Scarborough Borough Council

Core Single Entity

Statement of Accounts

2011 - 2012

Contents 2011/12

1 INTRODUCTION

The following pages include the Borough Council's Statement of Accounts for the year ended 31 March 2012. The published accounts are an important element in demonstrating the Council's stewardship of public money, showing the resources available and how they are used to deliver everyday services to the community.

The purpose of this foreword is to provide an explanation in overall terms of the Council's financial position, including the major influences affecting the accounts, and to assist in the interpretation of the accounting statements. This foreword covers:

- a brief overview from the Responsible Finance Officer
- a summary of the various statements which make up the 2011/12 accounts
- a summary of revenue expenditure and funding with a comparison to budget
- an overview of the Council's reserves and balances
- a summary of capital expenditure and financing
- a summary of changes in accounting policy and presentation to the accounts
- and sustainability impact

2 OVERVIEW FROM THE RESPONSIBLE FINANCE OFFICER

As the Council's statutory officer responsible for Finance, I have pleasure in writing this explanatory overview to the Statement of Accounts for 2011/12.

My key priorities are:

- To maintain sound financial management practices across the Council,
- To ensure that financial resources are spent in line with the Council's priorities,
- Ensuring Value for Money, and
- To make financial reporting meaningful for everyone.

The Council's External Auditors, the Audit Commission, continue to inspect and assess how the Council manages its resources and its arrangements for financial management. During 2011/12 the Council has continued to receive positive comments on the way in which it manages its governance arrangements for its resources.

The Government has made it clear that the reductions in the Country's budget deficit is its most urgent priority and therefore a significant proportion of the spending cuts have had a direct impact on the Central Government funding for Local Authorities. Funding announcements on Government cutbacks have not come as a major shock to the Council. These resource reductions had been anticipated, with positive actions being put in place to ensure the Council can reduce its budget in a controlled and managed way, without the need to cut front line services.

The 2011/12 budget required the Council to make efficiencies of £2.2m, followed by a further £2.2m in 2012/13 and a minimum of £2.0m in 2013/14 (£6.4m over 3 years).

The Council is already working hard to plan for achieving further cuts and a range of options will be considered to ensure that we continue to provide customer-focused, efficient services. The robust financial planning process and prudent approach to financial management adopted by the Council in recent years has put it in good stead to ensure that a structured approach can be taken to achieve the required level of savings, whilst ensuring that the impact on local residents and stakeholders is minimised wherever possible.

Having identified £2.2m to balance the 2011/12 budget it is very pleasing to now report that the Council has carefully controlled and monitored its spending throughout the year and has managed to keep its revenue budget spending to £877k under budget; a significant achievement given the high level of savings and economic conditions. In addition to this, the levels of corporate reserves have been maintained within the optimum ranges set out in the Financial Strategy, and the overall financial standing of the Council remains to be strong.

Despite the economic conditions the Council continues to strive towards delivering an ambitious regeneration programme across the Borough, and the Council is continuing to provide support to progress the wider aspects of the Sands Development, Middle Deepdale housing development, Leisure Village and potential Town Hall relocation / redevelopment. These major schemes demonstrate the Borough's commitment to working in partnership, improving economic prospects and encouraging enterprise in the region.

I hope this Statement of Accounts help you to better understand the Council's financial position. Please let me know how you think we are progressing with our financial reporting, as we are aiming to continuously improve in this area.

Nicholas Edwards

Nick Edwards C.P.F.A.
Head of Finance and Asset Management

3 THE STATEMENTS

The Statement of Accounts has been prepared in accordance with the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (hereafter referred to as the SORP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim is to ensure consistent treatment and comparability with the accounts of other local authorities. The statements included in the accounts are as follows: -

The Statement of Responsibilities for the Statement of Accounts sets out the Authority's and Chief Finance Officer's legal and professional responsibilities for the accounts under Local Government Legislation.

The Annual Governance Statement identifies the systems that the Authority has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and provides a review of the effectiveness of internal control.

The Statement of Accounting Policies details the legislation and principles on which the Statement of Accounts has been prepared.

The Comprehensive Income and Expenditure 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.

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie 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 authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The net Increase / Decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from the earmarked reserves undertaken by the council.

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

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

The Notes to the Core Financial Statements provide supplementary information to aid the understanding of the figures shown in the Statement of Accounts.

The Collection Fund shows the way in which the income collected in relation to Council Tax and National Non-Domestic Rates has been distributed.

4 REVENUE EXPENDITURE AND SERVICES PROVIDED

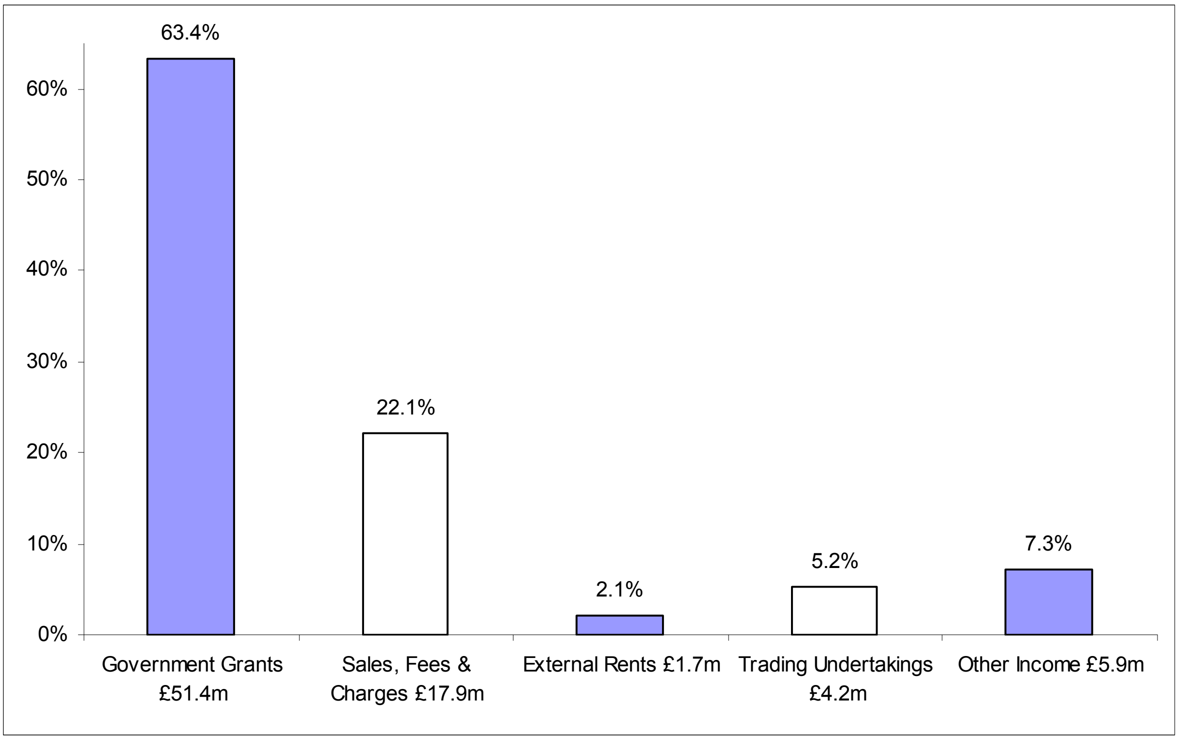
The revenue budget is used to record the day to day running expenses and income of the Council. It includes expenses such as employee costs, heating, lighting, rent, rates, and capital financing, plus income relating to those expenses.

The Council's gross revenue expenditure for the year totalled £104.090 million and its gross income, excluding Taxation and Non Specific Grant Income was £81.038 million, resulting in net operating expenditure of £23.052 million.

The following charts show the Council's sources of revenue funding, the expenditure by service and the main categories of General Fund expenditure.

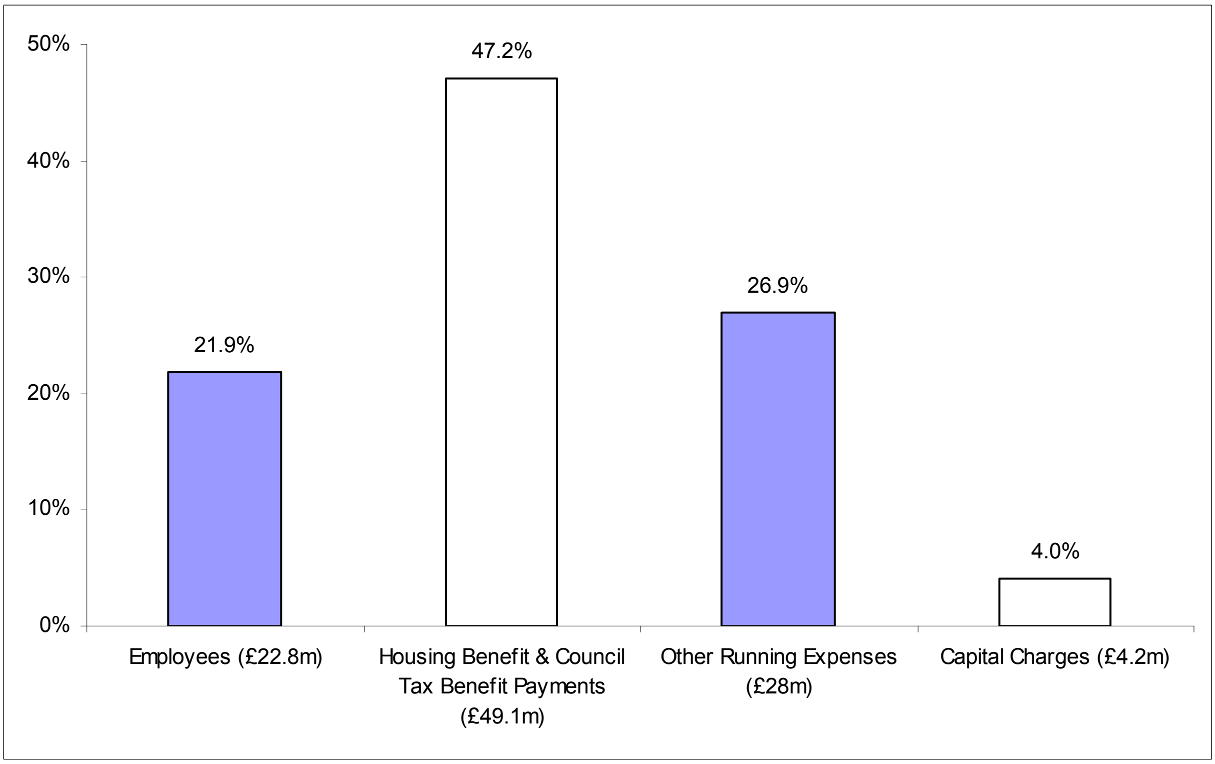
Revenue Funding

This chart shows the Council's various sources of revenue funding excluding Taxation and Non-Specific Grant Income (£81.038m):



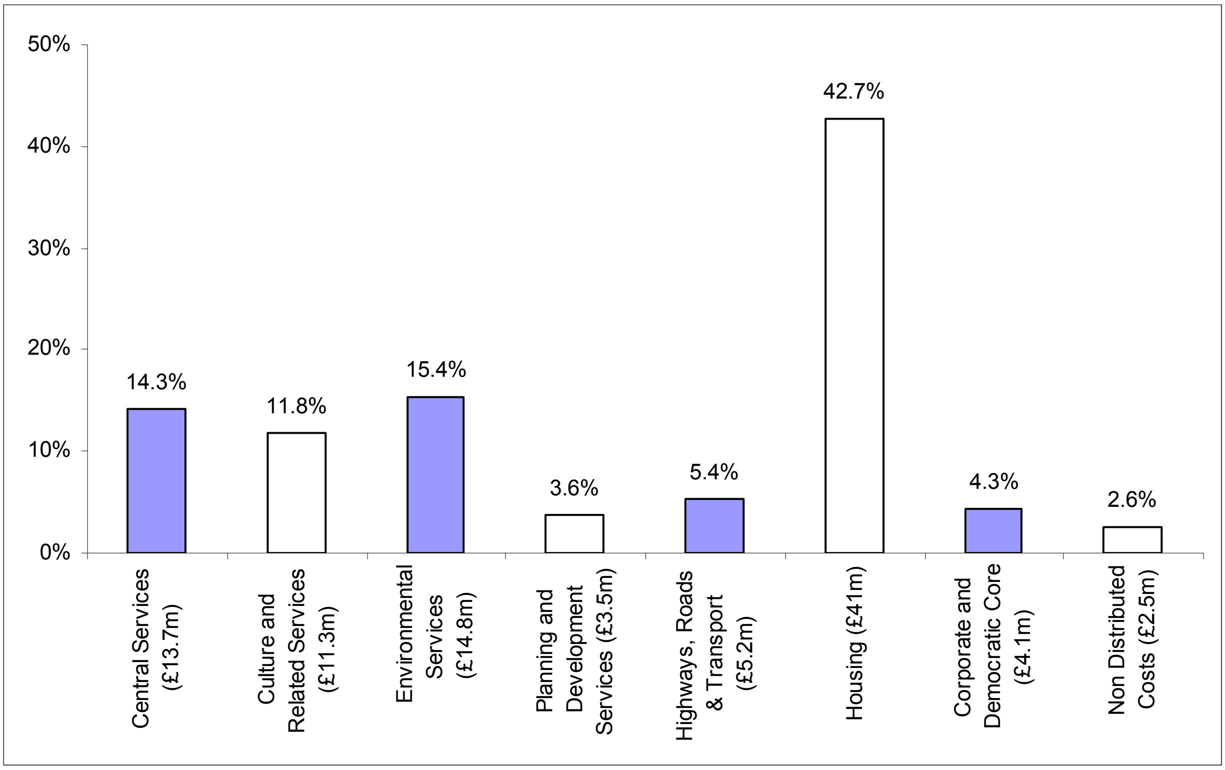
Revenue Expenditure

This chart shows the main categories of Council gross expenditure over all General Fund Services (104.090m).



Services Provided

This chart shows the Council's expenditure within the Cost of Services (£96.002m).



The expenditure on 'Housing' includes Housing Benefit and Council Tax payments made to residents in receipt of benefits. The payments are refunded to the authority by Central Government and the authority does not dictate the terms of these payments or to whom the benefit can be paid.

5 COMPARISON OF THE BUDGET TO ACTUAL INCOME AND EXPENDITURE

As part of the budget setting process for 2011/12 the Council assumed a £250k draw from the General Fund.

The actual outturn position for 2011/12 showed a surplus against budget of £877k, after drawing the budgeted £250k from the General Fund.

Areas where savings (or additional income) have been generated include staffing costs, refuse collection and recyclate sales. In addition the Council made a £200k allowance in the budget for a potential breach in the VAT partial exemption limit, which was not required and received additional grant income (£200k) for disabled facilities grants which allowed the council's contribution to the scheme to be reduced. The main areas of concern, which are being addressed, are shortfalls in catering, off street car parking income and increases in the costs of homelessness.

Financial Performance on General Fund Balance:

	Budget £000	Actual £000	Variance £000
Net Expenditure	17,735	16,858	877
Financed by:			
Revenue Support Grant	(2,115)	(2,115)	-
Redistributed NNDR Pool Receipts	(6,841)	(6,841)	-
Precept	(8,779)	(8,779)	-
Budget Underspend	**-**	**877**	
Underspend transferred to other Earmarked Reserves		877	

General Fund Balance Brought Forward	**(2,267)**
In year transfer from Earmarked Reserve	(682)
In year budgeted draw from General Fund Balance	250
General Fund Balance Carried Forward	**(2,699)**

The £877k surplus generated in the year is included in the Council's usable reserves as at 31 March 2012 and the financial statements have been prepared on the basis that it will be utilised as follows, although this is still subject to member approval:

£000	Detail	Reserve held in as at 31 March 2012
130	Investment in priority (one off) areas.	Service Investment Reserve
300	Transfer to the pension reserve to make provision for costs associated with the Council's efficiency programme and reduce the revenue contributions into the reserve in future years	Pension Reserve
100	Transfer to the Value for Money Reserve to progress schemes to deliver improved ways of working.	Service Investment Reserve
100	Investment in payroll / HR system to allow the service to be brought back in-house.	Service Investment Reserve
247	Investment in current projects; Spa Market Testing, Town Hall Relocation and other Member Priorities to ensure that the schemes can be progressed	Service Investment Reserve
877		

Details of the financial outturn position and proposed utilisation of the surplus will be presented to Cabinet for approval in July.

6 RESERVES AND BALANCES

In the Financial Strategy the Council set its approved criteria for assessing the minimum prudent level for the General Fund Balance and the medium term expectation for specific reserve requirements as follows:

General Fund Balance -	the balance be maintained within the range of £2.0m to £3.0m. (this range was increased from £2.0m to £2.5m outlined in the 2011 Financial Strategy in recognition that some amounts previously held in earmarked reserves were transferred to the General Fund Reserve in year; therefore the General Fund must now mitigate against an increased range of budgetary risk).
Capital Contingency Reserve -	the balance to be maintained within the range of £0.5m to £1.5m.
Insurance Reserve -	a minimum balance of £1.350m to be maintained in the medium term
Pension Reserve -	the balance to be maintained within the range of £0.1m to £0.75m

The General Fund Balance at 31 March 2012 was £2.699m and is therefore within the range set by the Financial Strategy.

The Capital Contingency Reserve balance at 31 March 2012 is £0.773m; £0.241m of which is committed. Contributions of £0.150m are scheduled to be paid into the reserve during the 2012/13 year therefore the balance is considered to be adequate.

The Pensions Earmarked Reserve balance at 31 March 2012 was £0.952m. This balance includes £300k, which was transferred to the reserve as part of the current year's revenue underspend. It is expected that in excess of £822k of this amount will be required in the 2012/13 year to fund the costs associated with the Council's ambitious efficiency programme. This will partly be offset by contributions of £242k, which are scheduled to be paid into the reserve during 2012/13. At present the reserve balance is considered to be adequate, however it will be reviewed as part of the 2013/14 budget setting process.

The Insurance Reserve balance at 31 March 2012 was £1.868m. This balance is considered to be adequate.

The Financial Strategy also addresses the allocation of resources for capital investment over the next ten years (via the Capital Development Reserve and Usable Capital Receipts Reserve) so that the Council's borrowing requirement does not increase over the period unless it is planned and has been approved by Full Council.

The Service Investment Reserve has been increased in year to £7.410m. £1.261m of this amount relates to revenue grants that have been received and committed, however the expenditure associated with the grant has yet to be incurred, and the remainder of the balance is for operational services and corporate use as well as being a prudent measure to counter significant fluctuations in seasonal income.

7 PENSION RESERVE

The Authority participates in the Local Government Pension Scheme, administered by North Yorkshire County Council. This is reflected in the Balance Sheet, which includes a pension liability and a pension reserve in respect of the scheme of £73.424m as at 31 March 2012. Although these pension liabilities decrease the overall level of reserves they do not represent a reduction in the Council's cash reserves or impact on Council Tax levels.

Whilst this pension liability suggests a significant shortfall between the forecast cost of future pensions and the current level of assets held in the fund, it should be noted that the fund assets are subject to fluctuations in value depending on the current state of the stock market. The North Yorkshire Pension Fund also has an investment strategy in place to address the funding deficit over a 30 year period, based on an appropriate level of employers' contributions, producing a positive cash flow into the fund.

8 CAPITAL EXPENDITURE AND FUNDING

The capital programme is run in tandem with the revenue budget. The following table shows the expenditure during the year and how it was financed.

Type of expenditure	**Total Spent & donated £000**	**Met By**	
		Grants & Contributions £000	**Council Resources £000**
Fixed & Intangible Assets	4,884	2,780	2,104
Grants (e.g. Disabled Facilities)	730	673	57
Capital Resources Set Aside	**5,614**	**3,453**	**2,161**
Revenue Projects	2,061	1,550	511
Total Programme	**7,675**	**5,003**	**2,672**

Unlike the Revenue Budget, the budget for the Capital Programme is set over the medium term and so an annual budget to actual comparison is not as appropriate. Unforeseen costs are covered by the Capital Contingency Reserve. £188k was drawn from the Reserve to cover such costs in 2011/12. These primarily related to the Spa Redevelopment Scheme and the construction of handrails at the Open Air Theatre.

