



DERBY CITY COUNCIL

STATEMENT OF ACCOUNTS

2010 - 2011

**Financial Statements
Derby City Council 2010/11**

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Explanatory Foreword

1. Introduction

Welcome to Derby City Council's annual Statement of Accounts for 2010/11. The accounts have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2010 (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this foreword is to provide a summary of the overall financial position and performance of the Council as at 31 March 2011 and explain the most significant financial matters contained within the Accounts. It also explains the Council's financial activity during 2010/11 and the purpose of these financial statements. Where necessary estimates and judgements have been made in preparing these accounts which comply with the Code. Further details of these estimates and judgements are included in Notes 4 and 5 to the Accounts (pages 59-62).

In order to provide all stakeholders in the city with the confidence that public money has been properly accounted for, effective internal controls to detect and prevent any irregularities have been rigorously enforced. Details of the Council's systems of internal control are included within the Annual Governance Statement (page 15).

2. Conversion to International Financial Reporting Standards

During 2010/11 the Council completed the mandatory transition of its Accounts to comply with International Financial Reporting Standards (IFRS). These international standards govern the way financial transactions are brought into account and how they are reported. Making the transition has affected both the appearance of the accounts and the Council's financial position.

In making the transition to IFRS the Council has had to revisit and restate the Statement of Accounts it published for 2009/10. The Balance Sheet published at the end of 2008/09 has also been restated. This was necessary in order to present users of the Accounts with meaningful comparative information. A summary of the adjustments made as part of this restatement exercise is included in Note 1 (pages 35-37) to these accounts.

There are many other changes to the appearance of the Accounts including additional, or expanded, disclosure notes. Titles and descriptive terms have also changed. As an example, the Statement of Movement on the General Fund Balance has been replaced by the more comprehensive Movement in Reserves Statement, and Fixed Assets become Property, Plant and Equipment (PPE). A glossary is included at the end of these Accounts to assist readers with these changes and to explain some of the more technical terms used.

From a financial viewpoint, the most significant changes introduced by transition to IFRS include:

- Private Finance Initiative (PFI) schemes: Significant changes to the accounting treatment for PFI schemes were introduced during 2009/10 and were fully implemented for the published 2009/10 accounts. Therefore no further conversion adjustments were required in 2010/11.

- Separation of Property, Plant and Equipment (PPE) assets into significant components: The Code 2010 requires the Council to depreciate separately any component of a PPE asset with a cost that is significant in relation to the total cost of the whole asset. This has led to an increase in the annual depreciation charge of £1.350m.
- Operating and finance leases: Under IFRS, the requirements for lease classification are different to those used in the Council's previous UK GAAP accounts. Following a review of significant leases, this has led to a number of assets leased out by the Council being removed from the Balance Sheet and a number of assets leased in by the Council being recognised in the Balance Sheet for the first time. Note 22 (page 90) to these accounts provides further details of the Council's lease arrangements.
- Definitions of PPE categories: The Code 2010 introduces a new category for PPE assets, Assets Held for Sale, and clarifies the definition of several other asset categories, such as Investment Properties. These changes require significant re-categorisation of Council assets, and have had further impact on the Council's depreciation charges and the timing of revaluations. Further information regarding the re-categorisations of PPE assets is provided in Note 1 to these accounts.
- Treatment of Capital Grants and Contributions: Grants and contributions relating to capital and revenue expenditure are now accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Account, unless they have conditions which have not yet been satisfied. This is a significant change to the accounting treatment for capital grants and contributions which were only previously recognised in the Income and Expenditure Account over the life of the asset and in line with depreciation. The impact of this change is to significantly increase the amount of grant income recognised in the Comprehensive Income and Expenditure Account for the 2009/10 transition period.
- Unused Holiday/Flexi leave entitlements: The conversion to IFRS accounting has given rise to a new requirement to accrue for an untaken employee benefits, such as holiday and flexi-leave entitlements. This accrual recognises the Council's liability for these entitlements with its employees and is offset by a new unusable reserve, the Accumulated Absences Account.

