.

Loans and Receivables

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

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

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

The Council holds a number of short-term investments and long-term deposits with Banks and Other Local Authorities, which are classified as loans and receivables, along with cash and cash equivalents, loans to organisations and trade debtors occurring in the normal course of business. Trade and other receivables with duration of less than 12 months are recognised at their nominal value.

Available for Sale Assets

The Council does not hold any financial assets classified as available-for-sale.

Fair Value through Profit and Loss

The Council will on occasion use forward contracts to purchase investment assets. Such forward contracts are 'derivatives' between the trade date and the settlement date and therefore shall be classified as at fair value through profit and loss.

On the trade date the fair value of the derivative will be nil but if the fair value of the 'underlying' (i.e. the financial asset) increases the derivative will have a positive value and if it decreases it will have a negative value. The derivative is settled on the settlement date by the delivery of the financial asset and payment of the consideration. The financial asset is recognised at fair value on the settlement date. The difference between the fair value on the settlement date and consideration paid under the forward contract (i.e. the gain or loss on the forward contract derivative) is taken to the Surplus or Deficit on the Provision of Services. If a forward contract is open at the year-end, the gain or loss on the forward contract is taken to the Surplus or Deficit on the Provision of Services. If the forward contract has a positive value, it is shown as a financial asset in the Balance Sheet. If it has a negative value, it is shown as a financial liability in the Balance Sheet.

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset 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 (specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-specific 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.

xii. Heritage Assets

The Council's heritage assets largely comprise items of civic regalia as well as a memorial and a statue. They are all held in support of their primary objective of contributing to knowledge and culture and have cultural and historic associations that make their preservation for future generations important.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment and are therefore subject to the de-minimus capitalisation threshold of £10,000. However, some of the measurement rules are relaxed in relation to heritage assets, as detailed below.

The Council's collections of heritage assets are accounted for as follows:-

- **Civic Regalia**

Items of civic regalia consist of the Borough of Rushmoor mace, the Mayoral chains of office, badges of office for the Mayor, Mayoress, Deputy Mayor and Deputy Mayoress along with various pendants, ceramic items, ceremonial clothing, works of art and models. The items are subject to regular valuation for insurance purposes and the last valuation took place in March 2012. The valuation was carried out by Catherine Hockley BA (Hons) R J Dip – from Andrew Smith & Son, Fine Art Auctioneers & Valuers.

Items are reported in the Balance Sheet at insurance valuation which is based on market values. The items are deemed to have indefinite useful lives and consequently the Council does not consider it appropriate to charge depreciation.

- **Memorials and Statues**

These consist of a memorial, the Heroes' Shrine in Manor Park, Aldershot and a sculpture of a charging horse in Princes Gardens, Aldershot.

No information is available on cost or value in respect of these items. As the values of these assets are not likely to be material, and it is not practical to obtain a valuation at a cost commensurate with the benefits to users, it is considered that these assets are not recognised in the Council's Balance Sheet but are disclosed as a note to the accounts.

Heritage Assets – General

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 note xviii in this summary of significant accounting policies.
Acquisitions and donations are rare. Where they do, acquisitions are recognised at cost and donations are recognised at valuation ascertained in accordance with the Council's policy on valuation of heritage assets.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes in the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

xiii. 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. The Council does not have any internally generated intangible assets.

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.

xiv. Interests in Joint Venture Companies

The Council accounts for its investments in joint ventures using the equity method of accounting, recording the investment initially at cost, in line with IAS 31 : Interests in Joint Ventures.

xv. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

xvi. 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 arms-length. In 2012/13 the Council commissioned S A Layfield FRICS (Hons) REV of Wilks Head & Eve LLP, Chartered Surveyors to value two specialised properties in it's portfolio, one of which had been acquired for a material sum during the year.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xvii. Jointly Controlled Operations and Jointly Controlled Assets

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

xviii. Leases

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

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

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

The Council as Lessee

<u>*Finance Leases*</u>

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 Council at the end of the lease period).

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

<u>Operating Leases</u>

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

The Council as Lessor

<u>Finance Leases</u>

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.

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to either the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement or the relevant service line in the net cost of services. 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.

xix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* (SERCOP).

Support services represent the cost of individual services provided within the Council to the organisation as a whole, such as Information Technology, Financial Services and Personnel. They are charged out to direct services by way of Service Level Agreements (SLAs) that are negotiated between departments that are responsible for delivering and using support services.

All costs of management and administration are allocated to Direct Services, with the exception of:

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

These two cost categories are defined in the *Service Reporting Code of Practice 2012/13* and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xx. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Assets are 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 (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

Where indices suggest a change in valuation in excess of 2% to a particular class of asset, indexation will be applied to those material assets which have not been revalued so that the risk of material misstatement is reduced to an acceptable level.

Impairment

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

Where impairment losses are identified, they are accounted for 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.

Depreciation

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

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the remaining useful life of the property as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation over the remaining useful life of the asset

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation is considered where the carrying value of the asset is greater than £500,000 and the value of the component is at least 20% of the carrying value.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is 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 losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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. Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xxi. Provisions and Contingent Liabilities

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 or Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

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

xxii. Reserves

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

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

xxiii. 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.

xxiv. 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.

2. Accounting Standards Issued, Not Adopted

The Code requires the Council to identify any accounting standards that have been issued but have yet to be adopted. For 2012/13 the only accounting policy change that needs to be reported relates to IAS19 'Employee Benefits'. A revised IAS 19 came into force for accounting periods beginning on or after 1 January 2013. If this revised IAS 19 were adopted for the accounting period ended 31 March 2013 then this would have increased the expenses recognised for funding benefits from £2.49 million to £3.41million. There is no effect on the Balance Sheet.

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:

- Future Funding for Local Government. There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. In addition, as mentioned in the Explanatory Foreword, the Council has made judgements about the adequacy of its balances and has also put in place processes to achieve savings that will mitigate or counteract any future changes in its levels of funding or other income.
- Asset Classifications. The Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on an understanding of the main purpose that the Council is holding the asset. If the asset is used in delivering services, or is occupied by third parties who are subsidised by the Council, the asset is deemed to be Property, Plant and Equipment. If the asset is used solely to earn rentals and/or for capital appreciation then it is classified as an Investment Property.
- Lease Classification. The council has made judgments on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The accounting treatment for operating and finance leases is significantly different.
- Contractual Arrangements. The council has made judgements on whether its contractual arrangements contain embedded leases i.e. arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment where fulfilment of the arrangement is dependent on the use of specific assets.
- Potential Liabilities. The Council has made judgements about the likelihood of potential liabilities and whether a provision should be made. The judgements are based on the degree of certainty and an assessment of the likely impact.
- Bad or Doubtful Debts. The Council has made judgements about the level of bad or doubtful debts and the level of provision that it may need to provide for. These judgements are based on historical experience of debtor defaults and current economic conditions.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	At 31 March 2013, the carrying amount of the Council's Property, Plant and Equipment was £47.14 million. 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 levels of repair and maintenance will have a direct impact on the estimates of useful lives assigned to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £0.1 million for every year that useful lives had to be reduced.
Pensions Liability	At 31 March 2013, the net Pensions Liability was £52.14 million. 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 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £8.59 million. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had decreased by £0.16 million as a result of estimates being corrected as a result of experience and increased by £8.97 million attributable to updating of the assumptions.
Arrears	At 31 March 2013, the Council had a balance of sundry debtors of £6.59 million. A review of significant balances suggested that an impairment of doubtful debts of 18% (£1.19 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.19 million to be set aside as an allowance.

5. Material Items of Income and Expense

As at the 31st March 2012 the Council had a 50% interest in the Joint Venture Company – Westgate Aldershot Ltd. There was potential for the Council to receive future income under the Joint Venture Agreement though this was dependant upon the financial success of the Company. Completion of the Westgate development took place in November 2012 and the Council received £2.6 million as its share of the profit. This was credited directly to its General Fund Revenue Account.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Resources on 23rd September 2013. 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 31st March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2011/12	Usable Reserves General Fund Balance £000	Usable Reserves Capital Receipts Reserve £000	Usable Reserves Capital Grants Unapplied £000	Unusable Reserves Movement 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	2,139			(2,139)
Revaluation losses on Property, Plant and Equipment	85			(85)
Movements in the market value of Investment Property	(602)			602
Amortisation of Intangible assets	265			(265)
Capital grants and contributions applied	(1,355)			1,355
Revenue expenditure funded from capital under statute	1,172			(1,172)
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	3,311			(3,311)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(326)			326
Reversal of 2009/10 adjustment re impairment of Icelandic investment	(1,420)			1,420
Capital expenditure charged against the General Fund	(700)			700
Adjustments primarily involving the Capital Grants Unapplied Account:				
Application of grants to capital financing transferred to the Capital Adjustment Account			(18)	18

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	(4,000)	4,000		
Use of the Capital Receipts Reserve to finance new capital expenditure		(620)		620
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	11	(11)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		15		(15)
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	2,420			(2,420)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,758)			1,758
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	(25)			25
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which Officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis are different from remuneration chargeable in the year in accordance with statutory requirements	(36)			36
Total Adjustments	**(819)**	**3,384**	**(18)**	**(2,547)**

2012/13	Usable Reserves: General Fund Balance £000	Usable Reserves: Capital Receipts Reserve £000	Usable Reserves: Capital Grants Unapplied £000	Unusable Reserves: Movement 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 (Property, Plant & Equipment)	2,224			(2,224)
Revaluation losses on Property, Plant and Equipment	2,047			(2,047)
Charges for depreciation and impairment of other non current assets	328			(328)
Movements in the market value of Investment Property	(1,532)			1,532
Amortisation of Intangible assets	253			(253)
Capital grants and contributions applied	(731)			731
Revenue expenditure funded from capital under statute	1,071			(1,071)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(281)			281
Capital expenditure charged against the General Fund	(700)			700
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(25)		25	
Adjustments primarily involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,602)		4,602
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	2	(2)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		3		(3)

Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	2,700			(2,700)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,723)			1,723
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	(34)			34
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which Officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis are different from remuneration chargeable in the year in accordance with statutory requirements	(13)			13
Total Adjustments	**3,586**	**(4,601)**	**25**	**990**