The capital expenditure funded from Council resources includes £746k which has not been set aside at the balance sheet date, but for which provision will be made in future years. This unsupported borrowing has been used to fund expenditure on the Spa Redevelopment Scheme and Scarborough Depot relocation both of which have been approved by Council.

The Council operates limits for external borrowing to ensure it is kept within a prudent and affordable limit. Borrowing of £4.090m at year end was well within the authorised limit of £13m.

Resources remaining in the Capital Development Reserve and Capital Receipts Reserve amount to £4.895m at 31 March 2012.

The table below shows the expenditure in the year on fixed and intangible assets.

Scheme	£ 000s
Spa Redevelopment	2,024
Whitby Upper Harbour	170
Whitby East Pier	953
Scarborough Depot	146
Whitby Golf Club	150
Parks & Open Spaces	612
Vehicles and Equipment	433
Other	396
Total	**4,884**

9 CHANGES IN ACCOUNTING POLICIES, ACCOUNTING TREATMENT AND PRESENTATION

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) has been restated as a result of the Service Expenditure Analysis introduced by the 2011/12 SeRCOP. Previously the income and expenditure from 'Culture and Related Services', 'Environmental and Regulatory Services' and 'Planning Services' were all included in the CIES under a single heading. The Authority is now required to provide a split of this information on the CIES.

The effects of the restatement are as follows:

	Expenditure £000	Income £000	Net £000
2010/11 Published Accounts			
Cultural, Environmental, Regulatory and Planning Services	30,777	(11,791)	18,986
2010/11Restated Accounts			
Culture and Related Services	12,186	(4,322)	7,864
Environmental and Regulatory Services	15,031	(5,711)	9,320
Planning Services	3,560	(1,758)	1,802
Total	30,777	(11,791)	18,986

Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority.

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation or historical cost. Previously heritage assets were either recognised as community assets (at negligible cost) in the property, plant and equipment classification or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The Authority's accounting policies for recognition and measurement of heritage assets are set out in Note 1 to the Core Financial Statements.

In applying the new accounting policy, the Authority has identified £4,163k of assets which should now be recognised as heritage assets with a corresponding increase in the revaluation reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy. It is not practicable to provide this information for accounting periods beginning before 1 April 2010.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying value of the Heritage Assets is presented at its valuation or historical cost of £4,163k. The revaluation reserve has been increased by the same amount.
- The fully restated Balance Sheet is provided on page 31. The adjustments that have been made to the Balance Sheet over the version published in 2010/11 Statement of Accounts are as follows:

	Opening Balance as at 1-Apr-2010 £000	Restatement £000	Restated Balance as at 1-Apr-2010 £000
Heritage Assets	-	4,163	4,163
Long Term Assets	198,961	4,163	203,124
Total Net Assets	111,335	4,163	115,498
Revaluation Reserve	21,013	4,163	25,176
Unusable Reserves	92,573	4,163	96,736
Total Reserves	111,335	4,163	115,498

Amounts Reported for Resource Allocation Decisions

Following a restructure of the Authority's senior management the number of Heads of Service reduced from 8 to 7 with effect from 1 April 2011. At the same time responsibility for service areas was reviewed and in some instances transferred from one head of service to another.

To ensure that the Amounts Reported for Resource Allocation Decisions note is comparable year on year the 2010/11 figures have therefore been restated to reflect the current Head of Service structure.

The effects of the restatement are as follows:

Head of Service	Published Accounts £000	Restatement £000	Restated Accounts £000
Head of Finance and Asset Management	2,934	(1,082)	1,852
Head of Environmental Health	4,289	1,867	6,156
Head of Human Resources	741	1	742
Head of Regeneration and Planning	699	595	1,294
Head of Technical Services	(4,259)	4,259	-
Head of Legal and Support Services	2,025	73	2,098
Head of Tourism and Culture	4,604	(6,457)	(1,853)
Head of Service Transformation	2,002	158	2,160
Total Service Budget Heads	**13,035**	**(586)**	**12,449**
Whitby Harbour Board	-	(180)	(180)
Corporate Budget Heads	(13,335)	766	(12,569)
Surplus in year (as reported internally)	**(300)**	**-**	**(300)**

The key Service areas that have transferred responsibility are as follows:

- Highways Agency from Technical Services to Finance and Asset Management - (£1,035k)
- Parks Service from Tourism and Culture to Environmental Health - £1,787k
- Land Drainage and Coast Protection from Technical Services to Regeneration and Planning - £317k
- Parking from Technical Services to Tourism and Culture – (£4,744k)
- Scarborough Harbour from Technical Services to Tourism and Culture – £289k

Termination Benefits

The authority has included additional information in the accounts this year in relation to the severance costs incurred by the Authority when terminating contracts of employment.

This increased disclosure has also been provided within the Notes to the Core Financial Statements for the comparative figures for 2010/11.

10 SUSTAINABILITY

The Sustainability Working Group (SWG) of elected Members and Officers is tasked with delivering the Council's Sustainability Development Strategy (2010-2013) and meets once a quarter to discuss progress. Over the last financial year the SWG has agreed on the prioritisation of sustainability work based around the establishment of sub-working task groups to help deliver on this work involving elected Members. These task groups are: the Community Energy Saving Programme (CESP), Renewable Energy group and Green Deal. Over the next financial year these schemes should help to draw funding into the Council's own operations and the wider community.

CESP should attract investment for energy efficiency works to homes of hundreds of thousands of pounds from energy providers with the pro-active support of SBC to encourage take-up by residents.

The Renewable Energy group is exploring investment in renewable energy technology for the Council's own buildings. Aside from the environmental benefits, this will allow for a financial return on investments because Government provide a payment for each kWh of energy that is generated from a renewable energy source.

Running concurrently to the task group work the Sustainability Officer and Energy Manager have been delivering a range of the other actions as highlighted in the Sustainable Development Strategy. Some of these measures have led to financial savings to the Council, either directly or in benefit in kind over the last financial year. The Sustainability Officer has, for example, developed a Scarborough Town bus map that has been printed in the Scarborough Evening News centre pages in November 2011 which is worth £2,000 of advertising.

The Council successfully applied for an Energy Savings Trust Vehicle Fleet Health Check report worth £600, and the Sustainability Officer has been pro-actively working with the Esk Valley Community Energy Group in the development of their 10 year low carbon strategy. The Sustainability Officer's contribution to the development of the strategy and its delivery has been valued as funding in kind of £30,000 by the group in their Local Energy Assessment Fund (LEAF) application to Government which was successful.

The Energy Manager has undertaken a range of energy efficiency measures in Council buildings though the use of the Councils energy efficiency / Salix Finance fund. Examples include: Passive Infra Red (light sensors) in Public Conveniences, draft proofing at the Evron centre, photocell sensors at Scarborough pool, and Whitby Marina building, and LED light up-grades at Filey caravan park. This has led to 92 additional tonnes of CO_2 being saved.

Total council spending on energy and water, after excluding one-off payments, fell from £1,248k in 2010/11 to £966k in 2011/12. This has resulted in a saving of £282k. This was largely down to the energy and water reduction strategies employed by the Council's Asset Management service. This saving has been made despite having to withstand price increases on all utilities.

11 FURTHER INFORMATION

Statement of Accounts 2011/12 Enquiries or comments about this publication should be directed to the below address: Head of Finance & Asset Management Scarborough Borough Council Town Hall, St Nicholas Street, Scarborough, YO11 2HG Telephone: (01723) 232323

Other sources of information about Scarborough Borough Council and its finances include:-

- Council Tax leaflet, issued each year with the Council Tax demand
- The Budget 2012/13
- Financial Strategy 2012 – 2022
- Annual Report
- The Councils website at www.scarborough.gov.uk

Copies of these accounts can be downloaded from the Scarborough Borough Council website. Further information about North Yorkshire County Council, North Yorkshire Police, and North Yorkshire Fire Authority finances can be obtained at the following addresses:

The Treasurer
North Yorkshire County Council
County Hall, Northallerton, North Yorkshire,DL7 8AD
Telephone (01609) 780780
www.northyorks.gov.uk

The Treasurer
North Yorkshire Police Authority
Newby Wiske, Northallerton, North Yorkshire
Telephone (0845) 6060247
www.nypa.org.uk

The Treasurer
North Yorkshire Fire & Rescue Service Headquarters
Thurston Road, Northallerton, North Yorkshire,DL6 2ND
Telephone (01609) 780150
www.northyorksfire.gov.uk

More detailed statistical information about Scarborough and all other Local Authorities are contained in a wide range of publications produced by the Chartered Institute of Public Finance and Accountancy, 3 Robert Street, London, WC2N 6BH

The Authority's Responsibilities

The Authority is required to:-

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

Councillor Andrew Backhouse
Chairperson of the Audit Committee
25 September 2012

The Chief Finance Officer's Responsibilities

The Chief Finance Officer (Head of Finance and Asset Management) is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ['the Code of Practice']. In preparing this statement of accounts, the Chief Finance Officer has:

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

The Chief Finance 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

Certificate by the Chief Finance Officer

I certify that the Statement of Accounts has been prepared in accordance with proper accounting practice and presents a true and fair view of the financial position of the Authority at 31 March 2012, and its income and expenditure for the year then ended.

Nicholas Edwards

Nick Edwards C.P.F.A.
Head of Finance and Asset Management
25 September 2012

SCOPE OF RESPONSIBILITY

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.

In discharging this responsibility the Council is responsible for ensuring that there is an overall Governance Framework in operation, incorporating a sound system of internal control, including risk management, which facilitates the effective exercise of the Council's functions.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

This governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of the approval of this document.

THE INTERNAL CONTROL ENVIRONMENT

The governance framework comprises the policies, procedures and operations taking place within the Council:

a) for establishing and monitoring the achievement of the Council's objectives
b) to identify, assess and manage the risks to achieving the Council's objectives
c) to facilitate policy and decision making
d) to ensure compliance with law, regulation, and established policies
e) for the financial management of the Council, financial reporting, and the economic, efficient, and effective use of resources and assets
f) for performance management and the reporting thereof

The main features of each of these key elements are as follows:

(a) Arrangements for establishing and monitoring the achievement of the Council's objectives:

- The Council's Corporate Plan "To Be The Best" sets out the long-term objectives of the Council. It is the policy statement within which the Council will deliver its ambitions and improvements, and contains a number of targets for the Council to achieve. The Corporate Plan is regularly monitored, and is updated annually through an Annual Improvement Plan. The Medium Term Financial Strategy sets out how the Council will finance the achievements of its objectives, and identifies the significant financial issues facing the Council over the future, including the need to achieve significant efficiencies.
- There is an integrated Service Planning and Budget Process in operation. A member/officer Corporate Strategy working group operates throughout the year to consider corporate planning, financial strategy, and performance improvement. This ensures a completely integrated corporate planning cycle. Individual service business plans support this process, and are prepared with direct links to the corporate plan and the financial strategy. Each service business plan contains a number of critical success factors.
- The Performance Management framework has been reviewed, and now provides for comprehensive Quarterly reporting of financial/performance information. This information is provided to Cabinet, and to the relevant Overview and Scrutiny Committees.
- The Code of Corporate Governance encompasses, defines and quality assures the various systems by which the Council directs and controls its functions and relates to the Borough community. The Council aims to ensure good governance runs throughout its work. In particular it aims to ensure that stakeholders can have confidence in the decision-making and management processes of the authority, and in the conduct and professionalism of its Elected Members, officers and agents in delivering services. Supporting the Code of Corporate Governance is an Assurance Statement, and Action Plan, which are reported to the Audit Committee, and which also support the preparation of the AGS. The Governance and Internal Control Officer Group continues to meet regularly.

(b) Arrangements to identify, assess and manage the risks to achieving the Council's objectives:

- The Council's comprehensive approach to risk management is detailed in the Corporate Risk Management Strategy. Application of the Strategy is by the Head of Finance & Asset Management, the Officer Risk Champion. Risk Registers are prepared and maintained at Corporate, and Head of Service levels.

- The Corporate Health and Safety Policy has been rewritten to reflect current requirements and operational arrangements. Corporate and Service Action Plans are being recast in line with the Corporate Health and Safety Policy.

- Internal audit arrangements are provided through VNY Ltd, a company part owned by the council. This is a new arrangement from 1 April 2012. During 2011/12 internal audit was provided by the North Yorkshire Audit Partnership. The internal audit service operates to professional standards. The annual work programme is set out in an audit plan which is based on an assessment of risk and consultation with senior officers, members, and other stakeholders including external audit. The Audit Committee approves the audit plan and receives regular reports on progress. The audit committee through the section 151 officer can request amendments to the annual audit plan. The Head of Internal Audit expresses an annual opinion on the internal control environment for the Council as a whole in the annual report to the Audit Committee in June.
- A risk-based Service Continuity Planning process has been agreed and resourced by the Management Team. To enable the Council to fully comply with the requirements of the Civil Contingencies Act 2004 this will be linked to specific work that is being done in generic risk areas. One generic area that will be targeted is that relating to information and data security. The Council is working towards the ISO 17799 standard with a view to achieving not only compliance but also certification for the ICT element of the standard.
- The Performance Management Framework has continued to be developed. Risks to the achievement of key objectives are highlighted through Finance and Performance quarterly reports to enable Management and the Cabinet to take action to manage risks.

(c) Arrangements to facilitate policy and decision making in the Council:

- The Constitution sets out how the Council operates, how decisions are made and by whom, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution also embraces the detailed Financial, Contract and Property Procedure Rules, Scheme of Delegation, Codes of Conduct, etc.
- All Councillors meet together as the Council. Meetings are open to the general public. At its annual meeting in May each year the Council appoints a Mayor. The Leader and the Cabinet are appointed at the annual meeting in an election year. The Council is responsible for setting the budget and policy framework of the Council.
- The Leader, Cabinet and Whitby Harbour Committee are responsible for making the Executive decisions that implement the policies of the Council. If the Executive wishes to make a decision outside the policy framework (including the Budget) set by the Council, this must be referred to the Council as a whole to decide. The decision as to which items require referral to the Council rests with the S.151 officer and Monitoring Officer. Each Member of the Cabinet has a portfolio responsibility that relates to a specific area(s) of the Council's services and responsibilities.
- There are Overview and Scrutiny Committees that support the work of the Council and the Cabinet. Their roles and responsibilities are detailed in the Constitution. The Audit Committee is established to deal with a range of governance issues, financial statements, risk management, and internal control

within the Council. The Audit Committee also has an independent member with financial expertise.

- Statutory Officers/Codes and Protocol − the Council employs Officers to give advice, implement decisions and manage the day-to-day delivery of its services. Certain officers have a specific duty to ensure that the Council acts within the law and uses its resources wisely (see (e) and (f) below). The Protocol on Member / Officer relations, is part of the Constitution and, amongst other documents, governs the relationships between Officers and Members of the Council.
- Pursuant to its powers under Section 101 of the Local Government Act 1999 the Council arranges for certain of its functions to be discharged by officers of the Council as set out in the Officers Delegation Scheme.

(d)Arrangements to ensure compliance with law, regulation, and established policies, and procedures of the Council

- The Head of Legal & Support Services is currently the officer designated by the Council as the Monitoring Officer and is responsible for performing the duties imposed by Section 5 of the Local Government and Housing Act 1989. The Montitoring Officer has access to all reports produced for meetings of the Executive prior to publication and is able to require amendments to such reports where necessary to ensure legal compliance.
- The Council has a complaints procedure that is advertised by leaflets and on its website. The procedure includes targets for acknowledging and responding to complaints in full.
- The Council has a Corporate Counter Fraud Policy & Strategy, including specific arrangements to respond to Housing Benefit Fraud and to 'whistleblower' allegations.
- Elected members have a significant role to play in ensuring compliance and propriety, either collectively (e.g. through the work of the Overview and Scrutiny Committees), or individually as local representatives, providing feedback from their constituents.
- Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties. The Council is currently reviewing standards arrangements in line with the Localism Act and it is expected that a new code will be adopted code going forward. Members are also undergoing voluntary CRB checks. Finally, the Committee has in place procedures for the investigation and determination of complaints against Members and a procedure for granting dispensations.
- Officers from Democratic Services attend the majority of formal meetings of elected members to advise on the constitutional aspects of processes proposed decisions and actions. Officers from the Legal Services attend, where necessary or where no officer from the Democratic Service is in attendance.
- The Council has approved an updated Local Code of Corporate Governance, and associated Corporate Governance Policy this defines:
  - the fundamental values and principles of corporate governance

- the corporate governance framework and arrangements to deliver it within the Council
- arrangements for annual review and reporting of the framework

(e) Arrangements for the financial management of the Council and its financial reporting:

- As part of its Constitution, the Council has approved Budget and Policy Framework Procedure Rules, Financial Procedure Rules, Contract Procedure Rules and Property Procedure Rules.
- The purpose of these rules is to set out a framework within which the Council conducts its financial affairs, and are designed to ensure that proper financial arrangements are in place and operational at all times.
- The statutory duties of the Head of Finance & Asset Management in relation to financial management derive from five principal sources:
  - Section 151 of the Local Government Act 1972
  - Section 114 of the Local Government Financial Act 1988
  - Local Government Act 2000 (in particular decisions contrary to policy or budget)
  - Local Government Act 2003 (prudential limits for borrowing and investment)
  - Accounts and Audit Regulations 2011

The CIPFA Statement on the role of the Chief Finance Officer (CFO) recommends that the CFO should report directly to the Chief Executive and be a member of the 'Leadership' Team. Furthermore that the AGS should assess the position of the CFO against these criteria and report on a 'comply or explain' basis.

Whilst not reporting directly to the Chief Executive there is a close working relationship, and unfettered access. The S151 is not a member of the Strategic Directors Team, but is a member of the Senior Management 'Leadership' Team.

The CFO has unfettered access to information, to the Chief Executive and to Members of the Council in order that they can discharge their responsibilities effectively. Set out below are the processes and procedures in place which provide assurance that the role of the CFO (Head of Finance and Asset Management) in Scarborough BC meets the Statements' expectations.

The Head of Finance & Asset Management drafts a Medium Term Financial Strategy and presents it annually to Cabinet and the Council; linked to this Strategy are the detailed Revenue Budget, Capital Plan, Efficiency Plan, Treasury Management arrangements and Prudential Indicators.

The Head of Finance & Asset Management is responsible for determining the accounting procedures, the form of financial records and statements and for maintaining the financial accounts of the Council. The Head of Finance & Asset Management ensures that proper accounting arrangements are established in all service areas.

It is the duty of all Heads of Service to plan and manage their budgets to meet the agreed bottom line budget figure for their Business Unit. This includes ensuring that adequate arrangements exist for monitoring budgets throughout the year, and taking action to adjust the budget to ensure that overall control of expenditure is maintained. The Head of Finance & Asset Management is responsible for submitting a quarterly report Cabinet on the overall revenue budget position; this report is part of the Quarterly Performance and Improvement reporting arrangements referred to under (d) above.

The Head of Finance & Asset Management prepares and publishes an annual Statement of Final Accounts that conforms to all statutory and professional requirements, codes of practice and timetables.

- The independent auditor is the Audit Commission: they publish an Annual Audit and Inspection Letter following the end of each financial year.
- Under the Accounts and Audit Regulations 2011, the Council has a legal responsibility to provide an adequate and effective internal audit. The Council has delegated this responsibility to the Head of Finance & Asset Management (S151 Officer) who provides the service through the North Yorkshire Audit Partnership.

(f) Performance management of the Council and the reporting of performance

- The Council has identified its corporate priorities for improvement in its Corporate Plan and these are linked to the Community Strategy themes and the Medium Term Financial Strategy.

The improvement actions are set out in the Corporate Plan, which is updated at the beginning of each financial year, through an Annual Improvement Plan, which sets revised targets for the forthcoming 12 months, which relate to the overall aims and objectives set out in the Corporate Plan. The Annual Improvement Plan is complemented by the Corporate Financial Strategy and Business Plan, which identifies resource allocation for the year.