3. Explanation of the Statements

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the core financial statements summarise the Council's finances for 2010/11 (1 April 2010 to 31 March 2011). The core financial statements comprise of:

a) Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and other unusable reserves.

b) Comprehensive Income and Expenditure Statement

This statement shows the actual financial performance measured in terms of resources generated and consumed by the Council during 2010/11. It is produced in line with IFRS accounting conventions and therefore the costs shown may be different to the amount to be funded from taxation.

c) Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council as at 31 March 2011. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

d) Cash Flow Statement

The Cash Flow Statement shows the total movements in cash and cash equivalents of the Council during 2010/11 arising from transactions with third parties for revenue and capital purposes.

e) Housing Revenue Account

This is a separate statutory account which summarises all income and expenditure arising from the provision, management and maintenance of Council housing.

f) Collection Fund

The Collection Fund statement reflects the Council's statutory requirement to maintain a separate account showing all transactions relating to National Non-Domestic Rates and Council Tax.

g) Annual Governance Statement

This statement describes the Council's overall governance framework, including its systems of internal control and reports on the review of the effectiveness of these arrangements, in accordance with the Accounts and Audit Regulations.

h) Statement of Accounting Policies

The Council produces figures in the accounts using general principles recommended by CIPFA. They ensure accounts from different public sector organisations are consistent and comparable. This section explains the main policies which the Council has adopted.

i) Notes to the Core Financial Statements

These notes aim to assist in understanding by breaking down balances shown in the Comprehensive Income and Expenditures Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement.

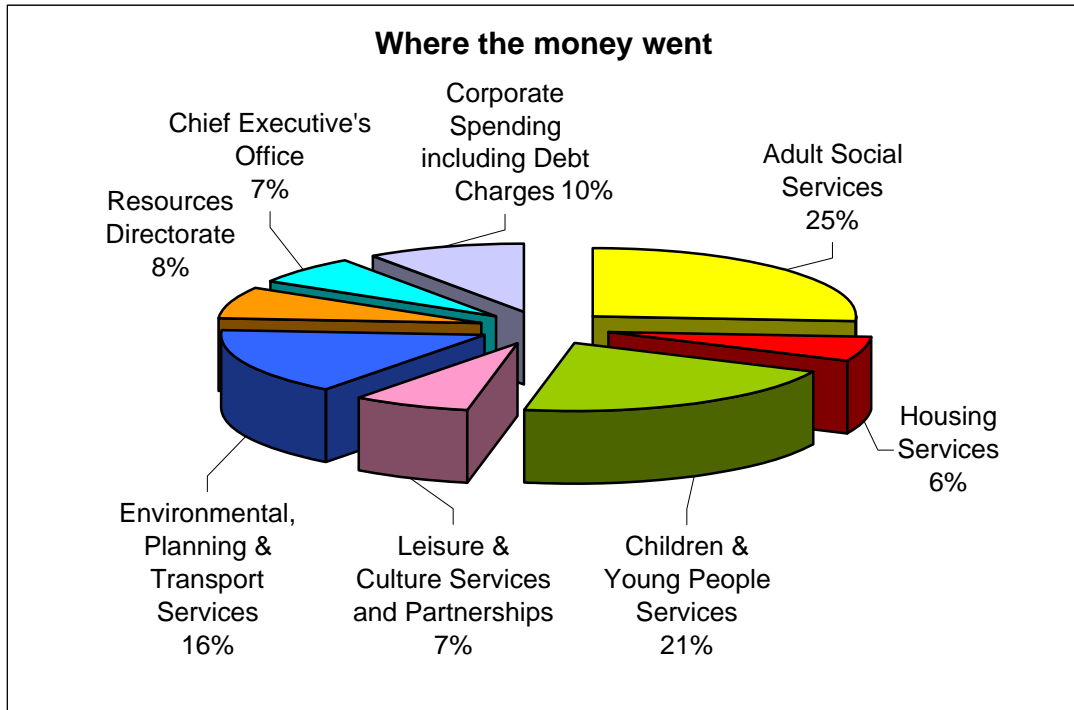
4. Revenue Income and Expenditure

a) Financial Performance against Budget

In March 2010, the Council agreed its original budget for 2010/11 at £214.8m. This resulted in a band-D council tax of £1,127.21, which was an increase of £27.46, or 2.50%, over the equivalent 2009/10 figure.