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000
Earmarked General Fund Reserves							
Stability and Resilience Reserve	0	0	0	0	0	1,956	1,956
Service Improvement Fund	472	0	64	536	0	857	1,393
Insurance Reserve	0	0	250	250	0	230	480
Amenity Areas s106	523	(24)	0	499	(22)	0	477
Gurkha Integration Grant 1	0	0	500	500	(169)	0	331
Gurkha Integration Grant 2	0	0	0	0	0	241	241
Southwood 2 (Woodlands in Perpetuity)	0	0	105	105	0	101	206
ODPM Planning Grant	332	(107)	0	225	(35)	0	190
Land Charges	0	0	0	0	0	175	175
Guillemont Tree Maintenance s106	101	(4)	0	97	(4)	0	93
Developing Our Communities	122	0	4	126	(40)	0	86
Farnborough Aerodrome s106	57	0	1	58	0	1	59
Gurkha Integration Grant 3	0	0	0	0	0	46	46
Migration Fund	56	(21)	0	35	0	0	35
DCLG Personal Searches	34	(1)	0	33	0	0	33
Prevention Fund Grant	0	0	30	30	0	0	30

Connecting Communities	37	(7)	0	30	0	0	30
Olympian For Life	54	(35)	0	19	0	0	19
Migration Impact	102	(41)	0	61	(44)	0	17
Mortgage Rescue Grant	24	0	0	24	(8)	0	16
Manor Park Enhancement s106	13	0	0	13	0	0	13
Disabled Go	0	0	0	0	0	10	10
Town Team Partners Grant	0	0	0	0	0	10	10
Risk Management Fund	8	0	0	8	0	0	8
Bus Shelter Maintenance	13	(4)	0	9	(2)	0	7
Out of School Childcare	7	0	0	7	0	0	7
Homeless Initiatives	9	(4)	0	5	0	0	5
Healthy Living Centre	7	0	0	7	(2)	0	5
Troubled Families	0	0	0	0	0	4	4
Marrowbrook Commuted Sum s106	5	(1)	0	4	0	0	4
Have Your Say	0	0	0	0	0	3	3
Physical Activity & Wellbeing	0	0	0	0	0	2	2
Southwood Jet Aircraft	2	0	0	2	0	0	2
Community Projects Fund	1	0	0	1	0	0	1
Fraud & Social Housing	7	(7)	0	0	0	0	0
PTP Mental Health Grant	3	0	0	3	(3)	0	0
BOA Consultation Funding	12	(5)	0	7	(7)	0	0
Rushmoor Sports Forum	2	0	0	2	(2)	0	0
NNDR Revaluation Reserve	0	0	326	326	(326)	0	0
Partial Exemption Reserve	166	0	0	166	(166)	0	0
Get Active	1	0	0	1	(1)	0	0
Total Earmarked General Fund Reserves	**2,170**	**(261)**	**1,280**	**3,189**	**(831)**	**3,636**	**5,994**
<u>**Unusable Reserves**</u>							
Treasury Management Reserve	**389**	**(329)**	**0**	**60**	**(60)**	**0**	**0**
Total Movement		**(590)**	**1,280**		**(891)**	**3,636**	

* The Insurance Reserve includes an amount of £281k relating to potential further claw-back from Municipal Mutual Insurance, above the initial levy provided for in note 22, and up to the full amount of current settled claims as referred to in note 42.

** The Land Charges Reserve of £175k is in respect of a contingent liability as set out in note 42.

9. Other Operating Expenditure

2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000		2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
11	0	11	Payments to the Government Housing Capital Receipts Pool	2	0	2
0	(340)	(340)	Refunds from NNDR Revaluations	0	0	0
0	0	0	HMRC VAT Refund	0	(55)	(55)
0	0	0	Photovoltaic Cells Feed In Tariff	0	(6)	(6)
10	(699)	(689)	Gains/losses on the disposal of non current assets	0	0	0
0	0	0	MMI Levy Provision (see note 22)	41	0	41
(11)	0	(11)	Allowance for Doubtful debts	24	0	24
10	**(1,039)**	**(1,029)**	**Total**	**67**	**(61)**	**6**

10. Financing and Investment Income and Expenditure

2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000		2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
28	0	28	Interest payable and similar charges	27	0	27
4,910	(3,740)	1,170	Pensions interest cost and expected return on pensions assets	4,730	(3,450)	1,280
0	(878)	(878)	Interest receivable and similar income	0	(564)	(564)
446	(1,727)	(1,281)	Surplus / Deficit on Trading Activities	497	(1,911)	(1,414)
329	0	329	Amortisation of unrealised gains/losses on financial investments	60	0	60
60	(662)	(602)	Changes in the fair value of Investment Property	3	(1,535)	(1,532)
89	(1,504)	(1,415)	Impairment of investments	328	0	328
0	0	0	Exchange Rate Movements	0	(28)	(28)
0	0	0	Other Investment Income from Joint Venture	0	(2,628)	(2,628)
5,862	**(8,511)**	**(2,649)**	**Total**	**5,645**	**(10,116)**	**(4,471)**

11. Taxation and Non-specific Grant Income

2011/12 £000		2012/13 £000
(5,830)	Council Tax income	(5,861)
(62)	Collection Fund Surplus	(73)
(4,118)	Non Domestic Rates	(4,802)
(1,273)	Revenue Support Grant	(93)
(621)	Non-ringfenced Government Grants	(1,549)
(1,081)	Capital Grants and Contributions	(549)
(12,985)	**Total**	**(12,927)**

12. Property, Plant and Equipment

Cost or Valuation	Land and Buildings £000	Vehicles, Plant, and Equipment £000	Community Assets £000	Surplus Assets £000	Total Property, Land and Equipment £000
At 1st April 2011	54,807	6,789	1,803	2,030	65,429
Additions	1,506	257	301	564	2,628
Revaluation increases recognised in the Revaluation Reserve	579	0	0	0	579
Revaluation decreases recognised in the Revaluation Reserve	(7)	0	0	0	(7)
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(85)	0	0	0	(85)
Reversal of previous revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	55	0	0	0	55
Derecognition - Disposals	(720)	0	(10)	(2,594)	(3,324)
As at 31st March 2012	**56,135**	**7,046**	**2,094**	**0**	**65,275**
Accumulated Depreciation and Impairment					
At 1st April 2011	(11,129)	(3,183)	0	0	(14,312)
Depreciation charge	(1,193)	(734)	0	0	(1,927)
Depreciation written out to Revaluation Reserve	(268)	0	0	0	(268)
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0
At 31st March 2012	**(12,590)**	**(3,917)**	**0**	**0**	**(16,507)**

Cost or Valuation	Land and Buildings £000	Vehicles, Plant, and Equipment £000	Community Assets £000	Surplus Assets £000	Total Property, Land and Equipment £000
At 1st April 2012	56,135	7,046	2,094	0	65,275
Additions	959	297	253	0	1,509
Revaluation increases recognised in the Revaluation Reserve	1,741	0	0	0	1,741
Revaluation decreases recognised in the Revaluation Reserve	(604)	0	0	0	(604)
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(2,004)	0	(43)	0	(2,047)
Reversal of previous revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	184	0	0	0	184
Derecognition - Disposals	0	0	0	0	0
As at 31st March 2013	**56,411**	**7,343**	**2,304**	**0**	**66,058**
Accumulated Depreciation and Impairment					
At 1st April 2012	(12,590)	(3,917)	0	0	(16,507)
Depreciation charge	(1,344)	(661)	0	0	(2,005)
Depreciation written out to Revaluation Reserve	(402)	0	0	0	(402)
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0
As at 31st March 2013	**(14,336)**	**(4,578)**	**0**	**0**	**(18,914)**
Net Book Value					
At 31st March 2013	**42,075**	**2,765**	**2,304**	**0**	**47,144**
At 31st March 2012	**43,545**	**3,129**	**2,094**	**0**	**48,768**

Depreciation

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

- Other Land and Buildings — 1 to 80 years
- Vehicles, Plant and Equipment — 5 to 15 years

Capital Commitments

The Council had one major capital commitment for £1.25 million as at 31st March 2013. This relates to a contribution towards the cost of construction works at Kingsmead to allow the cinema and associated changes to take place.

Effects of Changes in Estimates

In 2012/13, the Council made no material changes to its accounting estimates for Property, Plant and Equipment:

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Apart from two specialist properties, all valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on fair value.

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Surplus Assets £000	Total £000
Carried at historical cost	38,482	1,881	1,564	41,927
Valued at fair value as at :				
31 March 2013	(1,260)	(364)	0	(1,624)
31 March 2012	158	(477)	(2,030)	(2,349)
31 March 2011	(2,060)	(383)	707	(1,736)
31 March 2010	5,465	(175)	693	5,983
31 March 2009	3,594	2,283	(934)	4,943
Total Cost or Valuation	**44,379**	**2,765**	**0**	**47,144**

13. Heritage Assets

Reconciliation of the carrying amount of Heritage Assets held by the Council.

2011/12	**Civic Regalia**
Cost or Valuation	**£000**
1 April 2011	229
Additions	0
Disposals	0
Revaluations	29
Impairment Losses/(reversals) recognised in the Revaluation Reserve.	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services.	0
31 March 2012	**258**

2012/13	**Civic Regalia**
Cost or Valuation	**£000**
1 April 2012	258
Additions	0
Disposals	0
Revaluations	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve.	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services.	0
31 March 2013	**258**

Net Book Value	
At 31 March 2013	**258**
At 31 March 2012	**258**

- **Civic Regalia**

Rushmoor's civic regalia reflect the heritage of the area both before and after the creation of the Borough in 1974. The regalia reflects the history of the area through the Coat of Arms, drawing on the Council's links with Hampshire County Council, the Aldershot Military Garrison and Farnborough airfield. The Coat of Arms also reflects the amalgamation of Farnborough and Aldershot to form the Borough of Rushmoor.

Items consist of the Borough of Rushmoor mace, the mayoral chains of office, badges of office for the Mayor, Mayoress, Deputy Mayor and Deputy Mayoress along with various pendants, ceramic items, ceremonial clothing, works of art and models. These items are reported in the Balance Sheet at their insurance valuation which is based on market values.

A schedule is kept for insurance purposes and the regalia is inspected and maintained on a regular basis. All items are held securely on Council premises and access to the items is by authorised persons only. The mace is kept in an alarmed cabinet and the chains of office are contained within a locked purpose built box in a safe. When the chains are worn by the Mayor, or the Mace leaves the building, two persons are expected to be present (one of these will usually be the Macebearer).

Items to the value of £104,000 are not recognised in the Council's Balance Sheet as, individually, they are below the Council's de-minimus capitalisation threshold of £10,000.