REVIEW OF EFFECTIVENESS

Under the Accounts and Audit Regulations 2011, the Council has responsibility for formally conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.

On behalf of the Audit Committee, and in conjunction with Strategic Directors and senior officers, the Governance and Internal Control Officer Group, (which includes the Monitoring Officer, Section 151 Officer and representatives from internal audit) reviews matters relating to the internal control environment of the organisation on a regular basis by referring, amongst others, to the work of:

- Cabinet
- Whitby Harbour Committee
- Director Management Team
- Strategic Directors, Heads of Service and their Business Unit Heads
- Internal Audit
- Asset, Insurance & Risk Management section
- Standards Committee

- Audit Committee
- Audit Commission and other external inspectorates

This annual review of the effectiveness of internal control systems also includes the work of Internal Audit who have responsibility for the review of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

SIGNIFICANT GOVERNANCE ISSUES

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the Council's objectives have been mitigated.

On the basis of the review work carried out it was considered that, overall, the Governance Framework has been effective. The majority of the internal control arrangements were operating adequately in the financial year 2011/12, and that improvements have been made over the year. The issues of concern for the year continue to be around new and developing events.

Having regard to the published guidance on internal control matters, a number of issues are disclosed in the table below. There are no new issues identified in 2011/12, however, the table includes the latest position on issues identified in previous years statements where these are still relevant to consideration of the governance framework.

Issue identified in 2008/09 AGS (June 2009)	Action taken & current position
The Council has a strong ambition, recognised by UK and European awards. The number and range of concurrent major projects is stretching resources and putting strain on a small number of senior managers. Schemes include: - The Sands Development Middle Deepdale Housing Development Muston Road Housing development The Spa redevelopment / outsourcing Sea defences The Futurist redevelopment/ Town Hall accommodation review Sports village Sale and relocation of the Council Depots including the future use of Manor Road Nurseries.	The Council has set up a project management methodology, and created its own 'Centre of Excellence' to ensure dissemination of skills and compliance with best practice. The standard methodology has largely been adopted although its use is still being developed in some service areas. Current priorities include the Futurist Planning Brief and Town Hall Relocation which are out to consultation and will be reported back to Cabinet in July

Issue identified in 2008/09 AGS (June 2009)	Action taken & current position
The challenging economic climate, coupled with the need to deliver significant efficiency savings may lead to budgetary cuts that could weaken the Council's governance and control framework.	The economic climate remains turbulent and this is therefore an ongoing risk for the council. The Audit Committee and Governance & Internal Control Group monitor the impact of changes on the governance framework and promote control through the work of internal audit and counter fraud. Arrangements are being strengthened through the provision of audit services by VNY Ltd from April 2012, and by inviting the closer involvement of internal audit in the development of new working practices.
Impact of the current economic situation on Council activities. There is likely to be a greater demand for social support services.	Risks in this area continue to be a concern and may increase in 2012/13 with the changes connected with Council Tax Benefit (CTB) replacement. The council continues to monitor and manage its financial circumstances closely through budget monitoring, performance management and the Corporate Efficiency Programme, to minimise the impact on support services. A dedicated officer will support the changes to CTB. A Member focus group will support officers in the development of options, which will be subject to wide consultation.

Issue identified in 2009/10 AGS (June 2010)	Action taken & current position
Impact of current and anticipated reductions in funding and the knock on effect on services. Changes continue to be significant and the lack of certainty makes planning difficult.	The council closely monitors potential changes to funding streams and is looking at new opportunities for revenue generation. The Corporate Efficiency programme remains a priority, working with the council's efficiency partner to streamline services and minimise the need for cuts.

Issue identified in 2009/10 AGS (June 2010)	Action taken & current position
The anticipated structural review of the senior management structure and the consequent extra responsibilities for the additional service areas taken on by the remaining Heads of Service may lead to strain on the Internal Control Environment.	A further reduction in the number of senior managers from April 2012 has increased demands on other officers. A review of the roles of statutory officers and other key staff is now being undertaken to identify ways to address this issue. The council will also continue to work closely with internal and external audit to monitor the impact of changes on the control framework.
The future of Yorkshire Forward and specifically its funding for schemes in the Borough is now under scrutiny with the coalition government. The risk is that schemes may have to be stopped and staff made redundant.	An Investment Management Plan has been drawn up to manage significant capital receipts for the Borough and ensure they are used to maintain schemes which support strategic priorities. Work to develop the generation of revenue from potash production to support Community Benefit Funding will be a key priority in the coming year.

Issue identified in 2010/11 AGS (June 2011)	Action taken & current position
SBC is developing significant changes in the ways of working and delivering services and activities, incl.: - Harbour Boards Joint service delivery Partnerships Market testing Private sector involvement	As each option is considered the Council will need to consider carefully the governance arrangements, which includes financial, service delivery, service quality, duration, and efficiency aspects. It must also consider the uncomfortable 'what if' questions and plan exit strategies, should the arrangement not work. It is important to remember that this is developmental, not all will work, and each may be different. Control remains focussed on the development of robust governance arrangements for key partnerships and the use of appropriate procurement mechanisms.
The establishment of effective checks and balances which recognise that the Leader has the ability to exercise full Executive powers	The requirements of the Localism Act were substantially implemented from April 2012. Standards arrangements are being reviewed in line with the requirements of the Act.

Issue identified in 2010/11 AGS (June 2011)	Action taken & current position
The current Audit Partnership Agreement ends 31st March 2012. The Council must have an Internal Audit provision in place, (a statutory requirement) which should be effective, economic, and efficient to add value to the Council. .	This issue has now been addressed. From 1 April 2012 internal audit services are provided by VNY Limited. The new arrangements enable the council to take advantage of efficiencies through the establishment of a shared services company with other North Yorkshire councils. The company is part owned by the council, which is represented on the board of directors by the s151 officer.

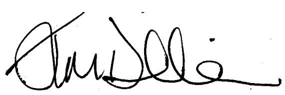
SUMMARY

The governance framework operating during 2011/12 is considered to have provided reasonable and objective assurance that significant risks impacting on the achievement of the Council's principal objectives would be identified and actions taken to avoid or mitigate their impact.

There is always a need to continually review and improve control systems, and further improvements have been identified for the coming year.

SIGNATURES

We, the undersigned, are satisfied that to the best of our knowledge and competence, the results of the review of the effectiveness of the governance framework, and its system of internal control by the relevant officers and the plans to address weaknesses and provide improvements to the control systems are in place.



J.Dillon
Chief Executive

Cllr T.Fox
Leader of the Council

Comprehensive Income & Expenditure Statement 2011/12

2010 / 11 (Restated) Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	2011 / 12 Gross Expenditure £000	Gross Income £000	Net Expenditure £000
14,829	(13,632)	1,197	Central Services to the Public		13,655	(13,010)	645
12,186	(4,322)	7,864	Cultural and Related Services		11,252	(4,838)	6,414
15,031	(5,711)	9,320	Environmental and Regulatory Services		14,794	(5,849)	8,945
3,560	(1,758)	1,802	Planning Services		3,503	(1,458)	2,045
12,427	(13,567)	(1,140)	Highways and Transport Services		5,236	(8,017)	(2,781)
39,157	(38,839)	318	Housing Services		40,960	(39,880)	1,080
3,961	(345)	3,616	Corporate and Democratic Core		4,113	(86)	4,027
(8,803)	-	(8,803)	Exceptional Retirement Benefit Past Service Gain		-	-	-
385	(192)	193	Non Distributed Costs		2,489	(32)	2,457
92,733	**(78,366)**	**14,367**	**Cost of Services**		**96,002**	**(73,170)**	**22,832**
696	(385)	311	Other Operating Expenditure	5	735	(3,315)	(2,580)
3,388	(3,597)	(209)	(Surplus)/Deficit on Trading Undertakings	6	4,464	(4,201)	263
4,040	(254)	3,786	Finance and Investment Income and Expenditure	7	2,889	(352)	2,537
-	(26,790)	(26,790)	Taxation and Non-Specific Grant Incomes	8	-	(21,033)	(21,033)
		(8,535)	**(Surplus) or Deficit on Provision of Services**				**2,019**
		(4,902)	(Surplus) or deficit on the revaluation of Property, Plant and Equipment	26a			(10,843)
		(10,562)	Actuarial (gains) / losses on pension assets / liabilities	22			8,929
		(15,464)	**Other Comprehensive Income and Expenditure**				(1,914)
		(23,999)	**Total Comprehensive Income and Expenditure**				**105**

£000	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
Balance at 31 March 2011	2,267	18,188	-	1,438	**21,893**	117,604	**139,497**
Movement in Reserves during 2011/12							
Surplus or (deficit) on the provision of services	(2,019)	-	-	-	**(2,019)**	-	**(2,019)**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	1,914	**1,914**
Total Comprehensive Income and Expenditure	(2,019)	-	-	-	**(2,019)**	1,914	**(105)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	1,516	-	1	(428)	**1,089**	(1,089)	**-**
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(503)	-	1	(428)	**(930)**	825	**(105)**
Transfers to / from Earmarked Reserves (Note 10)	935	(935)	-	-	**-**	-	**-**
Increase / (Decrease) in Year	432	(935)	1	(428)	**(930)**	825	**(105)**
Balance at 31 March 2012 carried forward	2,699	17,253	1	1,010	**20,963**	118,429	**139,392**

(Restated) £000	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
Balance at 31 March 2010	1,967	15,609	-	1,186	**18,762**	96,736	**115,498**
Movement in Reserves during 2010/11							
Surplus or (deficit) on the provision of services	8,535	-	-	-	**8,535**	-	**8,535**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	15,464	**15,464**
Total Comprehensive Income and Expenditure	8,535	-	-	-	**8,535**	15,464	**23,999**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(5,656)	-	-	252	**(5,404)**	5,404	**-**
Net Increase / (Decrease) before Transfers to Earmarked Reserves	2,879	-	-	252	**3,131**	20,868	**23,999**
Transfers to / from Earmarked Reserves (Note 10)	(2,579)	2,579	-	-	**-**	-	**-**
Increase / (Decrease) in Year	300	2,579	-	252	**3,131**	20,868	**23,999**
Balance at 31 March 2011 carried forward	2,267	18,188	-	1,438	**21,893**	117,604	**139,497**

Balance Sheet 2011/12

1 April 2010 £000	31 March 2011 (Restated) £000				31 March 2012 £000
183,766	190,684	Property, Plant and Equipment	Note 11	198,773	
4,163	4,163	Heritage Assets	Note 12	4,253	
1,555	1,466	Investment Property	Note 13	1,222	
1,096	1,006	Intangible Assets	Note 14	857	
64	64	Long Term Investments	Note 16	71	
12,480	3,545	Long Term Debtors	Note 16	1,476	
203,124	**200,928**	**Long Term Assets**			**206,652**
-	1,009	Short Term Investments	Note 16	6,007	
268	268	Assets Held for Sale	Note 15	1,398	
557	493	Inventories and Work in Progress	Note 17	337	
13,980	10,137	Short Term Debtors	Note 18	6,088	
2,694	3,028	Cash and Cash Equivalents	Note 19	3,617	
17,499	**14,935**	**Current Assets**			**17,447**
(2,537)	(8)	Short Term Borrowings	Note 16	(8)	
(7,434)	(6,147)	Short Term Creditors	Note 20	(5,819)	
(410)	(392)	Provision for Accumulated Absences	Note 26	(359)	
(211)	(73)	Short Term Provisions	Note 21	(36)	
(10,592)	**(6,620)**	**Current Liabilities**			**(6,222)**
(1,029)	(999)	Long Term Creditors	Note 16	(967)	
(78)	(40)	Long Term Provisions	Note 21	(4)	
(4,084)	(4,083)	Long Term Borrowings	Note 16	(4,082)	
(78,601)	(62,658)	Liability Related to Defined Benefit Pension Scheme	Note 22	(73,424)	
(12)	(11)	Deferred Liabilities	Note 23	(8)	
(10,729)	(1,955)	Other Long Term Liabilities	Note 24	-	
(94,533)	**(69,746)**	**Long Term Liabilities**			**(78,485)**
115,498	**139,497**	**Net Assets**			**139,392**
18,762	21,893	Usable Reserves			20,963
96,736	117,604	Unusable Reserves	Note 26		118,429
115,498	**139,497**	**Total Reserves**			**139,392**

We certify that the Balance Sheet and related accounts represents a true and fair view of Scarborough Borough Council as at 31 March 2012 and its income and expenditure for the year ending 31 March 2012.

Nicholas Edwards

Nick Edwards C.P.F.A
Head of Finance and Asset Management
25 September 2012

Councillor Andrew Backhouse
Chairperson of the Audit Committee
25 September 2012

2010/11 (Restated) £000		2011/12 £000
(8,535)	Net (surplus) or deficit on the provision of services	2,019
1	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(11,204)
6,406	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,306
(2,128)	Net cash flows from Operating Activities (Note 28)	(2,879)
226	Investing Activities (Note 29)	2,166
1,568	Financing Activities (Note 30)	124
(334)	Net (increase) or decrease in cash and cash equivalents	(589)
2,694	Cash and cash equivalents at the beginning of the reporting period	3,028
3,028	Cash and cash equivalents at the end of the reporting period (Note 19)	3,617

1 ACCOUNTING POLICIES

a) INTRODUCTION

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position as at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2010/11, supported by International Reporting Standards (IFRS).

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

b) REVENUE RECOGNITION

The authority accounts for revenue recognition in accordance with IAS 18 Revenue and IPSAS 23 Revenue for Non-Exchange transactions (Taxes and Transfers) except where interpretations or adaptations to fit the public sector are detailed in the Code.

The accounting policy does not apply to revenue arising from lease arrangements (see separate accounting policy on leases).

Revenue, except that for a financial asset, is measured at the fair value of the consideration received or receivable.

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

Sale of Goods

Revenue in relation to the sale of goods is recognised by the authority when the following has been satisfied:

- the authority transfers the significant risks and rewards of ownership of the goods to the purchaser;
- the authority retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the authority can measure the amount of revenue reliably;
- it is possible that the economic benefits or service potential associated with the transaction will flow to the authority; and
- the authority can measure the costs incurred or to be incurred in respect of the transaction.

Provision of Services

When the outcome of a transaction involving the provision of services can be estimated reliably by the authority, revenue associated with the transaction is recognised by reference to the percentage of completion method at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the authority can measure the amount of revenue reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the authority;
- the percentage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Supplies

Supplies are recorded as expenditure when they are consumed. Where there is gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses

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

In relation to interest receivable and payable, revenue is recongised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- the authority can measure the amount of the revenue reliably.

Subject to the recognition criteria above being met, interest is recognised 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.

Non-Exchange Transactions

In a non exchange transaction, the authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue in relation to non exchange transactions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- the authority can measure the amount of the revenue reliably.

Accruals of Income and Expenditure

In circumstances where the consideration has been received but the revenue does not meet the recognition criteria described above, the authority recognises a creditor (i.e. receipt in advance) in respect of that inflow of resources. On satisfying the recognition criteria, revenue is recognised equal to the reduction of the carrying amount of the liability.

In circumstances where revenue meets the recognition criteria described above but the consideration has not been received, the authority recognises a debtor in respect of that inflow of resources (see accounting policy on debtors).

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an impairment of financial asset (see accounting policy for financial instruments).

c) ACCRUALS OF INCOME & 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 Authority 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 Authority.

- Revenue from the provision of services is recognised when the Authority 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 Authority.

- 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 for by employees) are recorded as expenditure when the services are received rather than when payments are made. Specifically; services provided by employees are accounted for in accordance with IAS 19 and accruals are made in relation to short term accumulating compensated absences

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

- Where 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

d) CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty or notice within 24 hours. Cash equivalents are investments that mature overnight or deposits that are held within call accounts.

In the cashflow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management

e) EXCEPTIONAL ITEMS

When items of income or 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 pf the Authority's performance.

f) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICY 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, ie 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 Authority's financial position or financial performance. When a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

g) 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 Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. There is, however, a statutory duty (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008) to make a prudent annual revenue contribution for capital expenditure financed by borrowing (whether external or internal). The Regulations explain that the aim of prudent provision is to ensure that resources are set aside for debt repayment either over a period commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, with the period implicit in the determination of grant i.e. 25 years.

The Authority approved the continued use of the regulatory method to calculate the provision for 2010/11, (Financial Strategy – Annual Statement on Minimum Revenue Provision, approved by Council 26 February 2010).

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

h) EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

The liabilities of the scheme attributable to the Authority 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 such as mortality rates and employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 5.5%.

The assets of the scheme attributable to the Authority 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 pension's liability in the year is analysed into seven components:

- Current Service Cost – the increase in liabilities as a result of service earned this year. This is allocated to 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. This is debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account 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. This is 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 Authority, based on an average of the expected long term return. This is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Gains or Losses on Settlement and Curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees. These are debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account as part of Non Distributed Costs.

- Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited to the Pensions Reserve.

- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; 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 Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact on 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.

i) EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

j) FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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.

This means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow that for premiums, the loss can be charged immediately to the General Fund Balance if the authority so determines and the Authority has applied this option. For discounts, the Authority has applied the option to write the amounts off to the General Fund Balance over the minimum ten year period, set out in the regulations.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available for Sale Assets – assets that have quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority 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 of the Comprehensive income and Expenditure Statement for the interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principle (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 is 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 cash flows discounted at the asset's original effective interest rate.

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

Available for Sale Assets

Available for Sale Assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

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

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principle repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited to debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

Instruments entered into before 1 April 2006

Where the Authority entered into financial guarantees prior to 1 April 2006 the transactions are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions may be required or a contingent liability note is required under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

k) 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 Authority when there is reasonable assurance that:

- the Authority 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 contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

I) HERITAGE ASSETS

The Authority's Heritage Assets are held both within local museums and around the Borough of Scarborough. Assets are classified into four sections and are held for their primary purpose of increasing the knowledge, understanding and appreciation of the areas heritage. Heritage assets are recognised and measured in accordance with the Authority's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as detailed below.

Art Collections

The art collection includes paintings (both oil and watercolour) and sketches and is reported in the Balance Sheet at market value. Valuations of the Authority's most valuable works are carried out by an external valuer. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from the sales auctions.

The Council already had valuations for the most prestigious items within the collection and all art with values in excess of £20,000 had been valued. Due to the cost involved, the Council has not instructed a valuation on the rest of the collection and therefore an implied de-minimis of £20,000 exists.

Monuments, Statues and Sculptures

The monuments, statues and sculptures are reported in the Balance Sheet at either cost or valuation. Assets classified as monuments, statues and sculptures are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost, while donations are recognised at cost where the information is available. Donations, where information on cost is not readily available, are valued at market value with valuations provided by external valuers with reference to appropriate commercial markets where relevant.

Museum Pieces

The museum pieces are reported in the Balance Sheet at market value. Assets classified as museum pieces are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets.

Heritage Assets - General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, i.e. physical deterioration, breakage, or doubts as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. The Authority has no intention of disposing of any of its Heritage Assets and therefore has no separate disposal policy.

m) INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Authority.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life (between 3 and 100 years) 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 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.

A de-minimis level of £10,000 has been adopted for determination of expenditure on intangible fixed assets.

n) INVENTORIES AND LONG TERM CONTRACTS

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

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

o) INVESTMENT PROPERTY

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

p) LEASES

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

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

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

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority 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 or Equipment recognised under a finance lease is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority 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.

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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 charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

q) OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11. The total absorption costing principle is used – the full cost – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multi-functional democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

r) PROPERTY, PLANT AND EQUIPMENT

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment, in excess of £10,000, is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie 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 Authority 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 Authority). 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 Authority.

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

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

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

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

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

Assets included in the Balance Sheet at fair value are 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. Periodic revaluations are carried out as at 1 April each year. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are account 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.

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 is recognised for the shortfall.

Where impairment losses are identifiable, 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 line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on a straight line basis over the following periods:

Infrastructure	15 - 40 years
Operational Buildings	40 years
Mobile Plant	5 - 25 years
Motor Vehicles	3 - 10 years

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 only occurs where the asset is valued at more than £1m and where the value of the individual items (or group of items), based on useful economic life, is in excess of 20% of the total value of the asset.