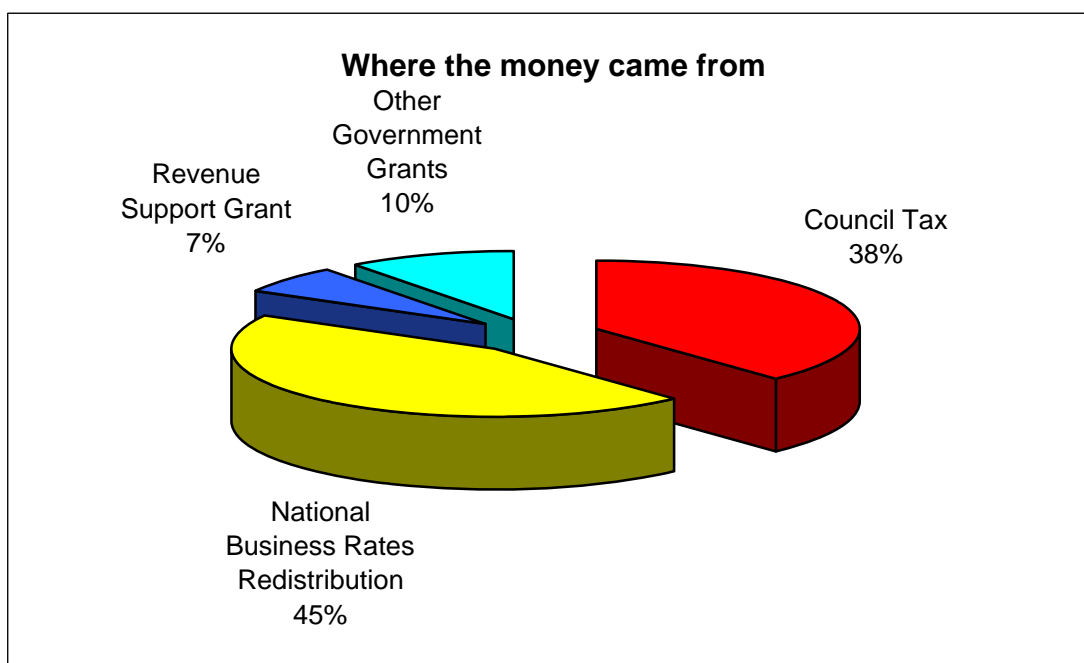
b) Analysis of Revenue Spending

During the year the City Council manages and controls spending on services such as schools, social services and leisure facilities through its General Fund. The Council spending on interest payable and similar charges was £15.939m, a £1.517m decrease from 2009/10. A summary of the net cost of running each main service area is shown below:



Further analysis of the Council's revenue spending is provided in Note 8.

This spending is financed from Council Tax, Government Grants, fees and charges, and other income.



c) Housing Revenue Account

The Housing Revenue Account outturn shows a carried forward deficit of £0.665m, met from the ring-fenced Housing Revenue Account reserve within the Balance Sheet.

d) Revenue Reserves

The Council's financial policy is to hold general reserves at approximately 2% of the net revenue budget, including school budgets. At 31 March 2011 unallocated general reserves stand at £7.143m (1.95% of net revenue budget, including school budgets). Other revenue reserves available to the general fund total £44.9m and are earmarked for either service or corporate use.

Included within corporate earmarked reserves is a budget risk reserve of £6.8m which is held to allow the Council to respond quickly and effectively to any unforeseen pressures which arise during the year. Specific reserves are also held to fund specific projects included within the Council's budget and priorities, such as the Council's transformation programme and accommodation strategy.

The Council considers the current and future projected levels of reserves and balances held by the Council to be adequate to meet estimated future commitments and address ongoing risks and uncertainties.

5. Capital Income and Expenditure

Alongside our day-to-day costs, the Council spends money on capital assets such as buildings, roads, major maintenance, vehicles and ICT. During 2010/11 the Council spent £73.195m on capital schemes.

Major Areas of Capital Spend in 2010/11:

| Directorate | Scheme | £'000s |
|--------------------------|---|--------|
| Children & Young People | New build, extensions and modernisation of schools and education centres. Devolved capital school grants. | 20,236 |
| Neighbourhoods | Highways and transportation. Improvements to city wide parks and play areas. Refuse vehicles, street cleaning and grounds plant and equipment. | 23,469 |
| Adult Health & Housing | New build and modernisation of Council dwellings. New day facility for adults with autism. | 19,833 |
| Resources | Information and communication technology | 523 |
| Chief Executive's Office | One Derby One Council Accommodation and ICT Transformation Strategy. City centre infrastructure improvements. Planned maintenance works. | 9,134 |
| Total | | 73,195 |

Capital expenditure is financed from one of the following sources:

- Supported borrowing (where the interest costs for the debt are funded by central government grant)
- Unsupported borrowing (where the interest costs for the debt are funded from the Council's revenue budget)
- Grants or contributions from the Government, the European Union or another third party
- Proceeds from the sale of capital assets (capital receipts)
- Contributions from the Comprehensive Income and Expenditure Account

Unapplied capital resources, excluding capital receipts, stand at £25.842m at 31 March 2011. These consist of £19.904m unapplied capital grants, £2.674m developer and other capital contributions and £3.264m earmarked capital reserves. The unapplied capital receipts reserve stands at £5.933m at 31 March 2011.

These resources are earmarked and planned to be used over the next five years to fund the Council's capital programme.