- **Memorials and Statues**

These consist of a memorial, the Heroes' Shrine in Manor Park, Aldershot and a sculpture of a charging horse in Princes Gardens, Aldershot.

No information is available on cost or value in respect of these items. As the values of these assets are not likely to be material, and it is not practical to obtain a valuation at a cost commensurate with the benefits to users, these assets are not recognised in the Council's Balance Sheet.

Heritage Assets - Additions or Disposals

There were no additions or disposals of heritage assets during 2012/13.

Intangible Heritage Assets

The Council does not have any items that meet the classification of 'intangible heritage assets'.

<u>Heritage Assets – Five Year Summary of Transactions</u>

Summary of Transactions Recognised in the Balance Sheet

	2010/11 £000	2011/12 £000	2012/13 £000
<u>Cost of Acquisitions of Heritage Assets :</u>			
Civic Regalia	194	221	221
Total cost of Purchases	**194**	**221**	**221**
<u>Value of Heritage Assets Acquired by Donation :</u>			
Civic Regalia	35	37	37
Total Donations	**35**	**37**	**37**

Summary of Transactions Not Recognised in the Balance Sheet

	2010/11 £000	2011/12 £000	2012/13 £000
Cost of Acquisitions of Heritage Assets			
Civic Regalia	22	39	39
Total Acquisitions	**22**	**39**	**39**
Value of Heritage Assets Acquired by Donation			
Civic Regalia	58	65	65
Total Donations	**58**	**65**	**65**

Information in respect of financial years prior to 1st April 2010 is not disclosed as it is not practicable to do so.

14. Investment Property

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:

2011/12 £000		2012/13 £000
1,727	Rental income from investment property	1,911
(446)	Direct operating expenses arising from investment property	(497)
1,281	Net gain/(loss)	**1,414**

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. All Investment Properties were re-valued as at 31st March 2013.

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

2011/12 £000		2012/13 £000
14,939	Balance at start of year	15,592
0	Additions - Purchases	3,274
51	Additions - Subsequent expenditure	57
0	Disposals	0
602	Net gains/(losses) from fair value adjustments taken to the Comprehensive I & E Account	1,532
15,592	Balance at end of year	**20,455**

Investment property is measured initially at cost and subsequently at fair value, which is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Council's Estates Consultant carries out the valuations each year in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual, known as the "Red Book".

15. Interests in Joint Venture Companies & Jointly Controlled Operations

Interests in Joint Ventures

As at the 31st March 2012 the Council had a 50% interest in the Joint Venture Company – Westgate Aldershot Ltd. Under the Joint Venture Agreement there was potential for the Council to receive future income though this was dependant upon the financial success of the Company. Completion of the Westgate development took place in November 2012 and the Council received £2.6 million as its share of the profit. This was credited directly to its General Fund Revenue Account. The Council disposed of its 50% interest in the Company on the 3rd December 2012 for a nominal amount.

Jointly Controlled Operations

On 1st November 2012 the Council entered into a jointly controlled operation with the Borough Council of Basingstoke and Deane and Hart District Council to deliver a shared community safety service.

The purpose of the jointly controlled operation is for the councils to work together in a spirit of partnering in connection with their dealings with each other in respect of the shared community safety service so that, wherever possible the activities of one complement and enhance the activities of the other for the benefit of all residents, businesses and visitors to their respective administrative areas.

There is no requirement for an authority to produce Group Accounts where the authority only has an interest in a jointly controlled operation.

Rushmoor Borough Council's element of the shared community safety service costs are included in the Environmental and Regulatory Services line in the Cost of Services section of the Comprehensive Income and Expenditure Statement.

Below is a memorandum account of the financial activity of the shared community safety service from 1st November 2012 to 31st March 2013.

	Rushmoor Borough Council	Hart District Council	Borough Council of Basingstoke and Deane	Total
	2012/13	2012/13	2012/13	2012/13
	£'000	£'000	£'000	£'000
Employee Related Expenditure	60	65	46	171
Premises Related Expenditure	1	0	0	1
Transport Related Expenditure	3	1	1	5
Supplies & Services	4	1	0	5
1st Year Transition costs	4	4	4	12
Support Services	30	0	0	30
	102	**71**	**51**	**224**
Hosting Charge	**(5)**	**3**	**2**	**0**

16. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible assets consist of purchased licenses only.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council is five years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £253k charged to revenue in 2012/13 was charged directly to service revenue accounts and is therefore included in the cost of services. No items of capitalised software are individually material to the financial statements.

The movement on Intangible Asset balances during the year is as follows:

	2011/12 Other Assets £000	2012/13 Other Assets £000
Balance at start of year:		
- Gross carrying amounts	2,442	2,706
- Accumulated amortisation	(1,737)	(2,002)
Net carrying amount at start of year	705	704
Additions:		
- Internal development	0	0
- Purchases	264	121
De-recognition - disposals	0	0
Amortisation for the period	(265)	(253)
De-recognition - disposals	0	0
Net carrying amount at end of year	**704**	**572**
Comprising:		
- Gross carrying amounts	2,706	2,827
- Accumulated amortisation	(2,002)	(2,255)
	704	**572**

17. Financial Instruments

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Investments				
Loans and Receivables				
Fixed Rate Investments	2,000	0	13,446	21,539
Government Stocks	4	4		
Financial assets at fair value through profit and loss				
Forward Rate Agreements	0	0	8,366	0
Total investments	**2,004**	**4**	**21,812**	**21,539**
Cash and Cash Equivalents				
Loans and Receivables				
Cash and Cash at Bank			633	461
Cash held in Money Market Funds			11,510	11,960
Total cash and cash equivalents	**0**	**0**	**12,143**	**12,421**

Debtors				
Loans and Receivables				
Debtors due within 1 year*			2,643	4,366
Long Term Debtors:				
- Car Loans	83	77		
- Mortgages	5	0		
- Loans to Organisations	329	0		
Total debtors	**417**	**77**	**2,643**	**4,366**
Other Long Term Liabilities				
Finance lease liabilities	840	553		
Total other long term liabilities	**840**	**553**		
Creditors				
Financial liabilities carried at contract amount**			2,833	2,619
Total creditors* **	**0**	**0**	**2,833**	**2,619**

*Debtors due within 1 year excludes £555k in respect of Council Tax debtors, HMRC and National Non-Domestic Rates, from the total of £5,398k reported on the balance sheet, as these are statutory levies not falling within the definition of financial instruments. £477k is also excluded in respect of Payments in Advance.

**Similarly, short term creditors excludes £2,813k from the total of £6,461k reported on the balance sheet, in respect of Council Tax creditors, HMRC and payments to the National Pool for Non-Domestic Rates. £1,029k is also excluded in respect of Income in Advance.

*** Total creditors included an amount of £2,210k in the 2011/12 Statement of Accounts for Capital Grants - Receipts in Advance. This has now been excluded from this note as it related both to statutory levies (under s106 of the Town & Country Planning act 1990) and to receipts in advance, neither of which fall within the definition of financial instruments.

2011/12	**Financial Liabilities:**	**Financial Assets:**		
	Measured at amortised cost	**Loans and receivables**	**At Fair Value through Profit and Loss**	**Total**
	£000	**£000**	**£000**	**£000**
Interest expense	(28)	-	-	**(28)**
Amortisation of unrealised gains on Forward Rate agreements			(329)	**(329)**
Exchange rate loss		(89)		**(89)**
Total expense in Surplus or Deficit on the Provision of Services	**(28)**	**(89)**	**(329)**	**(446)**
Interest income	-	878	-	**878**
Reversal of previous impairment loss		1,504		**1,504**
Total income in Surplus or Deficit on the Provision of Services	**0**	**2,382**	**0**	**2,382**
Net gain/(loss) for the year	**(28)**	**2,293**	**(329)**	**1,936**

2012/13	Financial Liabilities: Measured at amortised cost	Financial Assets: Loans and receivables	At Fair Value through Profit and Loss	Total
	£000	£000	£000	£000
Interest expense	(27)	-	-	**(27)**
Amortisation of unrealised gains on Forward Rate agreements			(60)	**(60)**
Impairment of financial asset		(328)		**(328)**
Total expense in Surplus or Deficit on the Provision of Services	**(27)**	**(328)**	**(60)**	**(415)**
Interest income	-	564	-	**564**
Exchange rate gain	-	28	-	**28**
Total income in Surplus or Deficit on the Provision of Services	**0**	**592**	**0**	**592**
Net gain/(loss) for the year	**(27)**	**264**	**(60)**	**177**

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 and receivables, estimated interest rates at 31st March for comparable instruments where this is material
- 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 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	£000	£000	£000	£000
Financial liabilities at amortised cost	2,833	2,833	2,619	2,619
Long-term creditors	2,210	2,210	0	0
Finance lease liabilities	840	840	553	553
	5,883	5,883	3,172	3,172

	31 March 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets	£000	£000	£000	£000
Loans and receivables	30,236	30,232	38,330	38,330
Long-term debtors	417	417	77	77
Fair Value through profit and loss	8,366	8,366	0	0
	39,019	39,015	38,407	38,407

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value. The fair value of loans and receivables as at 31st March 2013 equates to their carrying amount, as all will mature within the next 12 months.

18. Inventories

2011/12 £000		2012/13 £000
5	Balance outstanding at start of year	21
16	Purchases	0
0	Recognised as an expense in the year	(8)
21	**Balance outstanding at end of year**	**13**

19. Debtors

Debtors shown are net of allowances for doubtful debts.

31st March 2012 £000		31st March 2013 £000
714	Central government bodies	2,122
448	Other local authorities	643
119	Council tax	123
1,773	Other entities and individuals	2,033
497	Payments in advance	477
3,551	**Total Debtors**	**5,398**

20. Cash and Cash Equivalents

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

31st March 2012 £000		31st March 2013 £000
11	Cash held by the Council	17
622	Bank current accounts	444
11,510	Money Market Funds	11,960
12,143	**Total Cash and Cash equivalents**	**12,421**

21. Creditors

31st March 2012 £000		31st March 2013 £000
1,017	Central government bodies	1,782
1,853	Other local authorities	1,455
12	Council tax	21
1,789	Other entities and individuals	2,174
720	Income in advance	1,029
5,391	**Total Creditors**	**6,461**

22. Provisions

Short-Term Provisions

	Short-Term Provisions £000
Balance at 1st April 2011	0
Additional provisions made in 2011/12	0
Balance at 31st March 2012	**0**
Additional provisions made in 2012/13	41
Amounts used in 2012/13	0
Balance at 31st March 2013	**41**

The Council had one short-term provision as at the 31st March 2013 in respect of the initial levy required under the Scheme of Arrangement for Municipal Mutual Insurance. Further detail is set out at note 42.