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

Heritage Assets are not depreciated but are instead impaired where there is evidence of physical deterioration, breakage occurs or where doubts arise as to its authenticity.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

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

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

s) DEBTORS

The authority accounts for debtors in accordance with IAS 18 Revenue IPSAS 23 Revenue from Non Exchange Transactions (Taxes and Transfers) and IAS 39 Financial Instruments: Recognition and Measurement, except where interpretations or adaptations to fit the public sector are detailed in the Code.

The accounting policy should be read in conjunction with the accounting policies for Revenue Recognition and Financial Instruments.

Debtors are recognised when ordered goods or services have been delivered or rendered by the authority.

Debtors are recognised and measured at the fair value of the consideration receivable (typically in the form of cash and cash equivalents) when revenue has been recognised (see accounting policy on Revenue Recognition) except for a financial asset (see accounting policy on financial instruments).

Financial assets relating to such things as council tax, general rates etc are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions (see accounting policy for financial instruments.

If payment to the authority is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in the Surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement.

In the event that consideration has been paid in advance of the receipt of goods or services, the authority recognises a debtor (ie payment in advance)in respect of the outflow of resources.

t) CREDITORS

The authority accounts for creditors in accordance with IAS 18 Revenue, IPSAS 23 Revenue from Non Exchange Transactions (Taxes and Transfers) and IAS39 Financial Instruments: Recognition and Measurement, except where interpretations or adaptations to fit the public sector are detailed in the Code.

The accounting policy should be read in conjunction with the accounting policies for Revenue Recognition and Financial Instruments.

Creditors are recognised when ordered goods or services have been delivered or rendered to the authority.

Creditors are recognised and measured at the fair value of the consideration payable (typically in the form of cash and cash equivalents) except for financial liability (see accounting policy on financial instruments).

Financial liabilities relating to such things as council tax, general rates etc are measured at the full amount payable as they are non contractual, non-exchange transactions (see accounting policy on financial instruments).

If payment by the authority is on deferred terms (ie beyond normal credit terms), the consideration payable is recognised initially at the cash price equivalent (that is the discounted amount). The difference between this amount and the total payments is recognised as interest expense in the surplus or Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement.

In the event that consideration is received but the revenue does not meet the revenue recognition criteria (see accounting policy on revenue recognition) the authority recognises a creditor (ie receipt in advance) in respect of that inflow of resources.

u) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation..

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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 (eg 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 authority settles the obligation.

Where the time value of money is deemed to be significant, provisions will be measured at present value.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority 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 authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

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

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

v) RESERVE

The Authority 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 of 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 Authority – these reserves are explained in the relevant policies.

w) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but 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. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

x) BORROWING COSTS IN RELATION TO ASSETS

The authority accounts for borrowing costs in accordance with IAS 23 Borrowing Costs except where interpretations or adaptations to fit the public sector are detailed in the Code.

The authority recognises all borrowing costs in respect of qualifying assets as an expense in the period in which they are incurred; they are included in Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

y) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income. At the year end any amounts outstanding are represented by a debtor or creditor on the Balance Sheet.

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets), which will need to be adopted fully by the authority in the 2012/13 financial statements.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted, in this case, Financial Instruments. As is set out above, full adoption of the standard will be required for the 2012/13 financial statements when, if applicable, the changes will be fully disclosed in the Authority's Statement of Accounts.

It is currently envisaged that this change will have no effect on the Authority and therefore no disclosure will be required within the Statement of Accounts..

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

- Assets held for sale – The Code gives strict criteria which have to be met before assets can be classified as 'held for sale'. At 31 March 2012 the Council had entered into negotiations to dispose of a Depot site. Whilst it is likely that this site will be disposed of it does not meet the criteria of 'Assets Held for Sale' and therefore is categorised within Property, Plant and Equipment.

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

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

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

Items	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments 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 Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance; • a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2,510k • a 0.1% per annum inflation increase would result in an increase in the pension liability of £2,557k. • a 1 year increase to members; life expectancy would increase the pension liability by £3,072k The assumptions do, however, interact in complex ways and it is unlikely that the assumptions would change in isolation.

Arrears	At 31 March 2012, the Authority had a balance of sundry debtors of £4,679k. £1,710k of bad debt provision has been provided against these balances. In the current economic climate it is not certain that such allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment would require an additional £1,710k to set aside as an allowance
Property Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset fall. It is estimated that the annual depreciation charge for property, plant and equipment would increase by £255k if the useful lives of each of the assets was reduced by one year.

5 OTHER OPERATING EXPENDITURE

2010/11 £000		2011/12 £000
694	Parish Council Precepts	708
-	Levies	22
2	Payments to the Government Housing Capital Receipts Pool	5
(385)	Gains / losses on the disposal of non-current assets	(3,315)
311	**Total**	**(2,580)**

Payments to the Government Housing Capital Receipts Pool; the Government has introduced legislation that requires a proportion of mortgage repayments relating to previous housing disposals to be paid into a Government Housing Pot. The amount is reversed out of the General Fund Balance via the Movement in Reserves Statement to reflect that the amount will be met from capital receipts rather than revenue reserves.

The Gains / losses on the disposal of non-current assets includes £3.07m received in relation to Phase 1a of the Sands Development. Additional information on this receipt is included within Note 47 – The Sands Development Agreement

6 TRADING OPERATIONS

The Council has established 4 trading units where service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the Authority or other organisations.

The Property Services and Rentals and Catering Units generate income from external sources and therefore the results for the year are disclosed under Trading Operations. The remaining unit is an Internal Trading Organisation (ITO), generating the majority of its income from internal recharges; therefore any net surplus or loss is reallocated to services in accordance with the Best Value Code of Accounting Practice.

The following tables show the results for all Trading Organisations and the reallocation of the ITO surplus.

External Trading Organisations	2010/11	2011/12
Property Rentals		
Turnover	(995)	(1,026)
Expenditure	742	1,329
(Surplus) / Deficit	(253)	303
Property Services		
Turnover	(1,235)	(1,833)
Expenditure	1,344	1,894
(Surplus) / Deficit	109	61
Catering		
Turnover	(1,367)	(1,342)
Expenditure	1,302	1,241
(Surplus) / Deficit	(65)	(101)
Total External Trading Organisations		
Turnover	(3,597)	(4,201)
Expenditure	3,388	4,464
Total (Surplus) / Deficit	**(209)**	**263**

Internal Trading Organisations	2010/11	2011/12
Highways		
Turnover	(4,106)	4
Expenditure	3,981	36
(Surplus) / Deficit	(125)	40
Reallocated to:		
Net Cost of Services	(125)	(40)

The Highways Agency Contract was terminated with effect from 31 March 2011. The information included in the above table for the current year relates to residual transactions being incurred after the cessation of the contract.

7 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2010/11 £000		2011/12 £000
263	Interest payable and similar charges (including interest payable on lessee payments)	219
3,777	Pension interest cost and expected return on pensions assets	2,670
(159)	Interest receivable and similar income (including interest receivable on lessee payments)	(181)
(95)	Income and expenditure in relation to investment properties and changes in their fair value	(171)
3,786	**Total**	**2,537**

8 TAXATION AND NON SPECIFIC GRANT INCOMES

2010/11 £000		2011/12 £000
9,453	Council tax income	9,477
10,917	Non domestic rates	6,841
	Non-ring fenced government grants;	
1,585	Revenue Support Grant	2,115
-	New Homes Bonus	29
-	Council Tax Freeze Grant	219
93	Area Based Grant	-
4,742	Capital grants and contributions	2,352
26,790	**Total**	21,033

9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2011 / 2012	Useable Reserves (£000)			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Useable Reserves
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	5,220			5,220
Revaluation losses on Property Plant and Equipment	1,122			1,122
Movements in the market value of Investment Properties	(109)			(109)
Amortisation of intangible assets	241			241
Capital grants and contributions applied	(3,103)			(3,103)
Revenue expenditure funded from capital under statute	730			730
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	336			336
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(621)			(621)
Capital expenditure charged against the General Fund balance	(502)			(502)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(10)		10	-
Application of grants to capital financing transferred to the Capital Adjustment Account			(350)	(350)
Utilisation of grants previously treated as Capital Grants Unapplied to Revenue Schemes	88		(88)	-
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,651)	3,656		5
Use of the Capital Receipts Reserve to finance new capital expenditure		(913)		(913)
Use of the Capital Receipts Reserve to repay borrowing		(2,939)		(2,939)

Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	5	(5)		-
Gains on VAT Sharing Agreement	(202)	202		-
Adjustments primarily involving the Deferred Capital Receipts Reserve				
Transfer of the sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	109			109
Adjustment primarily involving the Financial Instruments Adjustment Account				
Amount by which the costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	50			50
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	5,192			5,192
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,355)			(3,355)
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 calculated for the year in accordance with statutory requirements	9			9
Adjustment primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(33)			(33)
Total Adjustments	**1,516**	**1**	**(428)**	**1,089**

2010 / 2011	Useable Reserves (£000)			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Useable Reserves
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	5,876			5,876
Revaluation losses on Property Plant and Equipment	(344)			(344)
Movements in the market value of Investment Properties	(21)			(21)
Amortisation of intangible assets	204			204
Capital grants and contributions applied	(5,145)			(5,145)
Revenue expenditure funded from capital under statute	1,115			1,115
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	188			188
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(546)			(546)
Capital expenditure charged against the General Fund balance	(14)			(14)
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(358)		358	
Application of grants to capital financing transferred to the Capital Adjustment Account			(106)	(106)
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	(650)	652		2
Use of the Capital Receipts Reserve to finance new capital expenditure		(1,432)		(1,432)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	2	(2)		0
Gains on VAT Sharing Agreement	(782)	782		0

Adjustments primarily involving the Deferred Capital Receipts Reserve Transfer of the sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	158			158
Adjustment primarily involving the Financial Instruments Adjustment Account Amount by which the costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	50			50
Adjustments primarily involving the Pensions Reserve Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(2,196)			(2,196)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,185)			(3,185)
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 calculated for the year in accordance with statutory requirements	10			10
Adjustment primarily involving the Accumulated Absences Account Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(18)			(18)
Total Adjustments	(5,656)	0	252	(5,404)

10 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 amounts posted back from earmarked reserves to meet General Fund expenditure.

Earmarked Reserves	Balance at 1-Apr-11 £000	Transfers (to) / from General Fund £000	Transfers between Reserves £000	Balance at 31-Mar-12 £000
Insurance Reserve	1,629	199	40	1,868
Capital Contingency Reserve	911	150	(288)	773
Pension Reserve	1,338	(386)	-	952
Repairs & Renewals	392	33	3	428
Capital Development Reserve	4,381	(344)	857	4,894
Value for Money Reserve	343	5	(343)	5
Service Investment	7,410	(513)	(128)	6,769
Revenue Development Reserve	118	(24)	(41)	53
Section 106 Reserve	1,039	77	(85)	1,031
Commuted Sums	140	(2)	-	138
Other	487	(130)	(15)	342
Total Earmarked Reserves	**18,188**	**(935)**	**-**	**17,253**

Earmarked Reserves	Balance at 1-Apr-10 £000	Transfers (to) / from General Fund £000	Transfers between Reserves £000	Balance at 31-Mar-11 £000
Insurance Reserve	1,636	95	(102)	1,629
Capital Contingency Reserve	883	152	(124)	911
Pension Reserve	256	782	300	1,338
Repairs & Renewals	321	71	-	392
Capital Development Reserve	3,309	952	120	4,381
Value for Money Reserve	303	47	(7)	343
Service Investment	7,743	(71)	(262)	7,410
Revenue Development Reserve	98	(109)	129	118
Section 106 Reserve	419	620	-	1,039
Commuted Sums	139	1	-	140
Other	502	39	(54)	487
Total Earmarked Reserves	**15,609**	**2,579**	**-**	**18,188**

The purposes of the main reserves are:

- **The Insurance Reserve** covers risks which are by their nature difficult to insure such as cliff slippage and certain storm damage, and risks which are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses.
- **The Capital Contingency Reserve** provides funding support to mitigate the potential risks in relation to unforeseen costs that the Council may incur during the implementation of projects and also provides funds for small-scale projects and feasibility studies.
- **The Pensions Reserve** is used to meet the costs associated with the added year's element of employees' pensions and redundancy costs upon the termination of employees contracts of employment..
- **The Repairs and Renewals Reserve** represents earmarked amounts for the repair and renewal of specific items of equipment in future years.
- **The Capital Development Reserve** consolidates capital resources with the intention of investing monies into priority areas in a planned and phased approach. In addition to this Reserve, Usable Capital Receipts, which are required to be brought to account as a separate item, are also available for capital investment.
- **The Value for Money Reserve** provides a resource to support the efficiency agenda, improve performance and creates opportunities to lever in external funding.
- **The Service Investment Reserve** primarily relates to accumulated under spending that has been carried over to support known future operational requirements.
- **The Revenue Development Reserve** was established to provide a flexible resource to fund new, small, one off items. This allows the Council to adopt a proactive approach to areas requiring immediate action, without the need to find compensating revenue savings.
- **The Section 106 Reserve** collects receipts that the Borough Council has received from developers as a result of the granting of planning permission. These monies relate to maintenance costs, or new facilities that need to be provided, as a result of the granting of that permission (eg requiring the developer to provide funding to create a play area or open space). The agreements specify that the funds are to be used within a specific period or else will be returned.

11 PROPERTY, PLANT AND EQUIPMENT

The Balance Sheet records the value of fixed assets, i.e. assets giving benefit to the Council or the services it provides for a period of more than one year. Tangible fixed assets, that is, assets with physical substance, are sub-divided between Property, Plant and Equipment, Investment Properties and Assets held for Sale. The change in value of fixed assets on the Balance Sheet results from:

- capital investment each year on the acquisition, creation or enhancement of fixed assets. Enhancement refers either to the value of an asset or the use to which it can be put. This distinguishes capital investment from expenditure on routine repairs and maintenance, which is charged direct to service revenue accounts.
- the value of assets disposed of during the year
- revaluation or impairment of assets required to be carried at current value, and the depreciation of assets.

The following tables set out the change in value of each category of fixed asset shown in the Balance Sheet. Whilst the Authority has Community Assets these have a total value of less than £1,000 and therefore no separate heading has been included in the tables below for these assets.

Movement in 2011 / 2012	**Land & Buildings £000**	**Vehicles, Plant & Equipment £000**	**Infra-structure Assets £000**	**Assets Under Construction £000**	**Total £000**
Cost or Valuation					
At 1 April 2011	**112,654**	**16,441**	**87,516**	**7,001**	**223,612**
Additions	401	465	354	3,627	4,847
Revaluation increases/(decreases) recognised in Revaluation Reserve	9,143				9,143
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(1,064)				(1,064)
Category Transfers	1,302	(828)	238	(181)	531
Derecognition - disposals	(82)	(398)			(480)
Assets classified (to)/from Held for Sale	(1,456)				(1,456)
At 31 March 2012	**120,898**	**15,680**	**88,108**	**10,447**	**235,133**
Accumulated Depreciation and Impairment					
At 1 April 2011	(5,953)	(9,341)	(17,634)	-	(32,928)
Depreciation Charge	(1,731)	(1,282)	(2,214)		(5,227)
Depreciation written out to the Revaluation Reserve	1,778				1,778
Impairment losses/(reversals) recognised in the Revaluation Reserve	(223)				(223)
Impairment losses / (reversals) recognised in the Surplus / Deficit on Provision of Services	7				7
Derecognition – disposals	1	232			233
At 31 March 20112	**(6,121)**	**(10,391)**	**(19,848)**	**-**	**(36,360)**

Net Book Value					
At 31 March 2012	114,777	5,289	68,260	10,447	198,773
At 31 March 2011	106,701	7,100	69,882	7,001	190,684

Comparative Movement in 2010 / 2011	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Assets Under Construction £000	Total £000
Cost or Valuation					
At 1 April 2010	**104,973**	**14,754**	**86,554**	**4,494**	**210,775**
Additions	393	531	182	6,526	7,632
Revaluation increases / (decreases) recognised in Revaluation Reserve	4,938	-	-	-	4,938
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	344	-	-	-	344
Category Transfers	2,070	1,169	780	(4,019)	-
Derecognition - disposals	(50)	(13)	-	-	(63)
Assets classified (to)/from Held for Sale	(15)	-	-	-	(15)
At 31 March 2011	**112,654**	**16,441**	**87,516**	**7,001**	**223,612**
Accumulated Depreciation and Impairment					
At 1 April 2010	(3,747)	(7,818)	(15,444)	-	(27,009)
Depreciation Charge	(1,519)	(1,523)	(2,190)	-	(5,232)
Impairment losses/(reversals) recognised in the Revaluation Reserve	(42)	-	-	-	(42)
Impairment losses / (reversals) recognised in the Surplus / Deficit on Provision of Services	(645)	-	-	-	(645)
At 31 March 2011	**(5,953)**	**(9,341)**	**(17,634)**	**-**	**(32,928)**

Net Book Value					
At 31 March 2011	106,701	7,100	69,882	7,001	190,684
At 31 March 2010	101,226	6,936	71,110	4,494	183,766

During 2010/11 the Open Air Theatre, with a book value of £3,228k, was transferred from Assets Under Construction to Buildings. There is no open market for open air theatres and, in line with the accounting policy, this transfer was made at cost. The asset will be revalued, by the valuer, when sufficient information becomes available for the venue to be valued based upon takings.

Capital Commitments

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years. The budgeted value of the works to be completed under the most significant of these contracts is £752k. Similar commitments at 31 March 2011 were £2,360k. The major commitments are:

	£000
Cell 1 Strategic Coastal Monitoring	752
Total	**752**

Revaluations

The Authority carried 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. All valuations were carried out internally by the Council's Principle Valuer who is a qualified member of the Royal Institute of Chartered Surveyors (RICS). 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 RICS.

The significant assumptions applied in estimating the fair values are:

- Specialist properties where no open market exists are valued on a Discounted Replacement Cost Basis
- Land and Buildings fair value is interpreted as its value in existing use.

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Carried at historical cost	-	15,349	15,349
Values at fair value as at:			
31 March 2012	57,449	-	57,449
31 March 2011	24,287	331	24,618
31 March 2010	10,928	-	10,928
31 March 2009	15,893	-	15,893
31 March 2008	12,341	-	12,341
Total Cost or Valuation	**120,898**	**15,680**	**136,578**

12 HERITAGE ASSETS

Heritage assets are those assets which have historical, artistic, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

The Authority recognises heritage assets where it holds information on the cost or value of the heritage asset. Heritage assets include assets both purchased by and donated to the Authority.

Movements in 2011 / 2012	Art Collections £000	Monuments, Statues and Sculptures £000	Museum Pieces £000	Other £000	Total £000
Cost or Valuation					
As at 1 April 2011	**3,220**	**54**	**270**	**619**	**4,163**
Donations	-	90	-	-	90
At 31 March 2012	**3,220**	**144**	**270**	**619**	**4,253**
Accumulated Depreciation and Impairment					
At 1 April 2011	-	-	-	-	-
Depreciation Charge	-	-	-	-	-
At 31 March 2012	**-**	**-**	**-**	**-**	**-**

Net Book Value					
31 March 2012					
Assets measured at cost	-	144	-	62	206
Assets measured at valuation	3,220	-	270	557	4,047
	3,220	**144**	**270**	**619**	**4,253**
31 March 2011					
Assets measured at cost	-	54	-	62	116
Assets measured at valuation	3,220	-	270	557	4,047
	3,220	54	270	619	**4,163**

Movements in 2010 / 2011	**Art Collections £000**	**Monuments, Statues and Sculptures £000**	**Museum Pieces £000**	**Other £000**	**Total £000**
Cost or Valuation					
As at 1 April 2010	**3,220**	**54**	**270**	**619**	**4,163**
Donations	-	-	-	-	-
At 31 March 2011	**3,220**	**54**	**270**	**619**	**4,163**
Accumulated Depreciation and Impairment					
At 1 April 2010	-	-	-	-	-
Depreciation Charge	-	-	-	-	-
At 31 March 2011	**-**	**-**	**-**	**-**	**-**

Net Book Value					
31 March 2011					
Assets measured at cost	-	54	-	62	116
Assets measured at valuation	3,220	-	270	557	4,047
	3,220	**54**	**270**	**619**	**4,163**
31 March 2010					
Assets measured at cost	-	54	-	62	116
Assets measured at valuation	3,220	-	270	557	4,047
	3,220	**54**	**270**	**619**	**4,163**

It is not practical for the Authority to provide information on Heritage Assets prior to 1 April 2010 and therefore no disclosures have been provided.