6. Borrowing Facilities

In 2010/11 the Council had an authorised limit for external debt of £542.0m that compares to the actual level of debts outstanding at 31 March 2011 of £349.5m.

Breakdown of Borrowing Figures:

| | 2009/10 £m | 2010/11 £m |
|---|---------------|---------------|
| Short-Term Borrowing (i.e. due within 1 year) | 7.1 | 0 |
| Long-Term Borrowing | 340.9 | 349.5 |
| Total | 348.0 | 349.5 |

During the year borrowing increased slightly by £1.5m from £348.0m at 31 March 2010 in line with the Council's approved Treasury Management Strategy. All standard external borrowings, except for £20m taken from the Royal Bank of Scotland, are held with the Public Works Loan Board. However, the figures above also include debt managed by Derbyshire County Council on Derby City Council's behalf, and debt deemed to be finance lease liabilities under PFI contracts.

7. Significant Liabilities, Provisions, Contingencies and Write Offs / Impairments

The Council has set aside a significant provision of £2.9m at 31 March 2011 for the likely repayment of subsidy from the Council's 2008/09 and 2009/10 Housing Benefit Grants and for the probable repayment of reward funding of the 2010/11 claim. The exact value of any repayment will depend on the results of the Council's external auditor's review and payment is expected to occur during 2011/12.

The Council has recognised a significant impairment of £169m for Council Dwellings in the 2010/11 Statement of Accounts. This reflects a national change in the Existing Use Value for Social Housing (EUSSH) methodology which resulted in a reduction in the Council's adjusting factor from 50% to 34%. This valuation methodology is designed to provide the economic cost to the Government of providing Council housing at less than open market rents. Further details of the impairments to Council assets are included in Note 18.

8. Private Finance Initiatives

Private Finance Initiative (PFI) schemes are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Council under a contract are mainly split between capital financing liability, interest and service charges, all of which are charged to revenue to reflect the value of services received in each financial year.

Derby City Council has three operational PFI projects and a further one in procurement as follows:

Operational: Assets included within Council accounts

- Grouped Schools

A 27-year PFI contract with Derby School Solutions (DSS), a private sector consortium, to build, maintain and operate 5 new schools and a Children's Centre including 2 support units in the City. This initiative is funded by a combination of special grant from Central Government, contributions from each schools delegated budget over the life of the contract and Early Years service.

- Street Lighting Columns

A 25-year PFI contract was signed in April 2007 with Connecting roads (Derby), to replace all the life expired lighting units within the city, and to maintain the whole of the lighting of stock for the period of the contract. This initiative is funded by a contribution from the Council's revenue budget and a special grant from Central Government.

Operational: Assets not included within the accounts

- Housing Inner City Regeneration

A 30 year contract with Home Housing Association to acquire and refurbish 150 housing properties, which commenced in January 2001. This initiative is funded by a contribution from the Council's revenue budget and a special grant from Central Government.

In Procurement

- Housing

The Council is involved in negotiations with both a single bidder and the Homes and Communities Agency to provide a minimum of 170 affordable houses in the City under a 30-year PFI contract. These homes will be a mix of new build and refurbishments at three sites: Alvaston, Chaddesden and Spondon. Negotiations have recently been delayed by a Central Government Value for Money review of all PFI projects. However, Derby's scheme has been approved and financial close is now anticipated to be in early 2012.

9. Net Pensions Liability

The Council participates in the Derbyshire County Council defined benefit (open) pension fund and the Teachers' pension Fund. During the year there was a decrease in the Council's Net Pension Liability of £77.341m. This meant the Council's net pension liability as at 31 March 2011 was £215.044m. A more detailed analysis of the movement in net pension liability can be found in Note 42. The forecast pension payments will be paid out over a period of many years during which time the assets will continue to generate returns towards funding them.

In addition, future changes in the equity market will also adjust the value of the fund assets. In calculating the scheme assets and liabilities the fund's actuaries make a number of assumptions about events and circumstances in the future. The resulting actuarial calculations are subject to uncertainties on the outcome of future events and include assumptions on the income and valuation of investments held by the fund. The principal actuarial assumptions made in relation to these accounts are disclosed in Note 42. This discloses the actuarial gains and losses in the year which reflects where actual outcomes differ from actuarial assumptions made last year together with the effect of consequent revision of the estimates moving forward.

10. Impact of Current Economic Climate in 2010/11

Although the recent economic downturn has continued to have an impact on some services provided by the Council in 2010/11, our General Fund and HRA balances both remain above minimum acceptable levels.