Long-Term Provisions

	Long-Term Provisions £000
Balance at 1st April 2011	243
Additional provisions made in 2011/12	69
Balance at 31st March 2012	**312**
Additional provisions made in 2012/13	70
Amounts used in 2012/13	0
Balance at 31st March 2013	**382**

The Council had one long-term provision as at the 31st March 2013 in respect of mercury abatement. Cremation fees charged by the Council include a mercury abatement charge as set by the Federation of British Cremation Authorities (FBCA). The Council has set this money aside as a provision in readiness for future costs.

23. Other Long Term Liabilities

31st March 2012 £000		31st March 2013 £000
840	Finance Lease Liability	553
46,562	Liability relating to defined Pension Scheme	52,139
47,402	**Total Other Long Term Liabilities**	**52,692**

24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in the tables below:

31st March 2012 £000		31st March 2013 £000
1,586	General Fund	2,365
3,189	Earmarked General Fund Reserves	5,994
27,081	Capital Receipts Reserve	22,480
0	Capital Grants Unapplied	25
31,856	**Total Usable Reserves**	**30,864**

General Fund

2011/12 £000		2012/13 £000
1,750	**Balance at 1st April**	1,586
(164)	Increase/(Decrease) in year	779
1,586	**Balance at 31st March**	**2,365**

Details of the movements on the General Fund are shown in the Comprehensive Income and Expenditure Statement and notes 7, 8, 9, 10 and 11.

Earmarked General Fund Reserves

2011/12 £000		2012/13 £000
2,170	**Balance at 1st April**	3,189
1,019	Increase/(Decrease) in year	2,805
3,189	**Balance at 31st March**	**5,994**

Details of the movements on the Earmarked General Fund Reserves are shown in note 8.

Capital Receipts Reserve

2011/12 £000		2012/13 £000
23,697	**Balance at 1st April**	27,081
(11)	Payments to the Government capital receipts pool	(2)
(620)	Use of Capital Receipts Reserve to finance new capital expenditure	(4,602)
15	Mortgage Scheme Receipts	3
4,000	Capital Receipts in Year	0
27,081	**Balance at 31st March**	**22,480**

Capital Grants Unapplied

2011/12 £000		2012/13 £000
18	**Balance at 1st April**	0
(18)	Application of grants to capital financing transferred to the Capital Adjustment Account	0
0	Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	25
0	**Balance at 31st March**	**25**

25. Unusable Reserves

31st March 2012 £000		31st March 2013 £000
6,925	Revaluation Reserve	7,660
57,603	Capital Adjustment Account	59,928
60	Treasury Management Reserve	0
5	Deferred Capital Receipts Reserve	2
(46,562)	Pensions Reserve	(52,139)
185	Collection Fund Adjustment Account	219
(117)	Accumulated Absences Account	(104)
18,099	**Total Unusable Reserves**	**15,566**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. 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 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000			2012/13 £000
6,888	**Balance at 1st April**		6,925
608	Upward revaluation of assets	1,741	
(7)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(604)	
601	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		1,137
(269)	Difference between fair value depreciation and historical cost depreciation	(402)	
(295)	Accumulated gains on assets sold or scrapped	0	
(564)	Amount written off to the Capital Adjustment Account		(402)
6,925	**Balance at 31st March**		**7,660**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Property and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2011/12 £000			2012/13 £000
58,970	**Balance at 1st April**		57,603
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and expenditure Statement:		
(2,139)	- Charges for depreciation and impairment of non current assets (Property, Plant & Equipment)	(2,224)	
0	- Charges for depreciation and impairment of other non current assets	(328)	
(85)	- Revaluation losses on Property, Plant and Equipment	(2,047)	
(265)	- Amortisation of intangible assets	(253)	
(1,172)	- Revenue expenditure funded from capital under statute	(1,071)	
1,420	- Reversal of 2009/10 adjustment re impairment of Icelandic Investment	0	
(3,311)	- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comp I & E Statement	0	
(5,552)			(5,923)
564	Adjusting amounts written out of the Revaluation Reserve		402
(4,988)	Net written out amount of the cost of non current assets consumed in the year		(5,521)
	Capital financing applied in the year:		
620	- Use of the Capital Receipts Reserve to finance new capital expenditure	4,602	
1,355	- Capital grants and contributions credited to the Comp I & E Statement that have been applied to Capital financing	731	
18	- Application of grants to capital financing from the Capital Grants Unapplied Account	0	
326	- Statutory provision for the financing of capital investment charged against the General Fund balances	281	
700	- Capital expenditure charged against the General Fund	700	
3,019			6,314
602	Movements in the market value of Investment Property debited or credited to the Comp I & E Statement		1,532
57,603	**Balance at 31st March**		**59,928**

Treasury Management Reserve

The Treasury Management Reserve contains the unrealised gains and losses made by the Council arising from increases or decreases in the fair value of its forward rate agreements. The balance is reduced by the amortisation of the gain or loss over the lifetime of the investment.

2011/12 £000		2012/13 £000
389	**Balance at 1st April**	60
0	Unrealised gains/losses on forward rate agreements	0
(329)	Amortisation of prior year gains/losses on forward rate agreements	(60)
60	**Balance at 31st March**	**0**

Deferred Capital Receipts Reserve (England and Wales)

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

2011/12 £000		2012/13 £000
20	**Balance at 1st April**	5
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(15)	Transfer to the Capital Receipts Reserve upon receipt of cash	(3)
5	**Balance at 31st March**	**2**

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.

2011/12 £000		2012/13 £000
(36,470)	**Balance at 1st April**	(46,562)
(9,430)	Actuarial gains or losses on pensions assets and liabilities	(4,600)
(2,420)	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	(2,700)
1,758	Employer's pensions contributions and direct payments to pensioners payable in the year	1,723
(46,562)	**Balance at 31st March**	**(52,139)**

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.

2011/12 £000		2012/13 £000
160	**Balance at 1st April**	185
25	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	34
185	**Balance at 31st March**	**219**

Accumulated Absences Account

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

2011/12 £000			2012/13 £000
(153)	**Balance at 1st April**		(117)
153	Settlement or cancellation of accrual made at the end of the preceding year	117	
(117)	Amounts accrued at the end of the current year	(104)	
36	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		13
(117)	**Balance at 31st March**		**(104)**

26. Cash Flow Statement – Adjustment to net surplus or deficit on the provision of services for non-cash movements

2011/12 £000		2012/13 £000
2,258	Depreciation	2,407
44	Impairment and downward valuations	1,863
265	Amortisation	253
112	Increase/(decrease) in bad debts	106
1,047	Increase/(decrease) in Creditors	1,070
(263)	(Increase)/decrease in Debtors	(1,847)
289	(Increase)/decrease in Interest Debtors	244
(16)	(Increase)/decrease in Inventories	8
662	Movement in pension liability	977
3,324	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	0
(1,618)	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,061)
6,104	**Net adjustments to net surplus or deficit on the provision of services for non-cash movements**	**4,020**

27. Cash Flow Statement – Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities

2011/12 £000		2012/13 £000
(4,000)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0
(274)	Any other items for which the cash effects are investing or financing cash flows	(207)
(4,274)	**Net adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities**	**(207)**

28. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
1,163	Interest received	808
0	Interest paid	0
0	Dividends received	0

29. Cash Flow Statement – Investing Activities

2011/12 £000		2012/13 £000
(3,096)	Purchase of property, plant and equipment, investment property and intangible assets	(6,452)
(13,000)	Purchase of short-term and long-term investments	(11,000)
(59)	Other payments for investing activities	(36)
4,000	Proceeds from the sale of property, plant and equipment, investment property and intangible assets.	0
13,642	Proceeds from short-term and long-term investments	16,000
1,098	Other receipts from investing activities	1,299
2,585	**Net cash flows from investing activities**	**(189)**

30. Cash Flow Statement – Financing Activities

2011/12 £000		2012/13 £000
0	Cash receipts of short- and long-term borrowing	0
4,436	Other receipts from financing activities	2,767
(353)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(302)
0	Repayment of short- and long-term borrowing	0
(5,612)	Other payments for financing activities	(5,749)
(1,529)	**Net cash flows from financing activities**	**(3,284)**

31. Amounts Reported for Resource Allocation Decisions

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

- a number of grants are included in the Portfolio analysis but fall within the Taxation and non-specific grant income line on the Comprehensive Income and Expenditure Statement rather than in the Cost of Services
- the effect of the finance lease entries under IFRIC4 are not included
- trading operations are included under the Portfolio analysis but not in the Cost of Services on the Comprehensive Income and Expenditure Statement

The net expenditure of the Council's Portfolios recorded in the provisional outturn report for the year is as follows:

2011/12 £000		2012/13 £000
1,628	Corporate Services	1,152
3,122	Environment	3,798
1,996	Concessions and Community	1,574
1,925	Health and Housing	1,468
2,629	Safety and Regulation	2,642
3,979	Leisure & Youth	5,568
15,280	**Net expenditure in Portfolio Analysis**	16,202
(972)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(300)
1,010	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	1,552
15,318	**Cost of Services in Comprehensive Income and Expenditure Account**	**17,454**

32. Agency Services

With effect from April 2003, the Council only carries out certain works on an agency basis for Hampshire County Council. This covers development control (highways), traffic management and grass cutting (including tree and shrub maintenance). Total reimbursable expenditure in 2012/13 was £359,071.69 (£370,529 in 2011/12).

33. Members' Allowances

In 2012/13, a total of £286,493 was paid out in members' allowances, compared with a total of £304,326 in 2011/12.

34. Officers' Remuneration and Termination Benefits

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

		Salary and Allowances £	Expenses Allowances £	Pension Contribution £	Total £
Chief Executive	**2012/13**	**113,620**	**4,920**	**22,504**	**141,044**
	2011/12	112,313	4,960	22,997	140,270
Director of Resources	**2012/13**	**77,039**	**4,920**	**14,652**	**96,611**
	2011/12	77,173	4,960	14,695	96,828
Director of Community and Environment					
	2012/13	**73,294**	**4,920**	**13,995**	**92,209**
	2011/12	72,322	4,920	13,768	91,010
	2012/13	**263,953**	**14,760**	**51,151**	**329,864**
	2011/12	261,808	14,840	51,460	328,108

The rate of pension contribution to the Hampshire Pension Fund is 19.1%. This is split 13.1% of pensionable pay for individual employees plus an additional 6% relating to all scheme members.