The majority of the collections are on display however at times some of the assets are held in storage. Access is permitted to scholars and others for research purposes.

Where assets are held at valuation, the valuations are carried out by an independent specialist valuer external to the organisation. The latest valuations were carried out during April 2010.

The Authority has not recognised assets where details of the cost or valuation are not available and the cost of obtaining the information is deemed not commensurate with the benefits to users of the financial statements.

Heritage assets not reported in the balance sheet include:

- Queen Victoria Statue donated in 1903 made of bronze
- Captain Cook Statue donated in 1912 made of bronze
- Vellum scroll book detailing the Freeman of the Borough
- Oliver Mount War Memorial
- George V Memorial Clock Tower donated in 1911

13 INVESTMENT PROPERTY

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

	2010/11 £000	2011/12 £000
Rental Income from investment property	84	87
Direct operating expenses arising from investment property	(10)	(25)
Net gain/(loss)	74	62

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

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

	2010/11 £000	2011/12 £000
Balance at start of year	1,555	1,466
Disposals	(110)	(89)
Net gains / (losses) from fair value adjustments	21	109
Category Transfers	-	(264)
Assets classified (to) / from Available for Sale	-	-
Balance at end of the year	1,466	1,222

Investment property valuations are carried out internally, every year, by the Council's Principle Valuer who is a qualified member of the Royal Institute of Chartered Surveyors (RICS).

14 INTANGIBLE ASSETS

The Authority recognises items of software, licenses and concessions as intangible assets. It 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. The intangible assets include both purchased licences and software.

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 Authority. The useful lives assigned to the major software suites used by the Authority are:

- Financial Asset Management System 5 Years
- General Software Licenses 5 Years
- Beneifts and Revenue Systems 5 years
- Way Leaves / Rights up to 10 years

The carrying amount of the intangible asset is amortised on a straight line basis. Amortisation of £155k charged to revenue in 2011/12 was charged to the IT Administration cost centre and then absorbed as an overhead across all service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. £86k was charged to the Property Trading Unit within Trading Undertakings and relates to way leaves and licences / rights for which the trading account receives the income.

	2010/11 £000	2011/12 £000
Balance at start of year		
Gross Carrying Amounts	1,877	1,991
Accumulated Amortisation	(781)	(985)
Net Carrying Amount at start of year	1,096	1,006
Additions	109	37
Revaluation increases/(decreases) recognised in Revaluation Reserve	5	55
Impairment losses recognised in the Surplus/Deficit on Provision of Services	-	-
Amortisation for the period	(204)	(241)
Category Transfers	-	-
Net carrying Amount at end of year	1,006	857
Comprising:		
Gross carrying amounts	1,991	2,083
Accumulated Amortisation	(985)	(1,226)
	1,006	857

15 ASSETS HELD FOR SALE

	2010/11 £000	2011/12 £000
Balance outstanding at start of year	268	268
Assets newly classified as held for sale		
Property, Plant and Equipment	15	1,456
Revaluation losses	-	(58)
Assets declassified as held for sale		
Property, Plant and Equipment	-	(268)
Assets Sold	(15)	-
Balance Outstanding at end of year	268	1,398

16 FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried in the Balance Sheet.

	Long Term			Current		
	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-10	31-Mar-11	31-Mar-12
	£000	£000	£000	£000	£000	£000
Investments						
Loans and Receivables	30	30	30	-	1,009	6,007
Available for Sale Financial Assets						
Conversion Stock	22	22	27	-	-	-
Other Miscellaneous	12	12	14	-	-	-
Total Investments	**64**	**64**	**71**	**-**	**1,009**	**6,007**
Debtors						
Loans and Receivables						
Mortgages	15	12	7	-	-	-
Development Agreement (note 24)	10,729	1,955	-	-	-	-
Finance Leases	1,736	1,578	1,469	-	-	-
Financial assets carried at contract amounts	-	-	-	10,009	7,209	3,934
Total Debtors	**12,480**	**3,545**	**1,476**	**10,009**	**7,209**	**3,934**
Borrowings						
Financial liabilities at amortised cost	(4,084)	(4,083)	(4,082)	(2,537)	(8)	(8)
Total Borrowings	**(4,084)**	**(4,083)**	**(4,082)**	**(2,537)**	**(8)**	**(8)**
Other Long Term Liabilities						
Financial liabilities carried at contract amount						
Development Agreement	(10,729)	(1,955)	-	-	-	-
Finance Lease Liabilities	(1,029)	(999)	(967)	-	-	-
Total Other Long Term Liabilities	**(11,758)**	**(2,954)**	**(967)**	**-**	**-**	**-**
Creditors						
Financial liabilities carried at contract amount	-	-	-	(7,000)	(5,456)	(3,578)
Total Creditors	**-**	**-**	**-**	**(7,000)**	**(5,640)**	**(3,578)**

2011 / 12	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total 2011 / 12 £000
Interest expense	177	-	-	177
Reductions in fair value	-	-	-	-
Total expense in surplus or deficit on the provision of services	**177**	**-**	**-**	**177**
Interest income	-	(73)	-	(73)
Increase in fair value	-	-	(7)	(7)
Total income in surplus or deficit on the provision of services	**-**	**(73)**	**(7)**	**(80)**
Net gain / (loss) for the year	**177**	**(73)**	**(7)**	**97**

2010 / 11	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total 2010 / 11 £000
Interest expense	220	-	-	220
Reductions in fair value	-	-	-	-
Total expense in surplus or deficit on the provision of services	**220**	**-**	**-**	**220**
Interest income	-	(60)	-	(60)
Increase in fair value	-	-	(1)	(1)
Total income in surplus or deficit on the provision of services	**-**	**(60)**	**(1)**	**(61)**
Net gain / (loss) for the year	**220**	**(60)**	**(1)**	**159**

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost.

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

- 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 value of Public Works Loan Board (PWLB) loans is calculated by reference to the 'premature repayment' set of rates in force on 31 March each year

The fair values calculated are as follows:

	31-Mar-10		31-Mar-11		31-Mar-12	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities						
Public Works Loan Board	(2,529)	(2,529)	-	-	-	-
Barclays LOBO	(4,092)	(4,065)	(4,091)	(4,414)	(4,090)	(4,158)
Other Long Term Liabilities						
Development Agreement	(10,729)	(10,729)	(1,955)	(1,955)	-	-
Finance Lease Liabilities	(1,029)	(1,029)	(999)	(999)	(967)	(967)
Creditors						
Financial liabilities carried at contract amount	(7,000)	(7,000)	(5,456)	(5,456)	(4,595)	(4,595)
Total	**(25,379)**	**(25,352)**	**(12,501)**	**(12,824)**	**(9,652)**	**(9,720)**

At 31 March 2012 the fair value of the LOBO is higher than the carrying amount because the effective interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders at a rate that is higher current market rates.

	31-Mar-10		31-Mar-11		31-Mar-12	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Investments						
Loans and Receivables	30	30	1,039	1,039	6,037	6,037
Available for Sale Financial Assets	34	34	34	34	41	41
Debtors						
Mortgages	15	15	12	12	7	7
Development Agreement	10,729	10,729	1,955	1,955	-	-
Finance Leases	1,736	1,736	1,578	1,578	1,469	1,469
Financial assets carried at contract amount	10,009	10,009	7,209	7,209	4,511	4,511
Total	**22,553**	**22,553**	**11,827**	**11,827**	**12,065**	**12,065**

Included within the Loans and Receivables outlined in the above table is a £30,000 investment in the North Yorkshire Building Control Partnership. This investment is carried at cost and has not been valued as a fair value cannot be measured reliably. There a no companies with similar aims in the authority's area whose shares are traded and which might provide comparable market data. The authority has no current intention to dispose of the shareholding.

Available for sale assets and assets and liabilities at fair value through profit and loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

17 INVENTORIES AND WORK IN PROGRESS

2011/12 £000	Work in Progress	Stocks and Stores			Total
		Trading Units	Catering	Other	
Balance outstanding at start of year	28	254	45	166	493
Purchases	4,612	394	446	325	5,777
Recognised as an expense in year	(4,640)	(516)	(457)	(320)	(5,933)
Balance outstanding at year end	**-**	**132**	**34**	**171**	**337**

2010/11 £000	Work in Progress	Stocks and Stores			Total
		Trading Units	Catering	Other	
Balance outstanding at start of year	71	340	46	100	557
Purchases	8,484	551	409	284	9,728
Recognised as an expense in year	(8,527)	(637)	(410)	(218)	(9,792)
Balance outstanding at year end	**28**	**254**	**45**	**166**	**493**

18 SHORT TERM DEBTORS

2009/10 £000	2010/11 £000		2011/12 £000
2,560	1,887	Central Government Bodies	1,211
3,429	2,995	Other Public Bodies (includes Local Authorities)	1,371
529	550	Local Tax Payers	537
8,684	6,002	Sundry Debtors	4,679
15,202	11,434	Total	7,798
(1,222)	(1,297)	Bad Debt Provision	(1,710)
13,980	**10,137**		**6,088**

19 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

2009/10 £000	2010/11 £000		2011/12 £000
40	42	Cash held by the Authority	87
131	572	Bank Current Accounts	1,110
2,523	2,414	Short-term Deposits with Banks	2,420
2,694	**3,028**	**Total**	**3,617**

The following table shows the breakdown of the Short-term Deposits with Banks and held as at 31 March each year by type, counterparty name and maturity date:

Counterparty Type	Counterparty Name	Country of Domicile	Maturity Date	Amount £'000
31 March 2012				
Banks	Santander UK	UK	Call Account	18
Banks	Natwest	UK	Call Account	2,400
Banks	Bank of Scotland	UK	Call Account	2
		Total as at 31 March 2012		**2,420**
31 March 2011				
Banks	Santander UK	UK	Call Account	12
Banks	Natwest	UK	Call Account	2,400
Banks	Bank of Scotland	UK	Call Account	2
		Total as at 31 March 2011		**2,414**
31 March 2010				
Banks	Santander UK	UK	Call Account	1,121
Banks	Natwest	UK	Call Account	1,400
Banks	Bank of Scotland	UK	Call Account	2
		Total as at 31 March 2010		**2,523**

20 SHORT TERM CREDITORS

2009/10 £000	2010/11 £000		2011/12 £000
		Creditors:	
(434)	(494)	HM Revenue & Customs	(416)
(1,229)	(826)	Central Government Bodies	(702)
(192)	(194)	Local Tax Payers	(299)
(4,084)	(3,098)	Sundry Creditors	(2,669)
(1,495)	(1,535)	Other Local Authorities	(1,733)
(7,434)	**(6,147)**	**Total**	**(5,819)**

21 PROVISIONS

2011/12	Concessionary Fares £000	Senior Management Restructure £000	Total £000
Balance as at 1 April 2011	34	79	113
Additional Provisions made in 2011/12	-	-	
Amounts used in 2011/12	(30)	(39)	(69)
Unused amounts reversed in 2011/12	(4)	-	(4)
Balance as at 31 March 2012	**-**	**40**	**40**
Of which:			
Current Liabilities	-	36	36
Long Term Liabilities	-	4	4
Total	**-**	**40**	**40**

2010/11	Concessionary Fares £000	Senior Management Restructure £000	Total £000
Balance as at 1 April 2010	172	117	289
Additional Provisions made in 2010/11	-	-	-
Amounts used in 2010/11	(101)	(38)	(139)
Unused amounts reversed in 2010/11	(37)	-	(37)
Balance as at 31 March 2011	**34**	**79**	**113**
Of which:			
Current Liabilities	34	39	73
Long Term Liabilities	-	40	40
Total	**34**	**79**	**113**

Concessionary Fares

Until 31 March 2011 the Council was responsible for paying a percentage reimbursement rate to concessionary fare operators for each passenger that boards a bus in the Borough, (responsibility has now transferred to North Yorkshire County Council). When the concessionary fares scheme was introduced it was agreed in principle that concessionary fares operators should be no worse or better off following the introduction of the scheme.

The concessionary fares scheme was administered on the Council's behalf by the North Yorkshire Concessionary Fares Partnership. During 2009/10 the partnership negotiated a reduction in the reimbursement rate paid to operators, and as a result operators claimed that they were worse off as a result. Where operators have demonstrated that this was the case the Council was obliged to reimburse them.

The last of these claims was settled during the year and therefore a provision is no longer required.

Senior Management Restructure

As part of its Corporate Efficiency Programme the Council undertook a review of its Senior Management Structure and as a result included £336,380 as a provision in the accounts for the year ended 31 March 2008.

This amount represented the full cost of redundancies and term pension payments that will become due as a result of the decision to restructure. £38,569 of this provision was released in 2011/12. The remaining £40,092 is payable in instalments over the following 2 financial years.

22 DISCLOSURE OF INFORMATION RELATING TO RETIREMENT BENEFITS

PARTICIPATION IN PENSION SCHEMES

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

The Authority participates in the Local Government Pension Scheme (LGPS), administered by North Yorkshire County Council. This is a funded defined benefit final salary scheme, where both the Authority and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with its assets.

TRANSACTIONS RELATING TO RETIREMENT BENEFITS

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Account and the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income & Expenditure Account

2010/11		2011/12 £000	
	Cost of Services:		
2,750	Current Service Cost	2,270	
(8,803)	Past Service Gain	-	
80	Curtailment	252	
(5,973)			2,522
	Financing and Investment Income and Expenditure:		
8,525	Interest Cost	7,810	
(4,748)	Expected Return on Scheme Assets	(5,140)	
3,777			2,670
(2,196)	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services		5,192
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
(10,562)	Actuarial (gains) and losses		8,929
(12,758)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		14,121

Movement in Reserves Statement

2010/11 £000		2011/12 £000
2,196	Reversal of Net Charges made to the surplus or deficit for the provision of Services for post employment benefits in accordance with the code	(5,192)
	Actual amounts charged against the General Fund Balance for pensions in the Year:	
3,185	- Employers Contributions Payable to the Scheme	3,355

The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £47.748m.

ASSETS AND LIABILITIES IN RELATION TO POST-EMPLOYMENT BENEFITS

Reconciliation of Present Value of the Scheme Liabilities

	2010/11 £000s	2011/12 £000s
Balance as at 1 April	(152,388)	(143,332)
Current Service Cost	(2,750)	(2,270)
Interest Cost	(8,525)	(7,810)
Contributions by Scheme Participants	(942)	(840)
Past Service Gain	8,803	-
Actuarial Gain / (Losses) on Liabilities	8,555	(4,992)
Curtailments	(80)	(252)
Benefits / Transfers paid	3,995	5,788
Balance as at 31 March	**(143,332)**	**(153,708)**

Reconciliation of Fair Value of the Scheme Assets

	2010/11 £000s	2011/12 £000s
Balance as at 1 April	73,787	80,674
Expected Rate of Return	4,748	5,140
Actuarial Gain / (Losses)	2,007	(3,937)
Employer Contributions	3,185	3,355
Contributions by scheme Participants	942	840
Benefits / transfers paid	(3,995)	(5,788)
Balance as at 31 March	**80,674**	**80,284**

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 gain on scheme assets in the year was £1.203m (2010/11: £6.755m).

SCHEME HISTORY

	2007/08 £000 as restated	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Present Value of Liabilities	(134,520)	(113,756)	(152,388)	(143,332)	(153,708)
Fair Value of Assets	77,604	49,362	73,787	80,674	80,284
Surplus / (Deficit) in the Scheme	(56,916)	(64,394)	(78,601)	(62,658)	(73,424)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £73.424 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, reducing reserves from £212.816 million to £139.392 million (35%). Statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £3.501m.

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 dependant on assumptions about mortality rates, salary levels etc. The fund liabilities have been assessed by Mercer Limited, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31 March 2010.

The main assumptions used in their calculations have been:

2010/11		2011/12
2.9%	Rate of Inflation (CPI)	2.5%
4.65%	Rate of Increase in Salaries	4.25%
2.9%	Rate of Increase in Pensions	2.5%
5.5%	Rate for Discounting Scheme Liabilities	4.9%
50%	Take-up of option to convert annual pension into retirement lump sum	50%
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity Investments	7.0%
4.4%	Government Bonds	3.1%
5.1%	Other Bonds	4.1%
0.5%	Cash/Liquidity	0.5%
2010/11		**2011/12**
	Mortality Assumptions:	
	Longevity Assumptions at 65 for current pensioners	
22.1	Men	22.2
24.7	Women	24.8
	Longevity Assumptions at 65 for future pensioners	
23.5	Men	23.6
26.3	Women	26.4

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

31 March 2011 %		31 March 2012 %
74.7	Equity Investments	70.8
8.9	Government Bonds	20.2
15.9	Other Bonds	8.2
0.5	Cash/Liquidity	0.8
100.0		100.0

HISTORY OF EXPERIENCE GAINS AND LOSSES

The actuarial gains identified as movements on the Pension Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

	2007/08 (restated) %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Difference between expected and actual return on assets	(11.5)	(66.0)	32.5	2.5	(4.9)
Experience gains and losses on Liabilities	0.40	(0.24)	-	6.0	-

23 DEFERRED LIABILITIES

These are liabilities which, by arrangement, are payable beyond the next year. The balance comprises of frozen holiday entitlement for 'ex-manual workers' currently employed by the authority who were in post at 31 March 1982 and have continuous service with the authority since that date.

24 DEVELOPMENT AGREEMENT WITH YORKSHIRE COAST HOMES

On transfer of its housing stock in December 2003, the Borough Council entered into a development agreement with Yorkshire Coast Homes (YCH). This allowed for an advance payment of £57 million plus vat to be paid to them, in exchange for them upgrading the standard of all Council houses. The Balance Sheet shows the advance payment of this development agreement as a Long Term Debtor and its obligation to ensure that the works are carried out as a Long Term Liability. During the financial year Yorkshire Coast Homes completed the upgrades and this scheme has therefore been concluded. The movement on the Long Term Debtor and Liability are summarised below:

31-Mar-11 £000		31-Mar-12 £000
10,729	Balance Brought Forward as at 1 April	1,955
(8,774)	Upgrades undertaken during the year	(1,955)
1,955	Long Term Debtor and Long Term Liability as at 31 March	-

25 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

26 UNUSABLE RESERVES

1-Apr-10 £000	31-Mar-11 (Restated) £000		31-Mar-12 £000
25,176	29,962	Revaluation Reserve	40,356
148,393	148,734	Capital Adjustment Account	150,071
417	367	Financial Instruments Adjustment Account	317
1,750	1,590	Deferred Capital Receipts Reserve	1,476
(78,601)	(62,658)	Pension Reserve	(73,424)
11	1	Collection Fund Adjustment Account	(8)
(410)	(392)	Accumulated Absences Account	(359)
96,736	**117,604**	**Total Unusable Reserves**	**118,429**

(a) REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Authority arising from increases in the fair 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 consumed through depreciation, or
- disposed of and the gains are realised

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

2010/11 (Restated) £000			2011/12 £000
25,176	Balance as at 1 April		29,962
4,943	Upward revaluation of assets	13,430	
(41)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,587)	
4,902	Surplus or deficit on revaluation of non-current assets not posted to the surplus or Deficit on the Provision of Services		10,843
(101)	Difference between fair value depreciation and historical cost depreciation		(386)
(15)	Accumulated gains on assets sold or scrapped		(63)
29,962	Balance as at 31 March		40,356

(b) 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 Authorities finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2010/11 £000			2011/12 £000
148,393	Balance at 1 April		148,734
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(5,876)	Charges for depreciation and impairment of non-current assets	(5,220)	
344	Revaluation losses/(gains) on Property, Plant and Equipment	(1,122)	
(204)	Amortisation of intangible assets	(241)	
(1,115)	Revenue expenditure funded from capital under statute	(730)	
(188)	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	(336)	
(7,039)			(7,649)
116	Adjusting amounts written out of the Revaluation Reserve		449
(6,923)	Net written out amount of the cost of non-current assets consumed in the year		(7,200)
	Capital financing applied in the year:		
1,432	Use of the Capital Receipts Reserve to finance new capital expenditure	913	
5,145	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,103	

106	Application of grants to capital financing from the Capital Grants Unapplied Account	350	
546	Statutory provision for the financing of capital investment charged against the General Fund balances	621	
-	Repayment of outstanding capital financing in excess of the statutory provision	2,939	
14	Capital Expenditure charged against the General Fund balances	502	
7,243			8,428
21	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement		109
148,734	Balance at 31 March		**150,071**

(c) FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The authority uses the account to manage discounts received on the early settlement of borrowings. Discounts are credited to the Comprehensive Income and Expenditure Statement when they are incurred and, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time the income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the benefit on council tax. In the Authority's case, this period is 10 years from the point of redemption of the loan. As a result, the balance on the account at 31 March 2012 will be credited to the General Fund balance over the next 8 years.