The economic environment has made debt collection more challenging during 2010/11, and the Council has continued to focus on its duty to collect debt whilst recognising individual circumstances where relevant. As a result the Council has not observed any major shift in levels of debtors or debt collection rates for general, council tax and business rates debtors.

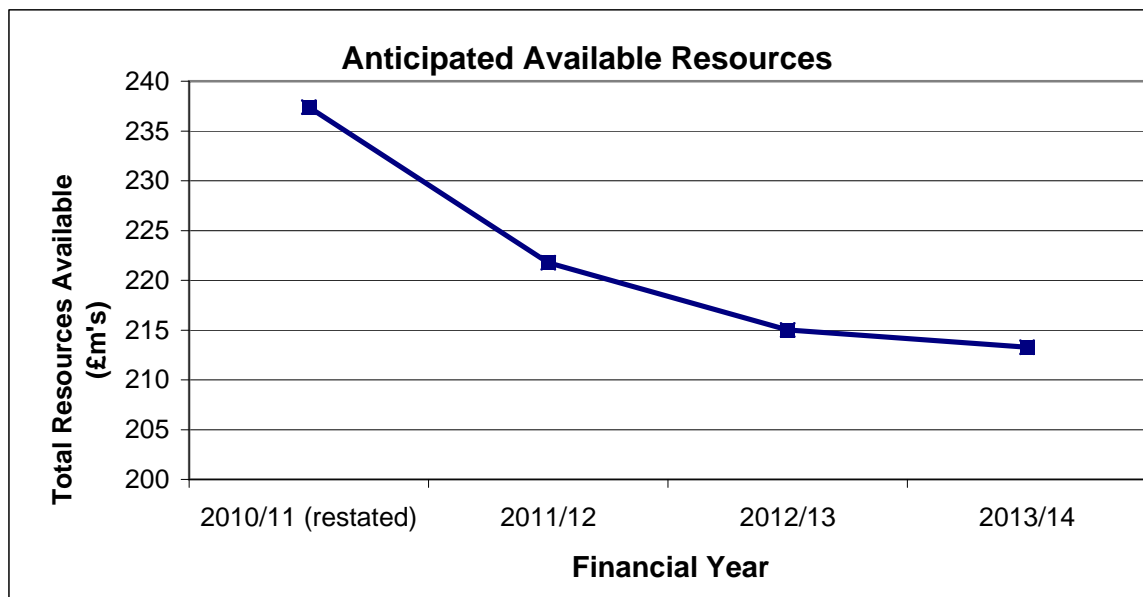
The Council has achieved slightly better than anticipated returns on investment despite the continued low bank interest rates throughout 2010/11, 0.98% compared to the Bank of England Base rate of 0.50%. This is partly due to a few fixed term investments held in the portfolio that were taken out when investment rates were relatively high. Due to setting spending plans on the basis of the anticipated lower investment income the Council has ensured that it continues to meet its commitments and protect the fiduciary interests of the residents of Derby.

During 2010/11 the Council carried out a series of revaluations of property, plant and equipment, in line with its rolling programme. This exercise resulted in downward revaluations, excluding Council Dwellings, of £21.6m being recognised against the Net Book Values of Council Assets, although the impact has not been as significant as in previous years (£27.7m impairment in 2009/10). The Council has also recognised a significant impairment of £169m for Council Dwellings at discussed in section 7 above. These impairments are a reflection of the continued impact of the current economic climate on the values of Council assets.

11. The Medium Term Financial Plan

The Council's medium term financial plan (MTFP) for 2011/12 to 2013/14 delivers a balanced position after providing for significant funding reductions announced as part of the Comprehensive Spending Review in 2010 and subsequent detailed financial settlement. The plan does, however, include assumptions about anticipated resources from central government and Council Tax, inflation, service demand and the deliverability of planned savings.

The chart below provides a summary of the overall change in the anticipated resources available to the Council over the MTFP period. The 2010/11 figures have been restated to make these directly comparable to the MTFP.



The Council has outlined permanent saving requirements of £57m over three years to address these funding reductions and meet rising costs whilst continuing to maintain priority services and invest for the future. The savings targets of £24.7m in 2011/12, £18.7m in 2012/13 and £13.6m in 2013/14 exclude one-off savings needed to meet redundancy pressures. Savings will be delivered from a combination of the Council's one Derby, one council transformation programme, staff post reductions and changes to services.

The Council will need to carefully monitor delivery of these planned savings throughout the financial year to ensure the MTFP is delivered on target. The Council will also need to examine all service areas to identify where further savings can be made and revise spending plans to reflect any further changes in funding, whilst continuing to deliver priority services.