The number of employees whose remuneration (including taxable benefits but excluding employers' pension contributions) was £50,000 or more, in bands of £5,000, is shown below:

Remuneration Band	2011/12 Employees	2012/13 Employees
£50,000 - £54,999	5	9
£55,000 - £59,999	4	4
£60,000 - £64,999	9	5
£65,000 - £69,999	1	1
£70,000 - £74,999	0	0
£75,000 - £79,999	1	1
£80,000 - £84,999	1	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	1	1

Data shown in the remuneration bands includes senior employees.

<u>Exit Packages</u>

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0-£20,000	0	1	2	1	2	2	23,391	34,234
£20,001-£40,000	0	0	0	0	0	0	0	0
£40,001-£100,000	0	0	0	0	0	0	0	0
Total	**0**	**1**	**2**	**1**	**2**	**2**	**23,391**	**34,234**

The Council terminated the contract of 1 employee in 2012/13 incurring payment of £10,500 as compensation for loss of office.

35. External Audit Costs

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

	2011/12 £000	2012/13 £000
Fees payable to Ernst and Young with regard to external audit services carried out by the appointed auditor	0	66
Fees payable to Ernst and Young for the certification of grant claims and returns	0	10
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	101	0
Fees payable to the Audit Commission for the certification of grant claims and returns	18	0
Rebate relating to fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	0	(5)
Final fees payable to the Audit Commission for the certification of grant claims and returns	0	19
Total	**119**	**90**

36. Grant Income

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

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax Income	5,830	5,861
Collection Fund Surplus/ (Deficit)	62	73
National Non-Domestic Rates	4,118	4,802
Revenue Support Grant	1,273	93
Council Tax Reform New Burden Grant	0	84
Welfare Reform Grant	0	44
New Burden Grant	17	13
Gurkha Settlement Fund	0	446
Capital Grants & Contributions	1,081	549
Council Tax Freeze Grant	146	147
New Homes Bonus	359	706
Town Team Partners Grant	0	10
Homelessness Prevention Grant	99	99
Total	**12,985**	**12,927**

Credited to Services		
Communities and Local Government		
Homelessness Initiatives Grant	35	0
Disabled Facilities Grant	403	420
Gurkha Integration Grant	500	0
NNDR Small Business Relief Grant	2	3
Department for Works and Pensions		
Discretionary Housing Payment	11	45
Housing Benefit Admin Subsidy	671	659
Housing Benefit Subsidy	37,531	40,674
Rent Allowances	5	0
Housing Benefit Review Grant	0	2
Flexible Support Fund Grant (Skilled Up)	0	3
Developers Contributions	428	390
Hampshire County Council	22	30
Other grants & contributions		
Big Lottery Fund Grant	0	17
Armed Forces Community Covenant	0	82
Developing Our Communities contribution for specific projects	57	8
Contribution from Community Safety Partnership	40	9
Local Elections contributions	7	0
Contributions for other projects	22	0
Total	**39,734**	**42,342**

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

Capital Grants Receipts in Advance	**31st March 2012 £000**	**31st March 2013 £000**
s106 Developers Contributions	2,210	1,875
Total	**2,210**	**1,875**

Creditors	**31st March 2012 £000**	**31st March 2013 £000**
Armed Forces Community Covenant	0	84
Big Lottery Fund Grant	0	8
Flexible Support Fund Grant (Skilled Up)	0	47

37. 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.

During 2012/13, the Council provided financial assistance to 111 organisations by way of direct grant payments (£693,881), awards of rent relief (£190,750) and discretionary rate relief (£100,337).

The Council did not provide material financial assistance to any organisation, being more than 50% of their funding, on terms that gave the Council effective control over their operations. However, of the 111 voluntary organisations that the Council provided financial assistance to, significant financial assistance was given to the following organisations:

• Citizens Advice Bureau	£258,980
• Farnborough and Cove War Memorial Hospital Trust Ltd	£104,830
• Rushmoor Voluntary Services	£ 74,480
• Basingstoke Canal Management Committee	£ 40,200
• Leisure & Community Partnership Ltd	£ 36,743
• Aldershot Military Museum	£ 35,000
• Dial A Ride	£ 33,254
• Step By Step Partnership Ltd	£ 30,809

Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Details of funding transactions with government departments in the form of grants and contributions are set out in Note 36.

Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 33. During 2012/13, no works or services were commissioned from companies in which members had an interest. Contracts were entered into in full compliance with the council's standing orders.

Financial assistance totalling £581,666 was awarded to voluntary organisations in which 22 members had an interest. These financial awards were made with proper consideration of declarations of interest and the relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Statement of Accounts working papers and the Register of Members interest, open to public inspection.

Officers

During 2012/13, one officer declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972 in the issue of the following financial assistance. This officer did not take part in any discussion, decision or administration relating to the grant.

• Aldershot Town Football Club	£2,496

Entities Controlled or Significantly Influenced by the Council

As at the 31st March 2012 the Council had significant control/influence of Westgate Aldershot Ltd through its ownership of 50% of the shares in the Company. The Council disposed of its interest on the 3rd December 2012.

38. Capital Expenditure and Capital Financing

At the 1st April 2012, the Council was debt free and, in accordance with its Medium Term Financial Strategy, the Council planned to remain debt free during 2012/13 by financing all capital spend from means other than borrowing. The Council therefore had a Capital Financing Requirement at the start of 2012/13 of zero. Total capital expenditure in 2012/13 was £6.5 million. A summary of this expenditure and how it was financed is shown below. The Council's Capital Financing Requirement at 31st March 2013 was zero.

	2011/12 £'000	2012/13 £'000
Opening Capital Financing Requirement	0	0
Capital Investment		
Property, Plant and Equipment	3,030	1,930
Investment Property	51	3,330
Intangible Assets	264	121
Revenue Expenditure Funded from Capital under Statute	1,171	1,071
Reversal of 2009/10 adjustment re impairment of Icelandic Investment	(1,420)	0
Sources of finance		
Capital receipts	620	4,601
Government grants and other contributions	1,776	1,151
Sums set aside from revenue:		
Direct revenue contributions	700	700
Closing Capital Financing Requirement	**0**	**0**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	0	0
Assets acquired under finance leases	0	0
Increase/(decrease) in Capital Financing Requirement	**0**	**0**

39. Leases

Council as Lessee

Finance Leases

The Council has identified an embedded finance lease under IFRIC 4 for the refuse and grounds maintenance vehicles. These assets are shown as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2012 £000		31 March 2013 £000
1,121	Vehicles, Plant, Furniture and Equipment	840
1,121		**840**

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

31 March 2012 £000		31 March 2013 £000
1,121	Finance lease liabilities (net present value of minimum lease payments):	840
41	Finance Costs payable in future years	20
1,162	Minimum lease payments	**860**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-12	**31-Mar-13**	**31-Mar-12**	**31-Mar-13**
Not later than one year	281	287	301	301
Later than one year and not later than five years	840	553	861	559
Later than five years	0	0	0	0
	1,121	**840**	**1,162**	**860**

Operating Leases

The Council has various operating leases relating to land, vehicles and equipment.

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

31 March 2012 £000		31 March 2013 £000
40	Not later than one year	35
49	Later than one year and not later than five years	41
14	Later than five years	14
103		**90**

The expenditure charged to the Cost of Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2011/12 £000		2012/13 £000
51	Minimum lease payments	42
51	Minimum lease payments	**42**

Council as Lessor

Operating Leases

The Council leases out property 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:

31 March 2012 £000		31 March 2013 £000
1,758	Not later than one year	1,875
6,402	Later than one year and not later than five years	7,245
91,891	Later than five years	93,421
100,051		**102,541**

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 2012/13, contingent rents of £6,109 were receivable by the Council (£36,475 in 2011/12).

40. Impairment Losses

The present economic climate has resulted in more volatile asset values. The Council has again sought the advice of its Valuer in terms of the valuations of individual capital assets and groups of capital assets. As part of this review, impairment losses of £2.6 million were identified. Of this figure, £0.6 million was offset against previous revaluation gains for the individual assets and £2.0 million was charged directly to the relevant service revenue accounts.

The Council has also recognised impairment losses of £0.3 million in respect of long-term debtors. This amount was charged to the 'Financing and Investment Income and Expenditure' line in the Comprehensive Income and Expenditure Statement.

41. Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- 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 pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions relating to post employment benefits

The cost of retirement benefits are recognised in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made 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:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£M	£M	£M	£M
	2012/13	2011/12	2012/13	2011/12
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service cost	1.40	1.19	0.00	0.00
• past service costs	0.02	0.06	0.00	0.00
• settlements and curtailments	0.00	0.00	0.00	0.00
Financing and Investment Income and Expenditure				
• interest cost	4.52	4.68	0.21	0.23
• expected return on scheme assets	(3.45)	(3.74)	0.00	0.00
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	2.49	2.19	0.21	0.23
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
• actuarial gains and losses	(4.08)	(9.05)	(0.52)	(0.38)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(1.59)	(6.86)	(0.31)	(0.15)
Movement in Reserves Statement				
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(2.49)	(2.19)	(0.21)	(0.23)

Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	1.41	1.46		
• retirement benefits payable to pensioners			0.31	0.30

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement 2012/13 is a loss of £33.6 million.

Assets and liabilities in relation to post employment benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	£M	£M	£M	£M
	2012/13	2011/12	2012/13	2011/12
Opening balance at 1 April	96.98	85.82	4.71	4.40
Current service cost	1.40	1.19		0.00
Interest cost	4.52	4.68	0.21	0.23
Contributions by scheme participants	0.50	0.50		–
Actuarial gains and losses	8.81	7.85	0.52	0.38
Benefits paid	(3.34)	(3.12)	(0.31)	(0.30)
Past service costs*	0.02	0.06	0.00	0.00
Entity combinations	0.00	0.00	0.00	0.00
Curtailments	0.00	0.00	0.00	0.00
Settlements	0.00	0.00	0.00	0.00
Closing balance at 31 March	108.89	96.98	5.13	4.71

*In the UK budget statement on 22nd June 2010, the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing the Council's liabilities in the Hampshire Pension Fund and was recognised as a negative past service cost in accordance with guidance set down in UITF Abstract 48, since the change was considered to be a change in benefit entitlement. There was no impact on the General Fund.