2010/11 £000			**2011/12 £000**
417	Balance at 1 April		367
(50)	Proportion of discounts received in previous financial years to be credited against the General fund Balance in accordance with statutory requirements	(50)	
(50)	Amount by which finance costs charged to the Comprehensive Income and Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(50)
367	Balance at 31 March		**317**

(d) DEFERRED CAPITAL RECEIPTS RESERVE

The table below shows the movement on this Reserve

2010/11 £000		2011/12 £000
1,750	Balance as at 1 April	1,590
(158)	Transfer of deferred sales proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(109)
(2)	Transfer to the Capital Receipt Reserve upon receipt of cash	(5)
1,590	Balance as at 31 March	**1,476**

(e) PENSION RESERVE

The Pensions Reserve absorbs the timing differences arising form the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for the 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. Statutory arrangements do, however, require benefits earned to be financed as the Authority 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 Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2010/11 £000		2011/12 £000
(78,601)	Balance at 1 April	(62,658)
10,562	Actuarial gains or losses on pensions assets and liabilities	(8,929)
2,196	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	(5,192)
3,185	Employer's pensions contributions and direct payments to pensioners payable in the year	3,355
(62,658)	**Balance at 31 March**	**(73,424)**

Additional information relating to retirement benefits is outlined in Note 22.

(f) COLLECTION FUND ADJUSTMENT ACCOUNT

The collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure

Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/11 £000		2011/12 £000
11	Balance at 1 April	1
(10)	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	(9)
1	Balance at 31 March	**(8)**

(g) 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 year, for example annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2010/11 £000			2010/11 £000
(410)	Balance as at 1 April		(392)
410	Settlement or cancellation of accrual made at the end of the proceeding year	392	
(392)	Amounts accrued at the end of the current year		(359)
18	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		33
(392)	Balance as at 31 March		**359**

27 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Finance and Asset Management (Section 151 officer) on 25 September 2012. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events after the balance sheet date to report at the date that these audited accounts were authorised for issue, on 25 September 2012.

28 CASH FLOW STATEMENT – RECONCILIATION OF THE NET CASH FLOWS FROM OPERATING ACTIVITIES TO THE SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES

The Surplus / Deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement includes some transactions which do not result in cash flows, and others which are not classified as operating activities within the Cash Flow Statement (ie classified as investing or financing cash flows). The following table identifies these transactions and reconciles the Surplus / Deficit on the Provision of Services with the net cash flows from operating activities within the Cash Flow Statement:

2010/11 (Restated) £000		2011/12 £000
(8,535)	Surplus / (Deficit) on the Provision of Services	2,019
	Adjustment to the Surplus / Deficit on the Provision of Services for Non Cash Movements	
(6,081)	Depreciation, amortisation, impairment and downward revaluations	(5,461)
495	Increase / (Decrease) in Creditors	344
(319)	(Increase) / Decrease in Debtors	(3,387)
(64)	(Increase) / Decrease in Inventories	(155)
5,381	Pension Fund Adjustments	(1,836)
(75)	Increase / (Decrease) in impairment for provision for bad debts	(413)
194	Contributions to / (from) provisions	108
(1,049)	Carrying amount of PP&E, investment property and intangible assets sold	(538)
1,519	Other non-cash movement	134
	Adjustments for items included in the Surplus / Deficit on the Provision of Services that are Investing or Financing Activities	
1,434	Proceeds from the disposal of PP&E, investment property and intangible assets	3,852
4,742	Capital Grants credited to Surplus or deficit on the provision of services	2,352
230	Other adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities	102
(2,128)	**Net Cash Flows from Operating Activities**	**(2,879)**

The 2010/11 figures have been restated following the removal of the 'Council tax benefits' caption. This figure is now netted within the 'Other adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities' line.

OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £000		2011/12 £000
(151)	Interest received	(183)
292	Interest paid	219
141	**Total**	**36**

29 CASH FLOW STATEMENT – INVESTING ACTIVITIES

2010/11 £000		2011/12 £000
7,750	Purchase of property, plant and equipment, investment property and intangible asset	4,801
68,000	Purchase of short term and long term investments	133,000
(1,434)	Proceeds from sale of property, plant and equipment, investment property and intangible assets	(3,858)
(67,000)	Proceeds from short term and long term investments	(128,000)
(7,090)	Other receipts from investment activities	(3,777)
226	**Total**	**2,166**

30 CASH FLOW STATEMENT – FINANCING ACTIVITIES

2010/11 £000		2011/12 £000
-	Cash receipts of short term and long term borrowing	-
(962)	Other receipts for financing activities	-
30	Cash payments for the reduction of outstanding liabilities to finance leases	32
2,500	Repayments of short term and long term borrowing	-
-	Other payments for financing activities	92
1,568	**Total**	**124**

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 Best Value Accounting Code of Practice. Decisions about resource allocation are, however, taken by the Council's Cabinet on the basis of management budget reports analysed across Heads of Service. These reports are prepared on a different basis from the accounting policies used in the financial statements.

Internal reporting is based on 'Heads of Service' responsibility with an additional section for 'Corporate' expenditure. The 'Corporate' expenditure principally includes areas that are not under the direct control of a Head of Service (such as Support Services and Capital Charges) together with areas of the business which report directly to the Chief Executive rather than through the Head of Service structure (such as Strategic Directors).

Outlined below is the Council's 2011/12 outturn report, as reported, with a reconciliation back to the (Surplus) or Deficit on Provision of Services and the Cost of Services reported in the Comprehensive Income and Expenditure Statement on page 28 of these accounts.

2011 / 2012 Summary by Head of Service	**Income £000**	**Expenditure £000**	**Outturn £000**
Head of Finance and Asset Management	(55,165)	55,765	600
Head of Environmental Health	(7,092)	12,339	5,247
Head of Human Resources	(11)	511	500
Head of Regeneration and Planning	(2,816)	4,238	1,422
Head of Legal and Support Services	(142)	2,100	1,958
Head of Tourism and Culture	(11,718)	9,454	(2,264)
Head of Service Transformation	(472)	2,205	1,733
Total Service Budget Heads	**(77,416)**	**86,612**	**9,196**
Whitby Harbour Board	(878)	703	(175)
Corporate Budget Heads	(39,925)	30,027	(9,898)
Surplus in year compared to budget (as reported internally)	**(118,219)**	**117,342**	**(877)**
Reconciliation to (Surplus) or Deficit on Provision of Services:			
Underspend transferred to other Earmarked Reserves (Note A)			877
Amounts not included in CIES:			
Adjustments between accounting basis and funding basis under regulations (Note 9)			(1,516)
Transfers to / from Earmarked Reserves (Note 10)			(935)
Transfers to / from General Fund			432
Reported (Surplus) or Deficit on Provision of Services			**(2,019)**
Reconciliation to Cost of Services:			
Other Operating Expenditure (Note 5)			(2,580)
(Surplus) / Deficit on Trading Undertakings (Note 6)			263
Finance & Investment Income & Expenditure (Note 7)			2,537
Taxation and Non-Specific Grant Income (Note 8)			(21,033)
Reported Cost of Services			**(22,832)**

The income and expenditure outlined in the above analysis includes internal recharges, these are removed from the presentation within the Comprehensive Income and Expenditure Statement.

Note A: As outlined within Section 5 of the Explanatory Foreword, the surplus generated during the year has been included within the Council's usable reserves as at 31 March 2012.

The following table outlines the final internal management report for the year ended 31 March 2012 after the transfer of the surplus to usable reserves.

2011 / 2012 Summary by Head of Service	**Income £000**	**Expenditure £000**	**Outturn £000**
Head of Finance and Asset Management	(55,165)	55,765	600
Head of Environmental Health	(7,092)	12,339	5,247
Head of Human Resources	(11)	511	500
Head of Regeneration and Planning	(2,816)	4,238	1,422
Head of Legal and Support Services	(142)	2,100	1,958
Head of Tourism and Culture	(11,718)	9,454	(2,264)
Head of Service Transformation	(472)	2,205	1,733
Total Service Budget Heads	**(77,416)**	**86,612**	**9,196**
Whitby Harbour Board	(878)	703	(175)
Corporate Budget Heads	(39,925)	30,904	(9,021)
Surplus in year compared to budget (as reported internally)	**(118,219)**	**118,219**	**-**
Reconciliation to (Surplus) or Deficit on Provision of Services:			
Amounts not included in CIES:			
Adjustments between accounting basis and funding basis under regulations (Note 9)			(1,516)
Transfers to / from Earmarked Reserves (Note 10)			(935)
Transfers to / from General Fund			432
Reported (Surplus) or Deficit on Provision of Services			**(2,019)**
Reconciliation to Cost of Services:			
Other Operating Expenditure (Note 5)			(2,580)
(Surplus) / Deficit on Trading Undertakings (Note 6)			263
Finance & Investment Income & Expenditure (Note 7)			2,537
Taxation and Non-Specific Grant Income (Note 8)			(21,033)
Reported Cost of Services			**(22,832)**

The income and expenditure outlined in the above analysis includes internal recharges, these are removed from the presentation within the Comprehensive Income and expenditure Statement.

2011 / 2012	Service Budget Heads £000	Corporate Budget Heads £000	Regulatory Adjustments £000	Transfer to / from earmarked reserves £000	Total £000
Fees, charges and other service income	(78,293)	(18,615)			(96,908)
Interest and investment income		(268)			(268)
Council Tax Income		(9,487)			(9,487)
NNDR, Revenue Support Grant and Area Based Grant		(9,204)			(9,204)
Capital grants and contributions		(2,352)			(2,352)
Total income	**(78,293)**	**(39,926)**	**-**	**-**	**(118,219)**
Employee expenses	19,818	4,804			24,622
Other service expenses	67,468	16,574			84,042
Support service recharges	30	12,997			13,027
Transfers to from earmarked reserves				935	935
Interest payments		219			219
Precepts and levies		708			708
Gain / loss on disposal of non-current assets		(3,315)			(3,315)
Adjustments between accounting basis and funding basis under regulations					
Depreciation, amortisation and impairments		(5,461)	5,461		-
Cont to housing Pool		(5)	5		-
Other		3,949	(3,949)		-
Total expenditure	**87,316**	**30,470**	**1,517**	**935**	**120,238**
Surplus / deficit on the provision of services	9,023	(9,456)	1,517	935	**2,019**
Surplus or deficit on the revaluation of Property, Plant and Equipment					(10,843)
Actuarial gains / losses on pension assets / liabilities					8,929
Total Comprehensive Income and Expenditure					**105**

Outlined below is the Council's 2010/11 outturn report, as reported, with a reconciliation back to the (Surplus) or Deficit on Provision of Services and the Cost of Services reported in the Comprehensive Income and Expenditure Statement on page 28 of these accounts. A Head of Service restructure was undertaken at the start of 2011/12 and therefore the tables below have been restated. The restructure reduced the Heads of Service from 8 to 7 and responsibility for some service areas was changed.

2010 / 2011 Summary by Head of Service (Restated)	Income £000	Expenditure £000	Outturn £000
Head of Finance and Asset Management	(62,131)	63,983	1,852
Head of Environmental Health	(7,092)	13,236	6,144
Head of Human Resources	(19)	761	742
Head of Regeneration and Planning	(3,018)	4,307	1,289
Head of Legal and Support Services	(463)	2,554	2,091
Head of Tourism and Culture	(11,516)	9,603	(1,913)
Head of Service Transformation	(594)	2,754	2,160
Total Service Budget Heads	**(84,833)**	**97,198**	**12,365**
Whitby Harbour Board	(1,025)	845	(180)
Corporate Budget Heads	(47,704)	34,301	(13,403)
Surplus in year (as reported internally)	**(133,562)**	**132,344**	**(1,218)**
Reconciliation to (Surplus) or Deficit on Provision of Services:			
Underspend transferred to other Earmarked Reserves (Note A)			918
Amounts not included in CIES:			
Adjustments between accounting basis and funding basis under regulations (Note 9)			(5,656)
Transfers to / from Earmarked Reserves (Note 10)			(2,579)
Reported (Surplus) or Deficit on Provision of Services			**(8,535)**
Reconciliation to Cost of Services:			
Other Operating Expenditure (Note 5)			(311)
(Surplus) / Deficit on Trading undertakings (Note 6)			209
Finance & Investment Income & Expenditure (Note 7)			(3,786)
Taxation and Non-Specific Income (Note 8)			26,790
Reported Cost of Service			**14,367**

The income and expenditure outlined in the above analysis includes internal recharges, these are removed from the presentation within the Comprehensive Income and expenditure Statement.

Note A: the surplus generated during the year was included within the Council's usable reserves as at 31 March 2011.

The following table outlines the final internal management report for the year ended 31 March 2011 after the transfer of the surplus to usable reserves.

2010 / 2011 Summary by Head of Service (Restated)	Income £000	Expenditure £000	Outturn £000
Head of Finance and Asset Management	(62,131)	63,983	1,852
Head of Environmental Health	(7,092)	13,248	6,156
Head of Human Resources	(19)	761	742
Head of Regeneration and Planning	(3,018)	4,312	1,294
Head of Legal and Support Services	(463)	2,561	2,098
Head of Tourism and Culture	(11,516)	9,663	(1,853)
Head of Service Transformation	(594)	2,754	2,160
Total Service Budget Heads	**(84,833)**	**97,282**	**12,449**
Whitby Harbour Board	(1,025)	845	(180)
Corporate Budget Heads	(47,704)	35,135	(12,569)
Surplus in year (as reported internally)	**(133,562)**	**133,262**	**(300)**
Reconciliation to (Surplus) or Deficit on Provision of Services:			
Amounts not included in CIES:			
Adjustments between accounting basis and funding basis under regulations (Note 9)			(5,656)
Transfers to / from Earmarked Reserves (Note 10)			(2,579)
Reported (Surplus) or Deficit on Provision of Services			**(8,535)**
Reconciliation to Cost of Services:			
Other Operating Expenditure (Note 5)			(311)
(Surplus) / Deficit on Trading undertakings (Note 6)			209
Finance & Investment Income & Expenditure (Note 7)			(3,786)
Taxation and Non-Specific Income (Note 8)			26,790
Reported Cost of Service			**14,367**

The income and expenditure outlined in the above analysis includes internal recharges, these are removed from the presentation within the Comprehensive Income and expenditure Statement.

2010 / 2011 (Restated)	Service Budget Heads £000	Corporate Budget Heads £000	Regulatory Adjustments £000	Transfer to / from earmarked reserves £000	Total £000
Fees, charges and other service income	(84,833)	(21,685)			(106,518)
Interest and investment income		(254)			(254)
Council Tax Income		(9,453)			(9,453)
NNDR, Revenue Support Grant and Area Based Grant		(12,595)			(12,595)
Capital grants and contributions		(4,742)			(4,742)
Total income	(84,833)	(48,729)	-	-	(133,562)
Employee expenses	22,716	1,473			24,189
Other service expenses	74,566	14,337			88,903
Support service recharges		13,942			13,942
Transfers to from earmarked reserves				(2,579)	(2,579)
Interest payments		263			263
Precepts and levies		694			694
Gain / loss on disposal of non-current assets		(385)			(385)
Adjustments between accounting basis and funding basis under regulations					
Depreciation, amortisation and impairments		(6,080)	6,080		-
Cont to housing Pool		(2)	2		-
Other		11,738	(11,738)		-
Total expenditure	97,282	35,980	(5,656)	(2,579)	125,027
Surplus / deficit on the provision of services	12,449	(12,749)	(5,656)	(2,579)	**(8,535)**
Surplus or deficit on the revaluation of Property, Plant and Equipment					(4,902)
Actuarial gains / losses on pension assets / liabilities					(10,562)
Total Comprehensive Income and Expenditure					**(23,999)**

32 AGENCY SERVICES

The Borough Council had an agency agreement with North Yorkshire County Council (NYCC) for the maintenance and improvement of highways within a defined area, which covers Scarborough Town, Scalby, Newby, Osgodby, Eastfield and Crossgates. The County Council reimbursed the Borough Council for this work, including a contribution towards administration costs.

The following table summarises the expenditure incurred:

	2010/11 £000	2011/12 £000
Routine Maintenance	3,334	-
Street Lighting	451	-
Other	224	-
Administration Fee	383	-
Total Amount Reimbursable	**4,392**	**-**

The County Council executive met in January 2008 and approved the termination of this Agency Agreement. The agreement included a 3 year termination period, which started on 1 April 2008 and therefore the agreement ceased on 31 March 2011. Following the cessation of this contract the Council sold all Plant and Equipment associated with the agreement to the County Council at net book value.

33 MEMBERS ALLOWANCES

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

2010/11 £000		2011/12 £000
187	Salaries	188
70	Responsibility Allowances	73
9	Internet Allowance	9
266	**Total**	**270**

34 OFFICERS' REMUNERATION

The remuneration paid to the Authorities senior employees is as follows:

2011 / 2012 Post Holder Information	Salary	Expense Allowances	**Total exc Pension**	Pension *	**Total 2011/12**
Chief Executive (Note 1)	117,380	891	**118,271**	14,790	**133,061**
Strategic Director 1	94,330	907	**95,237**	11,885	**107,122**
Strategic Director 2	90,040	963	**91,003**	11,345	**102,348**
Head of Finance and Asset Management	67,202	894	**68,096**	8,468	**76,564**
Head of Legal and Support Services	67,202	968	**68,170**	8,468	**76,638**
	436,154	4,623	**440,777**	54,956	**495,733**

2010 / 2011 Post Holder Information	Salary	Expense Allowances	**Total exc Pension**	Pension *	**Total 2010/11**
Chief Executive (Note 1)	110,693	1,184	**111,877**	21,917	**133,794**
Strategic Director 1	94,330	1,095	**95,425**	18,677	**114,102**
Strategic Director 2	90,040	1,091	**91,131**	17,828	**108,959**
Head of Finance and Asset Management	67,202	1,101	**68,303**	13,306	**81,609**
Head of Legal and Support Services	67,202	1,093	**68,295**	13,306	**81,601**
	429,467	5,564	**435,031**	85,034	**520,065**

* The pension figures shown in the above tables reflect the employer's contribution to the Local Government Pension Scheme. Following consultation with the pension administrator, the back funded element of the contribution is no longer recovered through individual posts but is charged corporately. The contribution rate attributable to an individual post has therefore reduced from 19.8% of salary costs in 2010/11 to 12.6% in 2011/12. Officers also make contributions, which range from 7.2% to 7.5% of their pensionable pay, to the scheme.

Note 1: The Chief Executive receives payment for his role of 'Returning Officer' for regional, national and European elections for which the Authority is reimbursed.

The Authorities other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2010/11	Salary band	2011/12
7	£50,000 to £54,999	5
-	£55,000 to £59,999	1
-	£60,000 to £64,999	-
6	£65,000 to £69,999	5
-	£70,000 to £74,999	1

35 TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2011/12 and severance payments were made to the employees of £532k (£138k in 2010/11). In addition to the payments made to employees, pension strain payments were also made to the pension fund and these totalled £216k in the year (£41k in 2010/11).