The Council also has a medium term capital investment programme which totals £276m over the next three years. This includes £32m for the Council's accommodation strategy, a £46m housing improvement programme, £20m for the Local Transport Plan, £12m IT investment to support the Council's transformation programme, £45m to deliver the Council's leisure strategy, £25m for a jointly funded waste disposal plant with Derbyshire County Council and a £66m schools programme.

Roger Kershaw
Strategic Director of Resources
29 June 2011

Derby City Council Annual Governance Statement - 2010/11

1. Scope of Responsibility

Derby City 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 overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Derby City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website or can be obtained from the Council's Head of Audit and Risk Management. This statement explains how Derby City Council has complied with the code and has been prepared to meet the requirements of regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement ("AGS") that accompanies the annual accounts.

2. The Council's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and by which it is accountable to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has 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. It can not eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's 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.

The governance arrangements have been reviewed against the six core principles of effective governance outlined in our Code of Corporate Governance. Derby City Council has been working to its Code of Corporate Governance for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Statement of Accounts.

2.1 Determining the Council's Purpose, its vision for the local area and intended outcomes for the Community

- The Derby Plan 2011-26 (previously called the Sustainable Community Strategy) presents a new vision and set of outcomes for the city. The 'three wishes' campaign carried out in Summer 2010 was the starting point for the drafting process, along with information gathered from community workshops, forums, face-to-face consultation exercises and local evidence on quality of life. It is a high-level plan that brings together the priorities of key partners from the public, private and voluntary sector. In 2026 all people in Derby will enjoy...
 - A thriving sustainable economy
 - Achieving their learning potential
 - Good health and well-being
 - Being safe and feeling safe
 - A strong community
 - An active cultural life
- Supporting the Derby Plan is our Council Plan 2011-14 (previously called the Corporate Plan). This plan is a key document that sets out what key improvements we would like to make and the types of actions that we will take to make them. For the next three years we will be aiming to improve outcomes for local people and customers in the six priority areas. As a Council we will also be concentrating on achieving...
 - Good-quality services that meet local needs
 - A skilled and motivated workforce.
- The main way the Council Plan will be delivered is through departmental business plans. Each department has to set objectives for the next three years, to underpin our new outcomes. The departmental objectives and actions will inform the Managing Individual Performance meetings.
- The Council has a responsibility to explain and report regularly on its performance and financial position. It does this through the publication of regular performance and financial information, for example, in 'Your Derby' resident magazine.
- The Derby Plan, Council Plan and our business plans all reflect the new focus on 'outcomes based accountability' so our overall vision and goals are clearer and more meaningful to local people. Progress can be measured against quality of life 'indicators' and service 'performance measures'.
- Performance management became more focused in 2010/11 with the introduction of a corporate scorecard of priority PIs (monitored using our performance system DORIS) with bi-monthly Chief Officer Group sessions to review comparative information and challenge performance. This has led to an improvement in performance, with performance against target rising from 61% to 65% in 2010/11 and a greater proportion of top quartile indicators (based on initial results from the PwC benchmarking club).

- The 'one Derby, one Council' transformation programme aims to make the Council more efficient and more effective at serving our customers by ensuring that we work in a more simple, standard and shared way. The governance framework for the programme has been defined and the 'one Derby, one Council' Strategic Board provides strategic leadership and direction to the transformation programme.
- Value for money continues to grow in importance. There is a VFM Strategy in place and VFM is reflected in a number of strands of the One Derby One Council transformation programme. Going forward, there is a need to review organisational activity and priorities around VFM work.
- Promoting equality and diversity remains at the heart of what we do, and we were recently awarded an 'excellent' rating in the "Equality Framework for Local Government" assessment undertaken in March 2011. We also received an award for being one of the top 100 'Stonewall' companies ,

2.2 Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The Council has clearly outlined who is responsible for the discharge of responsibilities within the constitution and has:

- Appointed a Leader of the Council;
- Appointed an Cabinet whose members each have an individual portfolio;
- Statutory officers in place with the skills and resources to fulfil those roles;
- Appointed (on an annual basis) committees to discharge the Council's functions - regulatory and otherwise;
- A published constitution which sets out the rules on how the Council operates and citizens rights and which contains a scheme of delegation of executive and non-executive functions; rules of procedure; financial and contract procedures; codes and protocols governing both members and officers; and a Members Allowances Scheme. The constitution is reviewed annually to ensure it remains fit for purpose, reflects changes in legislation and the Council.

In July 2010, the Council set up a special Governance Committee, comprising the Leaders and Deputy Leaders of each political group, chaired by the Leader of the Council. The Local Government and Public Involvement in Health Act 2007 requires changes to the executive leadership of Councils. This Committee is responsible for agreeing consultation arrangements and overseeing the process leading to final decisions.