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

	Local Government Pension Scheme £M	£M
	2012/13	2011/12
Opening balance at 1 April	55.13	53.75
Expected return on assets	3.45	3.74
Actuarial gains and losses	4.73	(1.20)
Employer contributions	1.41	1.76
Contributions by scheme participants	0.50	0.50
Benefits paid	(3.34)	(3.42)
Entity combinations	0.00	0.00
Settlements	0.00	0.00
Closing balance at 31 March	61.88	55.13

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 £8.18 million (2011/12: £2.54 million).

Scheme History

	As at 31 Mar 2013 £M	As at 31 Mar 2012 £M	As at 31 Mar 2011 £M	As at 31 Mar 2010 £M	As at 31 Mar 2009 £M	As at 31 Mar 2008 £M
Present value of liabilities:						
Local Government Pension Scheme	108.89	96.98	85.82	94.88	69.13	67.70
Discretionary Benefits	5.13	4.71	4.40	4.91	4.36	4.31
Fair value of assets in the Local Government Pension Scheme	61.88	55.13	53.75	49.35	38.08	49.12
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	(47.01)	(41.85)	(32.07)	(45.53)	(31.05)	(18.58)
Discretionary Benefits	(5.13)	(4.71)	(4.40)	(4.91)	(4.36)	(4.31)
Total	(52.14)	(46.56)	(36.47)	(50.44)	(35.41)	(22.89)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £52.14m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e., before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2014 is £1.42m. Expected contributions for the Discretionary Benefits scheme in the year to 31st March 2014 are £0.32m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31st March 2010.

The principal assumptions used by the actuary have been:

Financial Assumptions:	**31-Mar-13**	**31-Mar-12**	**31-Mar-11**	**31-Mar-10**
Rate of inflation (RPI)	3.60%	3.50%	3.70%	3.90%
Rate of inflation (CPI)	2.70%	2.50%	2.80%	N/A
Rate of increase in salaries	4.60%	5.00%	5.20%	5.40%
Rate of increase to pensions in payment	2.70%	2.50%	2.80%	3.90%
Rate of increase to deferred pensions	2.70%	2.50%	2.80%	3.90%
Rate for discounting scheme liabilities	4.30%	4.70%	5.50%	5.50%

Mortality assumptions:	**2012/13**	**2011/12**	**2010/11**
Longevity at 65 for current pensioners:			
Men	24.0	23.9	23.8
Women	25.0	24.9	24.8
Longevity at 65 for future pensioners:			
Men	25.7	25.6	25.6
Women	26.9	26.8	26.7

Commutation:	**31-Mar-13**	**31-Mar-12**
	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.
	Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.	Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31st March 2013.

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31-Mar-13	31-Mar-12	31-Mar-11
	%	%	%
Equities	57.6	55.1	63.4
Property	7.8	7.7	7.3
Government Bonds	24.9	27.0	23.3
Corporate Bonds	1.3	1.5	1.7
Cash	2.3	4.1	4.3
Other assets	6.1	4.6	0.0
	100.0	100.0	100.0

Long-term expected rate of return on assets in the scheme:	2012/13	2011/12	2010/11
Equity investments	7.80%	8.10%	8.40%
Property	7.30%	7.60%	7.90%
Government Bonds	2.80%	3.10%	4.40%
Corporate Bonds	3.80%	3.70%	5.10%
Cash	0.90%	1.80%	1.50%
Other	7.80%	8.10%	8.40%
	6.30%	6.40%	7.10%

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2013:

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Differences between the expected and actual return on assets	7.64	(2.18)	4.06	20.83	(34.51)
Experience gains and losses on liabilities	0.05	(0.85)	0.52	1.26	(0.57)

42. Contingent Liabilities

The Council has identified the following contingent liabilities as at 31st March 2013:

- During 1992/93, the Council's insurers, Municipal Mutual Insurance (MMI), ceased taking new business. Since that time, MMI have settled claims against the Council amounting to £322,034. Under the scheme of arrangement, a proportion of this may be clawed back at a future date. The scheme of arrangement was triggered during 2012/13, requiring an initial levy of 15% to be paid by the Council in 2013/14. A provision for the levy has been included in the accounts (see note 22). There is a risk that further claw-back will be required. The Council has considered this risk and has earmarked an amount above the levy, and up to the full amount of settled claims, within its reserves (see note 8).

- The Council is facing a potential claim under Employer's Liability, although proceedings have not yet been issued. The Council has considered the risk from this and any potential future uninsured claims and has earmarked an amount of £200,000 within the Insurance Reserve (see note 8).

- The Council is a defendant in proceedings brought by a group of Property Search companies for refunds of fees paid to the Council to access land charges data. In the current litigation, the Council faces a claim of £1,991 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £171,706 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present. An amount of £175,000 has been set aside in an earmarked reserve to mitigate against this contingent liability (see note 8).

43. 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 Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates 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 a central treasury team, under policies approved by Council in the Annual Treasury Management Strategy. This Strategy is drawn up in compliance with CIPFA's Code of Practice for Treasury Management in the Public Services and with the Prudential Code for Capital Finance in Local Authorities. The Council maintains 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 through Treasury Management Practices (TMPs) which are periodically reviewed. Actual treasury management performance is reported to Members bi-annually and benchmarked against a number of other Local Authorities.

The Annual Treasury Management Strategy for 2012/13 and the Prudential Indicators for Capital Finance were approved by Council on the 23rd February 2012 and are available on the Council's website.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested, and a maximum length of investment, with a financial institution located within each category, or with a particular type of counterparty. It also specifies a maximum percentage of the total portfolio that may be invested with each type of counterparty. Details of the Investment Strategy can be found within the Annual Treasury Management Strategy for 2012/13 on the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £21.543m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. A risk of irrecoverability applies to all of the Council's deposits but there was no evidence at the 31st March 2013 that this would crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions.

		Amount at 31 March 2013 £000 (A)	Historical experience of default % (B)	Historical experience adjusted for market conditions at 31 March 2013 % (C)	Estimated maximum exposure to default at 31 March 2013 £000 (A x C)	Estimated maximum exposure to default at 31 March 2012 £000 (A x C)
Cash and Cash Equivalents	AAA rated	12,421	0.00	0.00	0	0
Long Term Debtors		77	0.00	0.00	0	0
Trade Debtors		4,366	0.36	0.36	16	14
		16,864			16	14

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

The Council does not generally allow credit for customers, such that £0.6 million of the £4.4 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2012 £000	31 March 2013 £000
Less than two months	138	350
Two to six months	52	88
Six months to one year	31	51
More than one year	127	117
	348	**606**

Collateral – During the reporting period the Council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through risk management procedures as referred to above, including the setting and approval of prudential indicators and the approval of the Annual Treasury Management Strategy as well as through cash flow management procedures. This seeks to ensure that cash is available as needed.

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

Refinancing and Maturity Risk

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

The approved limits placed on investments of greater than one year in duration, are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks, and the central treasury team address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure liquidity is available for the Council's day to day cash flow needs and the spread of longer term investments provide stability of maturities and returns in relation to the longer-term cash flow needs.

The Council has no long-term borrowing. The maturity analysis of its financial assets is as follows:

	31 March 2012	31 March 2013
	£000	£000
Less than one year	33,959	33,960
Between one and two years	2,021	7
Between two and three years	13	24
More than three years	383	50
	36,376	**34,041**

Trade debtors of £4.4 million are not included in the above table.

Market risks

Interest rate risk

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

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

Changes in interest 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 Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From the strategy, a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team will monitor the market and forecast interest rates within the year to adjust exposures appropriately. For instance, in periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns.

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 during the year. This allows any adverse changes to be accommodated.

At 31st March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest receivable on variable rate investments	204
Impact on Surplus or Deficit on the Provision of Services	204

During 2012/13, variable interest rates remained extremely low (below 1%) and therefore the maximum impact of a fall in interest rates would have been approximately £101,000 with the movements being reversed.

Price risk

The Council has no equity shares or shareholdings and therefore has no exposure to loss arising from movements in share prices.

Foreign exchange risk

In March 2012, the Glitnir Winding-Up Board repaid all monies owing to the Council in respect of two investments of £1m each. The repayments were made in a basket of currencies having been converted into those currencies from Icelandic Kroner (ISK) at rates prevailing in April 2009.

The majority of the currency was immediately converted to Sterling (£) on receipt but had been exposed to exchange rate movements in the intervening period. This impairment has been recognised in the 2011/12 Statements. A proportion of the repayment was denominated in ISK, which is currently unable to be repaid in Sterling due to the imposition of currency controls within Iceland and is therefore being held in an escrow account in Iceland. There is a continuing risk that this may suffer exchange loss when finally converted, however this is mitigated to some extent by the interest payable of 4.2% on this escrow account. The distribution to the Council has been made in full and represents 100% of the Council's claim. The Council has recognised a gain of £27,058 due to currency fluctuations in 2012/13.

The Council has no other financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates, other than relating to Icelandic investments referred to above.

44. Post Balance Sheet Events

Appeals outstanding at 31st March 2013

When the new arrangements for the retention of business rates came into effect on 1st April 2013, the Council assumed liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts that were paid over to the Government in respect of 2012/13 and prior years. Previously such amounts would not have been recognised as income by the Council, but would have been transferred to the Government.

On 1st April 2013 the Council assumed liability for any such appeals and estimates this liability at £1,520,000.

The Collection Fund

The Collection Fund is a statutory fund maintained by a billing authority, which is used to account independently for income relating to council tax and non-domestic rates, along with payments to precepting authorities and the national pool of non-domestic rates, as well as into its own general fund. The balance in the collection fund is consolidated with the Council's other accounts.

Income and Expenditure Account

2011/12			2012/13	
£'000	£'000		£'000	£'000
		Income		
40,789		Income from council tax payers	41,030	
41,337		Income from Business rate payers	43,530	
		Transfer from General Funds		
5,153		Council Tax Benefit	5,177	
	87,279			89,737
		Expenditure		
		Precepts and Demands		
32,872		Hampshire County Council	33,045	
4,632		Hampshire Police Authority	4,656	
1,944		Hampshire Fire & Rescue Authority	1,954	
5,830		Rushmoor Borough Council	5,861	
	45,278			45,516
		Business Rates		
40,948		Payments to National Pool	42,465	
265		Amounts from National Pool	941	
123		Allowance for Collection	124	
	41,336			43,530
		Provision for uncollectible amounts:		
	183	Council Tax		110
	289	Collection fund surplus		306
	87,086			89,462
	(193)	Net Movement in Fund		(275)
	(1,241)	Balance b/fwd 1 April		(1,434)
	(1,434)	**Balance c/fwd 31 March**		**(1,709)**

Notes to Collection Fund

1. Council tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hampshire County Council and the Council for the forthcoming year and dividing this by the Council Tax base (the total number of properties in each band adjusted to convert the number to a Band D equivalent and adjusted for discounts (£31,838.98 for 2012/13). This basic amount of Council Tax for a Band D property (£1,429.58 for 2012/13) is multiplied by an appropriate ratio to produce the amount due for the bands A to H. Council Tax bills are based on the following dwellings and proportions.