The number of exit packages with total cost per band is set out in the table below. None of these payments were made to the authority's Senior Officers. All terminations were as a result of compulsory redundancy.

2010/11		Exit package cost band (including pension strain cost)	2011/12	
Number	Cost		Number	Cost
16	101,467	£0 to £20,000	27	264,688
3	77,791	£20,001 to £40,000	10	251,146
-	-	£40,001 to £60,000	3	131,661
-	-	£60,001 to £80,000	-	-
-	-	£80,001 to £100,000	-	-
-	-	£100,001 to £150,000	1	100,285
19	**179,258**	**Total**	**41**	**747,780**

36 EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:

2010/11 £000		2011/12 £000
114	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	114
44	Fees payable to the Audit Commission for the certification of grant claims and returns	60
158	**Total**	**174**

37 GRANT INCOME

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

2010/11 £000		2011/12 £000
	Credited to Taxation and Non Specific Grant Income	
9,453	Council tax Income	9,477
10,917	Non Domestic Rates	6,841
1,585	Revenue Support Grant	2,115
-	New Homes Bonus	29
-	Council Tax Freeze Grant	219
93	Area Based Grant	-
1,455	Environment Agency	891
375	Heritage Lottery Fund	(39)
2,675	Yorkshire Forward	1,054
237	Other	446
26,790	**TOTAL**	**21,033**
	Credited to Services:	
10,969	DWP Council Tax Benefits Grant	11,063
1,284	DWP Benefits Admin Grant	1,210
36,198	DWP Rent Allowances and Rebates	37,920
1,186	Department of Transport	-
431	North Yorkshire County Council	440
320	Yorkshire Forward	205
1,198	Department for Communities and Local Government	986
1,157	Environment Agency	1,270
726	Other	821
53,469	**TOTAL**	**53,915**

38 RELATED PARTY TRANSACTIONS

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 may have been constrained in its ability to operate independently or may have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its revenue 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).

Block funding (Revenue Support Grant and Non-Domestic Rates Redistribution), and other grants that are not specific to service areas are shown in note 8 of these accounts. Grants specific to services and direct grant support for capital expenditure is outlined in note 37.

Companies and Joint Ventures:

Scarborough Museums Trust

The Scarborough Museums Trust, a charitable Company Limited by Guarantee, was established as a regulatory company of the Borough Council in April 2004. The Trust has been classified as an associate for Group Account purposes.

Details of transactions between the Trust and the Borough Council are provided in Note 43 to the accounts.

Moors & Coast Tourism Partnership

The Borough Council was one of 10 board members of the Moors & Coast Tourism Partnership. This partnership ceased trading during the year and is in the process of being wound up.

This Partnership was set up to encourage, support, advise and manage the sustainable development of the tourism industry within the areas of Hambleton, Ryedale, Scarborough and the North Yorkshire Moors National Park.

The partnership has been classified as a Joint Venture for Group Account purposes.

Details of transactions between the partnership and the Borough Council are provided in Note 43 to the accounts.

Other Bodies

The Council collects Council Tax to fund its own revenue requirements and to distribute to other precepting authorities, these being North Yorkshire County Council, North Yorkshire Police Authority, North Yorkshire Fire Authority, and the Parish Councils. Details of these amounts are shown in the Collection Fund Accounts.

Significant funding provided to the Council by other bodies was:

Capital funding of £2.352m in total, the main providers being the Environment Agency (£0.891m) and Yorkshire Forward (£1.054m).

North Yorkshire County Council – estimated funding of £0.440m in respect of specific services. It also administers the Local Government Pension Scheme (note 22). The Borough Council is also the accountable body for distributing the County Council Community Fund.

The following Councillors were also Councillors of North Yorkshire County Council during the financial year: Cllr Backhouse, Cllr Blackburn, Cllr Chatt, Cllr Cockerill, Cllr Jeffels, Cllr Jefferson, Cllr Kenyon, Cllr Marsburg, Cllr Marsden, Cllr Plant, Cllr Popple, Cllr Simpson, Cllr Tindall

Cllr Kenyon is also the chairperson for the North Yorkshire Police Authority and Cllr Jefferson is a member of the Board.

Cllr Backhouse and Cllr Popple are a members of the North Yorkshire Fire and Rescue Authority Management Board with Cllr Plant and Substitute Member. Cllr Jeffles is a member of the Sub-Committee.

Cllr Chance has recently taken over as trustee from Cllr Jeffles for the Scarborough Theatre Trust, a body that the Borough Council paid a grant to of £187,020 during the financial year.

Cllr Preston is a representative on the Creative Industries Centre Trust, a body to whom the Council leases the Creative Industry Centre building to at a peppercorn rent.

Cllr Jeffles is now a representative on the Scarborough Museums Trust having taken over the role from Cllr Jefferson during the year. Scarborough Museums Trust is a body that the Borough Council paid a grant to of £509,730 during the financial year. The Council also offers the use of the Rotunda and Art Gallery at a peppercorn rent and pays amounts equal to the rents and service charge for space that is occupied at the Creative Industries Centre (£56,980 in 2011/12).

Cllr Chatt, Cllr Donohue-Moncrieff, Cllr Mortimer and Cllr Preston are Board members of Yorkshire Coast Homes, the body to whom the Council's housing stock was transferred in 2003.

Cllr Clegg and Cllr Watson are Director's of the Citizens Advice Bureau. During the year the Council made grant payments to the organisations of £62,452.

Cllr Billing and Cllr Mortimer are Director's of Seachange Community Trust.

Nicholas Edwards the Council's Head of Asset Management is a Director of Veritau North Yorkshire Limited on behalf of the Council. Veritau North Yorkshire Limited will provide internal audit services to the Council with effect from 1 April 2012.

Pauline Elliott the Council's Head of Planning and Regeneration is a Director of Groundwork North Yorkshire on behalf of the Council. This is a non-profit making body who deliver regeneration projects throughout the region.

Cllr Lawn's father in law owns Wilf Noble and this company is an approved supplier of the Council. During the year payments of £167,264 were made to the company in the normal course of business.

39 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2010/11 £000	2011/12 £000
Opening Capital Financing Requirement	17,196	18,809
Capital investment		
Property Plant and Equipment	7,632	4,847
Investment Properties	-	-
Intangible Assets	109	37
Revenue Expenditure Funded from Capital under Statute	1,115	730
Sources of Finance		
Capital receipts	(1,432)	(914)
Government grants and other contributions	(5,251)	(3,453)
Repayment of Open Air Theatre Outstanding Borrowing	-	(2,939)
Sums set aside from Revenue		
Direct revenue contributions	(14)	(502)
inimum Revenue Provision / Loans Fund Principle	(546)	(621)
Closing Capital Financing Requirement	**18,809**	**15,994**

	2010/11 £000	2011/12 £000
Explanation of movements in year		
Increase / (Decrease) in underlying need to borrowing (unsupported by government financial assistance)	1,644	(2,783)
Assets acquired under finance leases	(31)	(32)
Increase / (decrease) in Capital Financing Requirement	**1,613**	**(2,815)**

40 LEASES

Authority as Lessee

Finance Leases

The Council has acquired a number of administrative buildings under finance leases.

The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011 £000	31 March 2012 £000
Other Land and Buildings	899	862
Vehicles, Plant, Furniture and Equipment	-	-
	899	862

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

	31 March 2011 £000	31 March 2012 £000
Finance lease liabilities (net present value of minimum lease payments)	999	967
Finance costs payable in future years	2,147	2,105
Minimum lease payments	3,146	3,072

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

	Minimum Lease Payments		Finance lease Liabilities	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012
Not later than one year	73	73	43	41
Later than 1 year and not later than five years	294	293	155	150
Later than five years	2,779	2,706	1,949	1,914
	3,146	3,072	2,147	2,105

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The contingent rents are nil for the Council as rent reviews are carried out based on market values, not specified amounts.

The Authority has sub-let some property held under finance leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £558k (£616k at 31 March 2011).

Operating Leases

The Authority has entered into several operating leases for plots of land and a small number of buildings.

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

	31 March 2011 £000	31 March 2012 £000
Not later than one year	24	16
Later than one year and not later than five years	9	21
Later than five years	301	292
	335	329

The Authority currently does not sub-let any properties classified as operating leases.

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:

	2010/11 £000	2011/12 £000
Minimum lease payments	45	53
Sublease payments receivable	-	-
	45	53

Authority as Lessor

Finance Leases

The Authority has leased out property and leisure amenities around the Borough on finance leases with remaining terms of up to 21 years.

The Authority has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and any residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2011 £000	31 March 2012 £000
Finance lease debtor (net present value of minimum lease payments)	1,578	1,469
Unearned finance income	823	729
Gross investment in the lease	2,401	2,198

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the lease		Minimum Lease Payments	
	31 Mar 2011	31 Mar 2012	31 Mar 2011	31 Mar 2012
Not later than one year	176	176	84	89
Later than 1 year and not later than five years	704	691	382	390
Later than five years	1,521	1,331	1,112	990
	2,401	2,198	1,578	1,469

The Authority does not make an allowance for possibility of lease payments not being made.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The contingent rents are nil for the Council as rent reviews are carried out based on market values, not specified amounts.

Operating Leases

The Authority leases out property and equipment 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 2011 £000	31 March 2012 £000
Not later than one year	818	1,147
Later than one year and not later than five years	4,798	3,141
Later than five years	17,628	17,856
Total	**23,244**	**22,144**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The contingent rents are nil for the Council as rent reviews are carried out based on market values, not specified amounts.

The table below shows the net book value of the assets generating the lease income outlined above:

	31 March 2011 £000	31 March 2012 £000
Buildings	12,107	12,785
Land	17,448	18,266
Intangibles	442	419
Investment Properties	1,180	1,146
Total	**31,177**	**32,616**

41 THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

Credit Risk – the possibility that other parties might fail to pay amounts due to the authority;

Liquidity risk – Is the risk that the Council will not have sufficient cash resources to meet its obligation to its creditors and employees' as they fall due for payment.

Market Risk – Is the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The authority'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 the Council in the annual Treasury Management Policy Statement.

Credit Risk

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

This risk is minimised through the Annual Investment Strategy. Deposits are only made with banks and financial institutions that meet the established criteria approved by the Council. The Council's Treasury Management Policy Statement, contained within the Financial Strategy, details the criteria applied, as well as the maximum investment limit at any one time, to any institution.

In light of the economic climate, the Authority has been actively monitoring the treasury investment criteria and where necessary has, together with the Authority's treasury management independent financial advisors, reviewed the treasury policy and where applicable has presented to Council an amended investment criteria agreement.

The Treasury Policy Statement places stringent boundaries on the investment of surplus funds, relating in particular to.

- Counterparty listings
- Period for Investment
- Maximum Financial limit per financial year
- Geographical restrictions / subject to sovereign 'AAA' rating indicating the highest credit rating quality and denoting the lowest expectation of risk.

The Council has strict time limits on the length of time it invests its surplus funds, which will further reduce the risk of possible default.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £8.4m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits but there was no evidence at 31 March 2012 that this was likely to crystalise.

The following analysis summarises the authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability in previous financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2012 £000's	Historical Experience of Default %	Historical Experience adjusted for market conditions at 31-Mar-12 %	Estimated maximum exposure to default and uncollectability at 31-Mar-12 £000	Estimated maximum exposure to default and uncollectability at 31-Mar-11 £000
Customers	4,679	5.2	12.3	574	571

The Authority does not formally allow credit for customers, such that £1,028k of the £4,679k balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31-Mar-11 £000		31-Mar-12 £000
152	Less than 3 months	455
116	Between 3 to 6 months	61
220	Between 6 months and one year	197
176	More than one year	315
664	**Total**	**1,028**

Liquidity Risk

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

The Council applies upper limits to its maturity structure for new loans, to allow for some flexibility in refinancing should this be a favourable option, while limiting maturity structure risk. New loans and, where economically viable, early loan redemption are carefully planned to ensure such exposure is minimised.

31-Mar-11 £000	Analysis of Maturity	31-Mar-12 £000
(8)	Less than one year	(8)
-	Between 1 and 2 years	-
-	Between 2 and 5 years	-
(4,083)	Maturing in more than 5 Years	(4,082)
(4,091)	**Total**	(4,090)

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

Market Risk

Interest Rate Risk

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

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Service will rise

- Borrowings at fixed rates – the fair value of the liabilities will fall

- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Service will rise

- Investments at fixed rates – the fair value the assets will fall

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

Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council's Financial Strategy, in particular the Capital and Treasury Management Prudential Indicators, detail the policy for managing interest rate exposure. The Council's long term borrowing is all at fixed rates. The risk from exposure to variable interest rates is therefore limited to investments and any short term cash flow borrowing that may be necessary. Fixed rate investments reduce uncertainty but the flexibility arising from variable rate investments is advantageous and necessary for at least part of the investment portfolio. An upper limit of 30% variable rate exposure has therefore been applied to investments.

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

	1% Increase £000	1% Decrease £000
Change in interest payable on variable rate borrowing	-	-
Change in interest receivable on variable rate investments	123	73
Impact on Surplus or Deficit on the Provision of Services	123	73
Change in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income and Expenditure Account)	(631)	806

Market Price Risk

The Council does not generally invest in equity shares and is therefore not subject to any price risk, that is, the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currency, therefore it has no exposure to loss arising as a result of adverse movements in exchange rates.

Refinancing Risk

The Council has one Lender Option Borrowing Option (LOBO loans) with a nominal value of £4m. The nature of this loan is that on a specified agreed date the lender has the option to change the rate of interest charged on the loan, providing that 2 working days notice is given to the borrower. Where the option is exercised the borrower has the option of repaying the loan in full and without penalty at the end of the notice period, or agreeing to pay the new amended rate of interest.

The Council keeps a record of all the dates in which the lender has the option to change the rate of interest payable on the LOBO loan. The potential repayment of the LOBO Loan on these dates is taken into account in deciding on the level of available cash balances that the Council needs to hold at various times throughout the year.

During 2013 / 14 there are two potential occasions on which the lender has an option to change the rate of interest payable on the Council LOBO Loan.

42 CONTINGENT LIABILITIES

At 31 March 2012, the Authority had two material contingent liabilities:

Municipal Mutual Insurance

The Council was insured for a period of time with Municipal Mutual Insurance (MMI) up to 30 September 1992 when the Company ceased writing insurance business and went into run-off.

This Council is party to the contingent Scheme of Arrangement sanctioned by the Court in January 1994. As part of that Scheme of Arrangement the Council is liable to a clawback provision based on the total carried forward claims payments less £50,000. The clawback provision can be triggered if MMI is unable to meet its liabilities.

The previous expectation was that MMI would be able to meet its obligations however the judgement handed down by the Supreme Court on 28 March 2012 ruled that the insurer, who was on risk at the time of an employee's exposure to asbestos, was liable to pay compensation for the employee's mesothelioma.

Although this judgement provides clarification on liability, it has significant implications for the MMI and the Scheme Creditors, who are party to the Scheme of Arrangement.

The Board of Directors are seeking legal, financial and actuarial advice to determine the full implications of the judgement and the most appropriate way forward.

As at 31 March 2012 the Council's estimated amount liable to clawback, if the Scheme was triggered, is £131,200.

Open Air Theatre

Apollo Resorts and Leisure Limited (Apollo) have announced their intention to seek redress from the Council in relation to the operating contract for the Open Air Theatre.

Apollo are claiming that the Council has taken actions which have repudiated the agreement. As a result of this, Apollo are looking for redress to cover loss of profit / opportunities, reimbursement of all pre-production costs and damage to their reputation. The Council dispute these claims.

As yet, Apollo have not formally served a claim on the Council. The Council has received external legal advice that suggests Apollo do not have a strong case to seek redress and the Council has therefore not provided a provision.

43 GROUP ACCOUNTS

The Statement of Recommended Practice (SORP) requires Authorities to prepare Group Financial Statements where they have material interests in Subsidiaries, Associated Companies, and Joint Ventures, which will provide a complete picture of the Authority's control over those entities.

The Council has undertaken significant research to identify and document its relationships with all partnerships, companies, joint ventures and voluntary organisations. It has followed CIPFA's guidance for evaluating these relationships, determining whether their financial activities need consolidating into a set of Borough Council Group Accounts. Issues such as the type of interest, ownership of share capital, membership of appropriate committees, the degree of operational and financial control and access to benefits and exposure to risks have been key elements in this analysis.

After consideration of the relevant criteria, the Borough Council has determined that it has a group relationship with the Moors & Coast Area Tourism Partnership, which has been classified as a joint venture and the Scarborough Museums Trust, which has been classified as an associate. No Group accounts have, however, been produced as the authorities interest in the bodies is not considered to be material.

Scarborough Museums Trust

The Scarborough Museums Trust is a charitable company limited by Guarantee.

The Council's museum service transferred to the Trust on 1 January 2008 and the Trust is now primarily responsible for running the Art Gallery and Rotunda Museum under a Service Level Agreement. In return for this the Council paid a grant of £509,730 for the year ending 31 March 2012 (this amount will be increased annually in accordance with the Gross Domestic Product Deflator applicable on 31 December each year). The Council also offers the use of the Rotunda and Art Gallery at a peppercorn rent and will pay amounts equal to the rents and service charge for space that is occupied at the Creative Industries Centre (£56,980 in 2011/12).

Cllr Jeffels is a trustee, appointed to represent the Borough Council on the Museums Board of Trustees. This equates to a 10% proportion of voting rights on the Board.

Due to the significance of the annual grant in relation to the Trusts total projected income levels, along with the use of Council buildings at a peppercorn rent, the Council is deemed to have a significant influence over the Trust, although in practice this has not been exercised. The Trust has therefore been classified as an associate for Group Account purposes.

The unaudited Trust accounts show a surplus of £20k for the period 31 March 2012 and net assets as at 31 March of £246k. These figures have yet to be approved by the Trust's Board and are subject to change.
The reserves held by the Trust are restricted to ensure that they are used to meet its charitable objects and cannot be distributed to Members. If the Trust were to be wound up the Councils exposure to risk is limited to a maximum of £1 and any property remaining after debts and liabilities have been satisfied would be transferred to a charity with objects similar to the Trust rather than being distributed to Members.

The Moors & Coast Area Tourism Partnership

The Moors & Coast Tourism Partnership was established in 2006 as a partnership between the local authorities of Scarborough, Ryedale and Hambleton, the North York Moors National Park Authority and the private sector. The partnership had a board comprising 5 public and 5 private sector Members. Cllr Jeffels was appointed to represent the Borough Council on the Board.

The creation of tourism partnerships in the region followed a review of tourism structures by Yorkshire Forward and since the Moors & Coast Tourism Partnership's inception Yorkshire Forward has provided annual funding. In addition to Yorkshire Forward funding and private sector income Scarborough, Ryedale, Hambleton and the North York Moors National Park made annual contributions into the partnership reflecting the tourism and marketing activities that had been transferred.

A partnership agreement between SBC and the 5 public body partners shared any partnership liabilities equally between them.

In January 2011 it was agreed that the Moors and Coast Area Tourism Partnership would no longer provide tourism service. During 2011/12 the body has ceased actively trading and is therefore in the process of being wound up. The body had small levels of reserves remaining and it was agreed that these would be allocated to the Welcome to Yorkshire Local Area Offices.

44 NORTH YORKSHIRE AUDIT PARTNERSHIP

The North Yorkshire Audit Partnership was set up to provide a shared internal audit provision for the constituent partners. The Lead Authority responsible for the administration of the partnership, including the provision of accountancy services, is Ryedale District Council. The partnership consists of Scarborough Borough Council and District Councils of Ryedale, Selby, Hambleton and Richmond. The partnership also undertakes the internal audit function for the North Yorkshire Building Control Partnership.

During its last year of trading the Partnership made a deficit of £51,241

The Borough Council's proportion of the cumulative net surplus made by the Partnership at the 31 March 2012 is £7,943.

The Partnership is deemed to be a Joint Committee for Group Account purposes.

From 1 April 2012 the council has joined the Veritau Audit Partnership.