Chief Officer Group has overall responsibility for the maintenance of the governance framework across the Council. A Governance Working Group chaired by the Strategic Director - Resources has responsibility for co-ordinating all work to improve governance arrangements within the Council.

2.3 Promoting our Values and Upholding High Standards of Conduct and Behaviour

The Council understands that shared values have a high prominence in well performing public and private sector organisations and are integral to driving the Council's ethos as well as communicating the Council's culture and ambition to its residents, customers and communities.

- Member and Officer behaviour is governed by Codes of Conduct. These include a requirement for declarations of interest to be completed.

- The Council takes fraud, corruption and maladministration very seriously and in 2010/11 reviewed the following policies which aim to prevent or deal with such occurrences:
 - Anti-Fraud and Corruption Policy and Fraud Response Plan
 - Confidential Reporting Code (Whistleblowing Policy)
 - Anti- Money Laundering Policy
 - Disciplinary and Dismissals Policy

- The Standards Committee is in place in accordance with the requirements of the Local Government Act 2000. It is responsible for promoting and maintaining high standards of conduct by members of the Council. It has eight members, five of whom are independent co-opted members. The Committee is chaired by an independent member. The standards regime for members is to be scrapped; however, the Governance Committee has initiated a review by the Scrutiny Management Commission in 2011/12 of the Council's political management / ethical framework arrangements in the light of the Localism Bill. The remit of the review includes whether the Council should go back to the committee system of constitutional governance, adopt a voluntary code of conduct and retain a local Standards Committee.

- The Corporate Complaints Procedure enables the Council to receive and investigate any complaint made against it, a Member or an employee.

2.4 Taking Informed and Transparent Decisions and Managing Risk

Derby City Council has adopted the principles of open government. The Council's governance arrangements ensure that:

- Key and major decisions taken by the Cabinet, subject to limited exemptions, are made in public and that information relating to those decisions is made available to the public;

- The decisions of regulatory committees, subject to limited exemptions, are made in public and that information relating to those decisions is made available to the public;

- Rules and procedures which govern how decisions are made including how appropriate financial, legal and professional advice is provided are regularly reviewed and publicly available;

- Full Council, Cabinet and committee agendas are published in advance and available to the public. Agendas, reports and minutes are made available on the Council's website;
- Key decisions delegated to officers are recorded and, subject to limited exemptions, publicly available; and
- The Council's spending data over £500 is published on the Council's website in accordance with the Government's open data recommendations

2.5 Effective Management - Capacity and Capability of Members and Officers

- The Council's structure gives clear accountability for the performance management of services, both within departments and corporately.
- The Council aims to ensure that Members and managers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and staff undertake an induction to familiarise them with protocols, procedures, values and aims of the Council.
- The one Derby, one Council programme will reduce and reshape the workforce. The People Strategy was introduced in 2010 to cover a 5 year period and was the Council's vision of its workforce for the future. This was a high level aims and commitments document. However, the pace of change and senior management changes in Human resources has resulted in the Council looking to integrate the People strategy into a much wider Organisational Development Strategy.
- The Council has defined a distinct set of competencies that it expects its managers to follow. There are different levels of competency for each level of management within the Council, some are still being developed. These are detailed in 'competency frameworks'. Each framework lists behaviours that are expected within each of the competencies.
- The Managing Individual performance scheme introduced in April 2010 for all staff ensures performance is managed and development needs for each member of staff are identified and met.
- The Council was re-assessed in January 2011 on its Investors in People accreditation.

2.6 Engaging with local people and other stakeholders to ensure robust accountability

The Council has a long history of community engagement and recognises it as being central to the Community Strategy. This is because community engagement is about ensuring that residents can participate in a range of different ways to drive improvements to local services.