Tax Band	Discounted Equivalent Dwellings	Weighting	Band D Equivalent
A (Disabled Relief)	0	5/9	0
A	992	6/9	661
B	6,845	7/9	5,324
C	12,438	8/9	11,056
D	6,924	1	6,924
E	3,439	11/9	4,202
F	1,051	13/9	1,518
G	269	15/9	448
H	7	18/9	15
O (Army)	1,690	0	1,690
Total			**31,838**

2. Income from business rates

Under the revised arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate specified by the government. The total amount less certain reliefs for other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population.

The rateable value of properties at 31 March 2013 is £105,650,670 and the national non-domestic multiplier was 45.8p. This gives a potential business yield of £48.8 million. The actual business rates collectable for 2012/13 after reliefs and provisions was £42.5 million. This decrease of around £5.9million is due to successful appeals against the year 2010 valuations given by the District Valuer and various reliefs including transitional and empty property relief.

3. Provision for council tax bad or doubtful debts

Provisions for bad or doubtful debts are assessed annually and charged to the collection fund. The provision for Council Tax is as follows:

2011/12 £'000		2012/13 £'000
675	Provisions at 1 April	708
183	Provisions made in year	110
(150)	Written off in year	(49)
708	Provisions 31 March	**769**

4. Movement and distribution of the collection fund balance

The movement and distribution of the collection fund is as follows:

2011/12 £'000		2012/13 £'000
0	Balance at start of year	0
(1,434)	(surplus)/deficit on collection fund	(1,709)
185	Borough share - transferred to Comprehensive Income and expenditure	219
1,249	preceptors share included in creditors	1,490
0		**0**

Independent Auditor's Report to the Members of Rushmoor Borough Council

Opinion on the Council's financial statements

We have audited the financial statements of Rushmoor Borough Council for the year ended 31 March 2013 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, and Collection Fund and the related notes 1 to 44, and notes to the Collection Fund on pages 69 and 70. 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 2012/13.

This report is made solely to the members of Rushmoor Borough Council, as a body, 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources (Chief Financial Officer) and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 6, the Director of Resources (Chief Financial Officer) 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 2012/13, and for being satisfied that they give a true and fair view. Our 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 us 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 Chief Financial Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts and annual corporate governance statement 2012-13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor Borough Council as at 31 March 2013 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 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts and annual corporate governance statement 2012-13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we 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
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy,

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Rushmoor Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King
Audit Director
for and on behalf of Ernst & Young LLP, Appointed Auditor
Apex Plaza
Forbury Road
Reading RG1 1YE

27 September 2013

RUSHMOOR BOROUGH COUNCIL

ANNUAL CORPORATE GOVERNANCE STATEMENT 2012/13

1 Scope of Responsibility

1.1 Rushmoor Borough Council ("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 and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

1.3 The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (December 2012 Addendum). This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which require all relevant public bodies to prepare an annual governance statement.

2 The purpose of the governance framework

2.1 The governance framework comprises 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. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services and value for money.

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

2.3 The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of the approval of the Council's statement of accounts.

3 The Governance Framework

3.1 Decision Making Arrangements

The Council's constitution is based around executive arrangements with a Cabinet and Leader.

The Cabinet comprises the Leader and six portfolio holders. The Leader provides the overall political management for the Council in terms of co-ordination of the Council's policies services and budgets. In addition to leading the development of the policy framework, the Leader has specific responsibilities such as corporate planning, budget preparation, community planning and economic development /regeneration.

The six portfolio holders have responsibility for specific service areas:

- Leisure and Youth
- Concessions and Community Support
- Corporate services
- Environment
- Safety and Regulation
- Health and Housing

The Cabinet oversees all of the Council's functions which are not the responsibility of any other part of the Council, whether by law or under the Council's Constitution.

The Council has adopted in its Constitution a scheme of delegation whereby the power to make certain decisions is delegated to specific Officers and Committees. The principles underpinning this scheme of delegation are that the body or individual making a decision is clearly identified, that decisions are made in an open and accountable way and as efficiently and rigorously as possible.

There are five Policy and Review Panels as follows:

- Leisure and Youth
- Corporate Services
- Community
- Environment
- Borough Services (covering Safety and Regulation and Concessions and Community Support)

The role of these Panels is to carry out the overview and scrutiny functions, including holding Cabinet to account, scruntising the performance of other relevant public bodies, developing and reviewing policy and reviewing the performance of the Council in relation to its policy objectives. The Panels use work plans to organise their work for the coming year.

3.2 Council Purpose and Priorities

The Council's stated purpose is:

Rushmoor Borough Council, working with others to improve the quality of people's lives.

People have an equal right to live healthy lives, in safe, clean and sustainable places. We want to address the cause of inequality and help create opportunities for local people to fulfill their aspirations. We have to target our limited resources to where they are most needed.

The Council's purpose is underpinned by key priorities which form the basis of the Council's business planning process and remain those which were set by the Council in previous years. The priorities are:

- **Leadership** - Providing leadership to make Rushmoor the place where our communities want to live and work

- **Prosperity** - Sustaining and developing our local economy

- **Place** - Protecting and developing a safe, clean and healthy, sustainable and green environment

- **People and Communities** – Supporting and building sustainable communities capable of meeting local needs

- **Good Value Services** - Ensuring quality services that represent good value for money

As in previous year, the Council has formulated and adopted a Corporate Plan for the year 2012/13 at its meeting on 17 July 2012 which focuses on the delivery of these priorities and sets out what the Council will be doing in the next year to meet the needs of local people, businesses and visitors to the area. Targets that relate directly to these priorities are measured and the details then published. The Council's Cabinet monitors the progress of projects and activities in the plan every quarter. Monitoring is also regularly carried out by DMB and the Council's senior Officers and Member Panels scrutinise performance on areas under their particular remit.

3.3 Standards and Audit Committee

The Council has a Standards and Audit Committee, which is comprised of five Council Members and up to two non-voting co-opted people who are not Members or Officers of the Council. The committee promotes and maintains high standards of conduct by councillors and co-opted members, including the monitoring of the operation of the Code of Conduct. This Committee also has the role of reviewing Internal Audit work and risk management, in accordance with CIPFA guidance.

3.4 Compliance with law

The Council's Monitoring Officer advises the Cabinet, Members, DMB and Heads of Service of relevant legislative and judicial legal developments and advises upon compliance with the Council's Contract Standing Orders, which detail the Council's procurement policies and procedures. In particular, the Monitoring Officer is responsible for ensuring the legality of significant transactions entered into by the Council. Compliance with operational policies rests with the Heads of Service.

The Director of Resources is the nominated s151 officer whose principal responsibilities include:

- The administration of the financial affairs of the Council.
- The provision of advice on financial probity.
- Treasury Management Policy, including its annual review and update.
- Development of the Medium term financial Strategy, and budget and policy Framework.
- Compliance with the Accounts and Audit Regulations 2011.
- Compliance with the CIPFA Statement on the role of the Chief Finance Officer in Financial Administration in Local Government.

3.5 The Council's Constitution

The Constitution explains how the Council makes its decisions and who is responsible for those decisions. It sets out how the community can participate in the Council's business and how Members and officers can be contacted. It also sets out the procedures that are to be followed by all those who work for the Council and how they should conduct themselves and work together. It includes:

- The 16 articles of the Constitution, which are the basic rules of how the Council does business;
- Rules as to the responsibility for Council functions, including the Scheme of Delegation referred to above, which explain how the Council shares different responsibilities;
- The Council procedure rules which set out the rules and proceeds that govern how the Council acts. These include, the Standing Orders for the Regulation of Business, the Contract Standing Orders, the Budget and Policy Framework and Financial Procedure Rules;
- Codes and protocols for Members and Officers, including the Code of Conduct for Councillors, the Code of Corporate Governance and a Member development policy statement which sets out the Council's commitment to provide appropriate learning and development opportunities for all Members, to enable them to acquire the knowledge and skills required to be effective elected members across all their roles.

3.6 Risk Management

A Risk Management Manual sets out the Council's approach to Corporate and Service risk management. This involves the maintenance of a corporate risk register. This is reviewed by the Risk Management Group, which is made up of officers from across the Council. They meet periodically to monitor the risk management process, and identify actions to mitigate risks, which feed in to the business plans and routine work. The Corporate Risk Register is reported to the Directors Management Board ("DMB"), Cabinet and the Standards and Audit Committee.

In addition, the Council has a Business Continuity Plan setting out its response in the event of a significant incident at the Council Offices.

3.7 Budgeting and Financial Monitoring

DMB and Heads of Service are responsible for economical, effective and efficient use of resources.

Heads of Service undertake quarterly monitoring of their work and budgets in liaison with Financial Services and Cabinet are updated on the outcomes of these reviews. For example, the Revenue Budget Monitoring and Forecasting 2012/13 setting out the Council's anticipated financial position for the financial year based on the monitoring exercise carried out during March 2013 was considered by Cabinet on 2 April 2013. The finalised financial position (subject to external audit) was reported to Cabinet on 18 June 2013 as the General Fund Provisional Outturn 2012/13.

Capital expenditure is monitored quarterly and Cabinet agreed the Capital Programme Monitoring 2012/13 Report setting out the position as at March 2013, on 2 April 2013.

Under the remit of the Corporate Services Policy and Review Panel, a Member Budget Task and Finish Group has reviewed the budget process to make it more transparent. This aims to allow for more scrutiny in light of significant local government cuts.

A Medium Term Financial Pan was produced and reported to Cabinet on 10 January 2012 and sets out the Council's financial plans over the next 4 years. The Financial strategy was updated and reported to Cabinet on 4 November 2012.

3.8 Treasury Management

Full Council agreed the Annual Treasury Management Strategy 2012/13 and Prudential Indicators for Capital Finance on 23 February 2012. The Strategy was produced in line with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management (revised in November 2011) and the Department of Communities and Local Government's guidance on investments and the prudential system of capital accounting. Taken together, they provide an approved framework within which officers undertake the day-to-day capital and treasury activities of the Council.
Three monitoring stages of Treasury Management are undertaken in the year. These include an opening report, a mid year review report and a closing report to note the year end position, which are taken to Licensing and General Purposes Committee and Cabinet.