45 NORTH YORKSHIRE PROCUREMENT PARTNERSHIP

The North Yorkshire Procurement Partnership was set up to provide a shared internal procurement provision for the constituent partners.

Scarborough Borough Council is the Lead Authority responsible for the administration of the partnership, including the provision of accountancy services. The partnership consists of Scarborough Borough Council and District Councils of Ryedale and Selby.

During the year the Partnership made a surplus of £16,538. The Borough Council's proportion of the cumulative net surplus made by the Partnership at the 31 March 2012 is £19,455.

The Partnership is deemed to be a Joint Committee for Group Account purposes.

46 NORTH YORKSHIRE BUILDING CONTROL PARTNERSHIP

The Borough Council's Building Control Service was transferred to the North Yorkshire Building Control Partnership on 1 April 2008. This partnership was set up to provide a more cost effective method of delivering building control services for the geographical area and Councils of Scarborough Borough Council and the District Councils of Ryedale, Selby and Hambleton.

The Lead Authority responsible for the administration of the partnership, including the provision of accountancy services, is Ryedale District Council.

During the year the partnership made a trading deficit of £33,775.

The Borough Council's proportion of the cumulative net surplus made by the Partnership at the 31 March 2012 is £2,000. The Borough Council also holds an investment of £30,000 in the Partnership.

The Partnership is deemed to be a Joint Committee for Group Account purposes.

47 THE SANDS DEVELOPMENT AGREEMENT

This Development Agreement relates to the development of The Sands site, which is an area of land in excess of 50 acres in Scarborough's North Bay. As at 31 March 2008, all of the freehold title to the land in this site was in the ownership of the Council and was included as such in the fixed assets section of the Balance Sheet.

Under the Agreement, Benchmark Leisure Limited (BLL – the developer) is entitled to develop the areas of land within the site, on a phased basis. On completion of each phase BLL "draw down" the relevant land by entering into a 150-year lease with the Council. The lease premium for each phase comprises an initial payment at amounts specified in the Development Agreement, together with a deferred premium calculated in accordance with the provisions of the Development Agreement. All development costs are incurred at the developer's risk and therefore the Council has no contractual financial commitments with respect to any development activity.

The Development Agreement originally had a long-stop date of 8 June 2011; however in November 2011 the Council agreed to extend this date to 8 September 2012. The terms and conditions of the development agreement with Benchmark remain the same and specific timescales and milestones for redevelopment of the North Bay are included within the revised contract.

Under the Development Agreement, any surplus made by the developer on each completed phase of the development is required to be transferred to the Council and held in a separate account, known as the "Balance Sum Account". The permissible uses of the Balance Sum Account are defined in the Development Agreement and relate to the financing of future development of the site; the potential payment to the developer of a developer's return, subject to it meeting certain criteria; and the potential for the Council to earn deferred lease premiums. All monies from Phase 1 were used to repay the outstanding borrowing on the Open Air Theatre (see below) therefore no monies were held in the Balance Sum Account at 31 March 2012.

On 31 October 2008 and 7 July 2008, two 150-year leases were granted to the developer on the first completed phase of the Sands Development, Phase 1, which comprises seafront apartments (1A) and the beachfront including chalets and café (1B). During the 2011/12 financial year the Council opted to sell the freehold of Phase 1A to Benchmark. The initial lease premium relating to the Phase 1 site and receipt from the sale of the freehold have been accounted for within fixed asset disposals, and capital receipts.

Under the terms of the Development Agreement, an advance payment of lease premium on land yet to be drawn down has also been received and this has been treated as a receipt in advance pending the future drawdown of eligible land.

The redevelopment of the Open Air Theatre in Northstead Manor Gardens had been part of Benchmark's proposed Masterplan for the Sands Development since its inception, however as a result of the economic climate it became apparent that commercial funding for such a venture would be difficult, if not impossible, to obtain. In light of this the Council gave approval to construct the Theatre itself, funding it initially from Council borrowing. The total cost of constructing the Open Air Theatre was £3.27m and the borrowing was intended to be repaid from the surplus realised on Phase 1 of the Development.

A comprehensive Phase 1 completion statement was agreed by both parties during the 2011/12 financial year and £3.07m of the outstanding borrowing on the Open Air Theatre was repaid. The Council has agreed to defer the remaining £200k payment until the Development's extended long stop date of 8 September 2012 to aid Benchmark's short term cashflow. Benchmark will pay reasonable interest rates on this outstanding borrowing and the amount is fully covered by a guarantee from Benchmark Properties.

Whilst the developer may make a surplus on future phases on the development, this depends very much on the future sale of developed sites and properties. At this stage it is not possible to quantify with any certainty the amount of any such surplus. Consequently, there is no certainty as to whether any deferred lease premiums will be earned by the Council. On the grounds of prudence, therefore, no accrual has been made for any amounts of Balance Sum potentially receivable by the Council in relation to future developments; nor deferred lease premiums due to the Council.

48 MIDDLE DEEPDALE AGREEMENT

K2 Regeneration LLP (Company Registration number OC352473) is a corporate entity formed by Keepmoat Limited (Company Registration number GB1998780) and Kebbell Developments Limited (Company Registration number 00633552). On 25 February 2011 Scarborough Borough Council entered into a Strategic Partnership Agreement with K2 Regeneration LLP to record each party's commitment to co-operate in facilitating the comprehensive redevelopment of land at Middle Deepdale and Eastfield, Scarborough.

49 HOMES AND COMMUNITIES AGENCY AGREEMENT

During March 2012, the Council entered into contract with the Homes and Communities Agency (HCA) to form a partnership agreement to work together to redevelop the Town Hall and Futurist Sites.

The HCA made an initial investment to the Council of £3.0 million to support the acceleration of the Town Hall Accommodation Review and potential redevelopment opportunity of the Town Hall and Futurist site.

Council approved to accept the £3.0 million from the HCA and enter into a partnership contract with the HCA on the basis that a ‘cooling off’ period is included within the contract. This ‘cooling off’ period allows the Council to go though an extensive period of public consultation with regard to the Town Hall accommodation Review and the redevelopment opportunities for the Futurist and Town Hall sites.

The consultation period ended on the 31 May 2012 and the results will be reported to Council on 20 July 2012. At that meeting Council will decided either to forge partnerships with the HCA or payback the £3.0 million.

This money was not received until April 2012 and is not included on the year end balance sheet.

The Town Hall and Futurist site operations continue to operate normally during the intervening period.

This account shows the income received from Council Tax payers and Business Rate payers. It also shows how the income is distributed between the Borough Council, the North Yorkshire Police Authority, the North Yorkshire Fire Authority and the North Yorkshire County Council.

31 March 2011 £000				31 March 2012 £000
	Income			
(53,810)	Income from Council Tax Payers		(53,922)	
	Transfers to/from General Fund			
(10,906)	Council Tax Benefits		(10,935)	
1	Transitional Relief		1	
(27,117)	Income from Business Rate Payers		(28,837)	
(91,832)	**Total Income**			**(93,693)**
	Less: Expenditure			
64,411	Precepts and Demands		64,497	
26,875	Payment to Business rate Pool		28,595	
241	Allowance for Cost of Business Rate Collection		241	
-	Distribution of Collection Fund Surplus	Note 6	-	
373	Provision for Appeals and Non-Collection		429	
91,900	**Total Expenditure**			**93,762**
68	**(Surplus)/Deficit for the Year**			**69**
(79)	Fund Balance Brought Forward			(11)
(11)	**Balance on Collection Fund Carried Forward**			**58**

1 THE COUNCIL TAX SYSTEM

The Council Tax is the means of raising income from local residents to help pay for Council services. It is levied on domestic properties and the charge is based on a valuation band assessed for each dwelling by HM Revenue & Customs.

2 ACCOUNTING POLICIES

The Collection Fund Income and Expenditure Account are prepared on an accruals basis and complies with appropriate regulations and the Code of Accounting Practice.

The transactions of the Collection Fund are wholly prescribed by legislation. The Collection Fund balances attributable to the Borough Council are consolidated into the Council's Balance Sheet rather than being disclosed separately.

3 INCOME FROM COUNCIL TAX

In 2011/12 the Council set a Band D tax of £1,535.44. The charge for each band can be expressed as a ratio of the Band D charge. The charges, before any appropriate discounts and benefits, were:

Band	Ratio to Band D	Council Tax	
		2010 / 2011 £	2011 / 2012 £
A	6/9	1,023.63	1,023.63
B	7/9	1,194.22	1,194.22
C	8/9	1,364.83	1,364.83
D	9/9	1,535.44	1,535.44
E	11/9	1,876.66	1,876.66
F	13/9	2,217.86	2,217.86
G	15/9	2,559.07	2,559.07
H	18/9	3,070.88	3,070.88

The Council Tax Base, which is used in the Council tax calculation, is based on the number of dwellings in each band expressed as Band D equivalents. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The tax base estimates were:-

Council Tax Valuation Band	2010/11		2011/12	
	Chargeable Dwellings	Band 'D' Equivalent Numbers	Chargeable Dwellings	Band 'D' Equivalent Numbers
A* (up to £40,000 with disabled relief)	-	10	-	8
A (up to £40,000)	15,449	8,202	15,528	8,253
B (£40,001 to £52,000)	14,450	9,414	14,468	9,443
C (£52,001 to £68,000)	12,378	9,475	12,386	9,463
D (£68,001 to £88,000)	6,931	6,098	6,947	6,098
E (£88,001 to £120,000)	3,905	4,272	3,905	4,273
F (£120,001 to £160,000)	1,670	2,179	1,670	2,165
G (£160,001 to £320,000)	688	989	688	991
H (over £320,000)	48	59	48	61
	55,519	40,698	55,640	40,755
Plus: Contributions in Lieu		24		24
Second Homes		1,365		1,355
Provision for Non Collection		(589)		(590)
Council Tax Base		41,498		41,544

4 BUSINESS RATE INCOME

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a standard rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to Authorities a share of the pool based on an amount per head of local adult population. The total non-domestic rateable value at 31 March 2012 was £85,672,712, (31 March 2011 £85,090,702). The national non-domestic and the small business non-domestic rating multiplier were 43.3p and 42.6p respectively (41.4p and 40.7p 2010/11).

5 PRECEPTS

The major preceptors were as follows:

2010/11		2011/12
43,883	North Yorkshire County Council	43,932
8,488	North Yorkshire Police Authority	8,498
2,577	North Yorkshire Fire Authority	2,580
8,769	Scarborough Borough Council	8,779
694	Parish Councils	708
64,411	**Total**	**64,497**

6 DISTRIBUTION OF COLLECTION FUND SURPLUS

The precepting authorities received the following amounts in relation to the distribution of collection fund surpluses:

2010/11		2011/12
-	North Yorkshire County Council	-
-	North Yorkshire Police Authority	-
-	North Yorkshire Fire Authority	-
-	Scarborough Borough Council	-
-	**Total**	-

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCARBOROUGH BOROUGH COUNCIL

Opinion on the Authority financial statements

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

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Scarborough Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

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

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

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

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

Conclusion

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

Certification of completion of the audit

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

Cameron Waddell
Officer of the Audit Commission
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

25 September 2012

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary
An actuary is an expert on pension scheme assets and liabilities.

Amortisation
The process of charging capital expenditure, usually on intangible fixed assets, to the accounts over a suitable period of time.

Balance Sheet
The Balance Sheet is a summary of an authority's financial position at the year end. It shows the balances and reserves at an authority's disposal.

Budget
A statement of the Council's expected level of service and spending over a set period, usually one year.

Capital Expenditure
The Statement of Recommended Practice (SORP) defines capital expenditure as:

a) The acquisition, reclamation and laying out of land;

b) The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;

c) The acquisition, installation or replacement of movable or immovable plant, machinery, apparatus and vehicles.

In this context, enhancement means the carrying out of works which are intended to lengthen the useful life of the asset, increase substantially the open market value of the asset or increase substantially the extent to which the asset can or will be used for the purposes of the activities of the Council.

Capital Financing
This is the means by which capital expenditure incurred by the Council is funded. Usually such funding comprises grants, contributions from third parties, receipts from the sale of assets, contributions from Council reserves, revenue and borrowing.

Capitalisation
The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the Authority for a period of more than one year.

Capital Receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital Receipts Reserve in order to repay the Council's borrowings or to finance new capital expenditure.

Cash Flow Statement
Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes. It provides a link between the Balance Sheet at the beginning of the year, the Income and Expenditure Account for the year and the Balance Sheet at the end of the year.

CIPFA
The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Comprehensive Income and Expenditure Account
This Account sets out the income, expenditure, gains and losses for the all the Council's functions for the financial year, according to the Best Value Accounting service expenditure analysis.

Consistency
The principle that the same accounting treatments are used from year to year so that useful comparisons can be made. Any significant change in policies must be declared in the accounting statements.

Contingencies
Sums set aside to meet either the potential costs of activities expected to occur during the year, over and above those costs included in the services budgets (pay and price), or items which are difficult to predict in terms of financial impact or timing (uncertain items).

Corporate and Democratic Core
Corporate and Democratic Core represents costs associated with democratic representation and management and corporate management. Democratic representation and management includes all aspects of Members' activities. Corporate management concerns the cost of the infrastructure that allows services to be provided and the cost of providing information that is required for public accountability. Such costs form part of total service expenditure, but are excluded from the costs of any particular service.

Council Tax
The means of raising money locally to pay for local authority services. This is a property based tax where the amount levied depends on the valuation of each dwelling.

Creditors
Amounts owed by the Council for goods or services that it has received but for which payment had not been made at the year end.

Current Assets and Liabilities
Current assets are cash and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term. By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current Service Cost (IAS 19 term)
Employer pension contributions charged during the year have been removed from the Income and Expenditure account and replaced with an amount (i.e. current service cost) which reflects the estimated benefits that employees have accrued in the year of account.

Debtors
Amounts owed to the Council at the year end, where services have been delivered but payment has not been received.

Defined Benefits Pension Scheme
A pension scheme which is constructed to provide pre-determined pension benefits for retired members, with employers' and employees' contribution rates being calculated based on actuarial assumptions.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, age or obsolescence through technological or other changes.

Depreciated Historic Cost
The value of an asset shown in the Balance Sheet calculated from the original cost less depreciation to date.

Earmarked Reserves
These reserves represent monies set aside to be used for a specific usage or purpose.

Emoluments
All sums paid to or received by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to United Kingdom income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Expected Return on Assets (IAS 19 term)
The average rate of return expected on the actual assets held by the scheme.

Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

Financial Guarantee Contracts
A contract that requires the guarantor to reimburse the holder of a debt instrument should they fail to make payment when due and in accordance with the terms of the loan. Commercial organisations may charge a fee for accepting the risk involved in giving such financial guarantees but local authorities enter into such arrangements for policy rather than commercial reasons and do not usually receive a fee.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments include:

trade and other payables; borrowings; financial guarantees; bank deposits; trade receivables; loans receivable; other receivables and advances and investments.

Finance Lease
An arrangement whereby the owner of an asset (the lessor) accepts a rental in return for allowing another party (the lessee) use of an asset for a specified period, such that the substantially all of the risks and rewards associated with ownership are transferred to the lessee.

Fixed Asset
An asset which is intended to be in use for several years such as a building or a vehicle. These may be Tangible or Intangible.

General Fund Balance
The Council's main revenue fund to which all revenue receipts are credited, and from which revenue liabilities are discharged. The movement in the fund year represents the excess of income over expenditure once notional charges and credits have been replaced by the amounts required to be funded from Council Tax.

Government Grants
Amounts received from central Government towards funding the Council's activities. Revenue grants and contributions are credited to the appropriate service revenue account. Capital grants and contributions are credited to the 'Taxation and Non specific Grant Income' heading in the Comprehensive Income and Expenditure Account.

Impairment
A reduction in the value of a fixed asset arising from reductions in market values, physical damage, dilapidation or obsolescence.

Infrastructure Assets
This relates to Coastal Protection, footpaths and railings.

Income
Amounts which the Council receives, or expects to receive, from any source. Income includes fees, charges, sales, capital receipts, government grants, the precept on Council Tax collection funds, Revenue Support Grant and National Non-Domestic Rate.

Intangible Fixed Assets
Expenditure incurred on those fixed assets that do not have physical substance but which are separately identifiable and provide the Council with a right of use for a period in excess of one year.

Interest Cost (IAS 19 term)
A financing charge reflecting the increases in the present value of scheme liabilities.

Investments
Short term investments comprise deposits of temporary surplus funds with banks or similar institutions. Long term investments comprise similar funds held for a period of more than one year.

Liquid Resources
Current asset Investments that are readily disposable by the authority without disrupting its business and are readily convertible to known amounts of cash.

Loan and Receivables - assets
A financial Instrument which represents an asset to the authority and includes loans and investments made by the council to third parties. They are characterised by fixed or determinable payments and are not quoted in an active market. They do not include investments by way of shares and equity.

Local Authority Business Growth Incentive Scheme (LABGI)
The Local Authority Business Growth Incentives scheme ('LABGI') provides an incentive for local authorities to promote economic growth in the area by allowing them to retain a proportion of any increase in business rates revenues.

Long Term Borrowing
The main element of long term borrowing is comprised of loans that have been raised to finance capital expenditure projects.

Market Value
The monetary value of an asset as determined by current market conditions at the Balance Sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum Revenue Provision
The minimum amount (as laid down in statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

Movement in Reserves Statement
This statement reconciles the outturn on the Income and Expenditure Account to the General Fund balance.

National Non-Domestic Rate
The replacement for non-domestic rates, which were previously set by individual local authorities. The government now levies a standard rate on all properties used for commercial purposes and cannot increase it by any more than the Retail Price Index. The rates are collected on behalf of the government by District Councils, and are then redistributed nationally on the basis of resident population.

Net Book Value
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation and impairment.

Net Realisable Value
The expected proceeds from the sale of an asset when sold on the open market between a willing buyer and a willing seller less all the expenses incurred in selling the asset.

Non Distributed Costs
Costs that cannot be specifically applied to a service or services and are held centrally, Comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Operating Lease
An arrangement similar to a finance lease but where the risks and rewards associated with ownership remain with the lessor.

Past Service Cost (IAS 19 term)
The increase in the scheme liabilities arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
The amount of money the Council collects from Council Tax payers.

Prepayments
Amounts paid by the Council at the year end that related to goods and services not received until later years.

Prior Year Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Provisions
Amounts set aside to meet costs that are likely or certain to be incurred but where the amount of cost or timing of payment is uncertain.

Public Works Loan Board (PWLB)
A Government agency that lends money to local authorities at lower interest rates than those generally available from the private sector. Local authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source.

Receipts in Advance
Amounts received by the Council during the year which relate to goods or services delivered in future years.

Related Party
A person or organisation which has influence over another person or organisation.

Reserves
Specific amounts set aside for future policy purposes or to cover contingencies. There are two types of reserve, those available to meet current expenditure (usable), and those that are not (unusable). Most revenue reserves are capable of being used, but the Revaluation Reserve and Capital Adjustment Account cannot be used to meet current expenditure.

Revenue Expenditure
Revenue expenditure is spending on the day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

Revenue Support Grant
Central Government grant support towards local government expenditure.

Section 151 Officer
The Officer designated to assume overall responsibility for the administration of the financial affairs of the Council and for the preparation of the Council's Statement of Accounts.

Settlements and Curtailments (IAS 19 term)
Settlements are liabilities settled at a cost materially different to the FRS 17 reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

Slippage
This is when delays occur in capital works and therefore payments are not made in the financial year originally anticipated.

Soft Loans
A loan made to a third party or received from a third party where the interest rate is less than the prevailing market interest rate. Local authorities sometimes make such loans for policy reasons, i.e. to assist local charities or voluntary organisations that undertake activities that the authority considers benefits the local population.

Stock
Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Surplus
The remainder after taking away all expenditure from income.

Tangible Fixed Assets
Fixed assets that have physical substance and which yield benefits to the Council for a period of more than one year.

Usable Capital Receipts Reserve
A reserve held to provide a source of financing for future capital expenditure or to repay the Council's borrowings.

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

Work in Progress
The value of rechargeable work which has not been recharged at the end of the financial year.