During 2012/13, the Director of Resources (as Section 151 Officer) in consultation with the Leader and Corporate Services Portfolio Holder, required greater limitation on investments than set out in the Treasury Management Strategy due to the continuing higher levels of risk in the financial sector.

3.9 Partnership Governance Arrangements

Legal Services are involved in the setting up of new partnerships including a Community Safety Partnership and a Shared CCTV Service. Partnership Agreements are produced to set out the obligations and rights of each partner.

3.10 Communicating with stakeholders

The Council has developed a Community and Business Engagement Strategy, which sets out the approach for how we communicate with, listen to, involve and respond to our residents and businesses.

3.11 Other

The Council also has a number of other policies and plans that support the general operation of governance throughout the Council, including:

- Acceptable Use of IT Policy
- Whistle blowing Policy
- Anti-fraud and Corruption Strategy
- Diversity and Equality Policy and Disability Equality Scheme

4 Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the governance framework in 2012/13 has included:

Cabinet

- Developing our approach to a sound financial position through the medium term strategy and monitoring of its delivery.
- Developing, agreeing and recommending the Corporate Plan.
- Monitoring the delivery of corporate plan and key corporate performance measures.
- Reviewing risk management issues in relation to major decisions.
- Recommending and monitoring Treasury Management arrangements.

Directors Management Board

- Develop the Corporate Programme and Project Management and utilise the framework to monitor corporate performance.
- As part of the Medium Term Financial Strategy monitor the delivery of the £1.0million savings to maintain a sound financial position.
- Identify external factors related to economic issues and government policy changes, and assess their impact on the Council.

Wider Leadership Team (Directors and Heads of Service)

- Support the development of the Council's purpose and priorities and their delivery.
- Work with DMB to identify areas of work associated with organisational development.

Internal Audit

- Internal auditing is an independent, objective, assurance and consulting activity designed to improve an organisation's operations. It is a catalyst for improving effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

- The Audit Manager prepares an annual plan of work that supports the achievement of the Council's priorities. This is developed in liaison with the Director of Resources, Heads of Services, DMB and the Standards and Audit Committee. Progress against the plan is regularly reviewed and where necessary amendments made.

Standards and Audit Committee

- As detailed at paragraph 3.3 above, the Council's Standards and Audit Committee is mainly responsible for the promotion of high standards of conduct by Members and matters relating to internal audit.

Other review and assurance mechanisms

- Other mechanisms that provide review and assurance of good corporate governance include:
  - External audit management letter
  - Lexcel accreditation of the Council's legal department
  - Inspection by the Office of Surveillance Commissioners
  - Government Connect audits

- Senior officers have advised us on the implications of the result of the review of the effectiveness of the governance framework, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5 Significant governance issues

Part A: Actions taken on significant governance issues in 2012/13

5.1 Budgets and Financial control

As part of the medium term financial strategy, the Council required savings totalling £1.0 million to maintain a sound financial position. To ensure successful delivery, progress was monitored throughout the year via the quarterly budget monitoring.

Because of significant risks in the financial sector, the Council operated within narrower constraints than those set out in the Treasury Management Policy.

During the year, we have identified the principal financial risks in the medium term associated with economic factors and government policy changes. This showed the need for further reductions in spending over the medium term and a significant level of latent risk.

Work is continuing on the systems to monitor leases and contracts, which are required to fully meet the IFRS. For real estate assets, all property notices are copied to the Council's finance department by the legal department and their implications for the accounting treatment of leased assets (whether operating or finance leases) is assessed. Procedures are also in place for the regular review of leases of equipment (such as photocopiers) and vehicles.

The Member Budget Task and Finish Group identified further improvements to the Member's role in influencing the budget process. Due to significant changes made to the financial regime by central Government policy, it was not feasible to further develop the work during 2012/13. However, it will be followed up in 2013/14

5.2 Legislation and Guidance

Internal Audit reviewed internal corporate governance policies and procedures amending them to ensure they are up to date, relevant and form a cohesive package of information. New additions to the suite included Anti Money Laundering and the Bribery Act 2010. The suite of policies will be disseminated to employees in 2013/14.

A new Code of Conduct was adopted by the Council in June 2012, reflecting changes to the regime for standards in local government introduced by the Localism Act 2011. In addition, changes to the composition of the Standards and Audit Committee have been made.

The Council is putting partnership agreements in place with relevant partners in order to ensure that the rights and obligations of all parties are clear, enforceable and legally binding.

5.3 Employee Code of Conduct

No guidance has been issued by Department of Communities and Local Government on the adoption of an Employee Code of Conduct. Therefore, no additional action has been taken as existing Council policies and standards set out the behaviours expected from staff.

5.4 Programme and Project Management

Internal Audit carried out a review of Corporate Programme and Project Management to identify progress made and where further development could be achieved. This has been followed up with a new programme of project management principles being applied to projects including the Council's Co-location programme and the shared CCTV service with positive results. Work by the programme board has been, and continues to be developed.

5.5 Other

Feedback was provided to the Department for Communities and Local Government on the 'Future of local public audit' in writing and through attendance at a workshop. Consideration has been given to how the Council will respond to the changes. Further work is planned for 2013/14. The Council has engaged with its external auditors in this regard and to consider reliance on the Council's internal audit.

The Council has entered into a Joint Venture with the developer of the Westgate site in Aldershot to facilitate delivery of the Scheme. Prior to this legal and surveying advice was taken to manage and mitigate risks. The project was completed, resulting in a return of £2.6m for the Council in 2012/13, in addition to a return of £4m received in 2011/12 in respect of the related land disposal. The relevant joint venture arrangements were successfully concluded.

In November 2011, Corporate Services Panel reviewed the Council's Business Continuity arrangements.

During 2012/13, the Council set up a Members' Welfare Reform Task and Finish Group to oversee the establishment of a new localised Council Tax Support Scheme to replace Council Tax Benefit, with effect from April 2013.

Part B: Proposed action on significant governance issues planned for 2013/14

5.6 Legislation and Guidance

Internal Audit will continue to monitor legislative developments and will take appropriate steps to reflect any such changes. In particular, we will continue to monitor and act on the impact of government policy changes especially the Welfare Reform, Business Rates Retention Scheme and the Community Infrastructure Levy ("CIL") on Council service and finances.

The Council has set in place arrangements to record and track business rates activity in order to manage the financial impact of the adoption of the business Rates Retention Scheme and the use of Valuation Office data is ongoing.

A working group for the implementation of CIL has been established.

5.7 Budgets and Financial control

The Council has continued to execute its 8 Point Plan as part of its medium term financial strategy. The Council updated its financial strategy in December 2012. Work to identify proposals to sustain the financial health of the Council over the medium term, will be carried out by DMB on behalf of the Cabinet. The Council will continue to develop its budget monitoring and reporting procedures, including reports and review of reserves and the implications of change in economic conditions and Central Government policy.

The Council's financial position and forecast will be reported periodically both to the Corporate Services Panel to enable scrutiny and to Cabinet in order that delivery can be monitored.

5.8 Other

In conjunction with the dissemination of the revised corporate governance policy suite, Internal Audit will develop an approach to and undertake proactive anti fraud work as part of the annual audit plan.

The Council has prepared for and will continue to work with the Council's new External Auditor and address the effect on financial management and internal audit. For instance the Council is considering audit analytics, client assistance schedule, early meetings with auditors, attending workshop sessions and understanding the approach of the new auditors.

The Council is participating in the pan-Hampshire Chief Financial Officers' Group view a view to improving co-operation and the sharing of expertise with other local authorities in the region.

The Council will continue to develop and deliver improvements using Systems Thinking principles to improve the quality and efficiency of services as part of the 8-point plan. To this end, during 2012/13, further Systems Thinking work has been carried out in Bereavement Services, Planning Development Control, Parking, Housing Options and Benefit whilst future work has been planned in respect of Personnel Services.

The Council's Directors' Management Board have commissioned further work to incorporate Systems Thinking principles within the organisations wider Organisational Development Programme.

Workshop sessions are planned to take place in 2013/14 for the Council's Licencing and General Purpose Committee to build new Members' understanding of governance issues. These workshops will cover topics including scrutiny of the Statement of Accounts and treasury management.

The Council's finance department will ensure that financial updates are provided to all Council staff, including the managers at all levels, the Wider Leadership Team, and to the Corporate Services Panel.

The Council agreed to monitor the impact of local changes in respect of the Welfare Reform Programme and has continued the role of the Member Task and Finish group on Welfare Reform started in 2012/13.

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

Signed..

Deputy Leader of the Council

Signed..

Chief Executive

Dated.....3/8/2013..............................

Glossary of Terms

Assets Held For Sale
An asset is classified as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through usage.

Billing Authority
A local authority responsible for collecting the council tax and non-domestic rates in areas where there is a two-tier system of county and district councils.

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

Capital Receipts
The proceeds from the disposal of land or other assets.

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 its own general fund.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

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

Current Assets
Assets which may change in value on a day to day basis

Depreciation
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

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

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Heritage Assets
Assets that are held and maintained by an entity principally for their contribution to knowledge and culture. The key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important.

Intangible Assets
Intangible assets are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights e.g. software licenses.

Inventories
Materials or supplies unused and held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Investments
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

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

Joint Ventures
An entity established with contractual or binding arrangements whereby two or more parties are committed to undertake an activity that is subject to their joint control, with strategic, financial and operating decisions relating to the activity requiring the unanimous consent of the parties sharing the control.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year.

Long Term Assets
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Non-Distributed Cost
These are overheads for which no user now benefits and should not be apportioned to services.

Operating Leases
A lease other than a finance lease.

Provisions
Amounts set aside for expenditure in a future financial period as a result of an obligation arising from a past event. The obligation must be expected to result in a payment that can be reasonably estimated.

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

Reserves
These are amounts set aside for specific purposes where there is no certainty about the level and timing of expenditure.

Revenue Expenditure
The operating costs incurred by the Council during the financial year in providing its day to day services.

Revenue Support Grant
Grant paid by the Government to local authorities to help them finance the cost of their services. The system is designed so that if all local authorities spend at the level determined by the Government, the Council tax would be the same across the country.

Useful Life
The period over which the local authority will derive benefits from the use of a fixed asset.

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