- Our planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people. Every year, together with our partners, we carry out many consultation exercises. These surveys and events enable both us and our partners to gauge understanding of our shared vision and priorities for the city. We have adopted a Community Engagement Strategy with the City and Neighbourhood Partnership (formerly Derby City Partnership) to ensure a co-coordinated approach to community engagement across partner organisations.
- Derby Direct is Derby City Council's contact centre providing a single point of contact to the Council. We are committed to providing the highest standards of customer service. These standards have been developed in consultation with our customers and our employees. They reflect their wishes to provide customers with an efficient and courteous service.
- Neighbourhood working in Derby has been set up by public services and local people to create stronger communities that are safer, cleaner, healthier, better informed, friendlier and empowered. In every part of the City, a partnership of services and organisations has come together to create a Neighbourhood Team. Each team reflects the neighbourhood's needs and is committed to working with residents for the benefit of the community. Neighbourhood Teams are made up of a Neighbourhood Co-ordinator, a Neighbourhood Environmental Action Team (NEAT), a Police Community Support Officer, a Community Safety Officer, a Police Neighbourhood Team and a Community Engagement Officer. In addition, there is frequent input from other agencies, such as Derby Homes' Community Watch Patrol, Derbyshire Fire and Rescue Service and Central and Derby City Primary Care Trust.
- To give local citizens a greater say in local decision making, every ward or neighbourhood has a Forum and Board.
- In May 2010, the Council launched Streetpride, a new service aimed at giving communities more control over the appearance of their street and local environment, including some control over how and where money is spent. Streetpride focuses on the customer and makes a positive difference to the way customers interact with us and our street-based services.
- A key area for development within this Principle has been to ensure effective communication mechanisms are in place to enhance the reputation of the Council. We have made improvements to the quality, consistency and effectiveness of internal and external communications. Internally the team briefing cascade system was introduced to increase the effectiveness of messages to staff. The rise of social media is proving to be increasingly influential in providing stories beyond the reach of traditional media. The Communications division is monitoring this using Vocus media management software and reporting issues to COG as appropriate. The most difficult area for the Council is the impact of media coverage on our reputation and our relationship with local media. The way the Council is portrayed by local media has a bearing on the community's perception of the Council. Three stories from 2010/11 demonstrate this:
 - Two serious case reviews were published in 2010/11 leading to a degree of local media interest. One in particular received national media coverage. Neither publication can be deemed to have significantly damaged the Council's reputation.

- The judgement from the High Court on a fostering case was favourable for the Council in that it supported the actions taken. However, this resulted in considerable national and international media coverage focused on the religious aspect.
- A high profile and emotive subject, the closure of a number of school kitchens due to health and safety concerns was criticised in the local press. A lack of support from some schools to proposed changes to school meal preparation means this continues to be covered in the press.

The Communications division is working hard to further develop the relationship and have begun induction sessions with the media for new members of staff. In addition, each Media Officer is assigned to a Directorate to enable a continuous flow of news in the most positive way to our local and regional media. This will help to offset any negative media coverage we receive.

- Arrangements for consultation and for gauging local views include the Reach Out panel. Your Derby magazine provides summary information on the Council's vision and priorities and is delivered to every household in Derby 3 times a year.

3. Review of Effectiveness

Derby City Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and by comments made the external auditors and other inspection agencies.

Both in-year and year-end review processes have taken place. In year review mechanisms include:

- the Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- there is a well resourced Scrutiny function which holds the Cabinet to account. The Scrutiny Management Commission is responsible for maintaining an overview of service and financial performance, efficiency and effectiveness.
- the Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members including referrals from the standards board.
- the Audit and Accounts Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Committee met 5 times during the year receiving regular reports on governance, risk and internal control matters.

- Internal Audit is an independent and objective assurance service to the management of the City Council who complete a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangement. In addition, the Section undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management and the Audit and Accounts Committee.
- the External Auditor's Annual Audit and Inspection Letter is considered by the Audit and Accounts Committee, Cabinet and the Chief Officer Group. A number of external audits and inspections have also taken place.
- the Performance and Improvement Team monitor Key Performance Indicators on a quarterly basis and recommend improvements to the performance framework on a regular basis. Progress in delivering the Council Plan and business plans (including KPIs) is tracked using a performance system, DORIS, which is accessible to all staff, members and key partners. Performance Surgeries are held to investigate areas of underperformance and review action plans for improvement.
- the work of the Strategic Risk Group to review the effectiveness of the Council's Risk Management Framework, to identify strategic risks and ensure that actions are being taken to effectively manage the Council's highest risks. Work has continued throughout the year to support the embedding of risk management as a core competency across all corporate and operational services.
- the work of the Controls Review Group which reviews control issues within the key financial systems of the Council.

The year end review of the Council's governance arrangements and the control environment included:

- reviewing external inspection reports received by the Council during the year
- the role of the Governance Working Group in reviewing the Council's own governance arrangements against a best practice framework endorsed by CIPFA/SOLACE to identify areas for improvement.
- validating assurances obtained by reference to documentation held and by comparing the assurances provided to an evaluation of the effectiveness of the control environment.
- the opinion of the Head of Audit and Risk Management in his annual report to Audit and Accounts Committee and an evaluation of management information in key areas to identify any indications that the control environment may not be sound.
- an annual report from the Strategic Director - Resources on the effectiveness of internal audit.
- consulting the Audit and Accounts Committee regarding any potential issues it felt could indicate a problem with the control environment.

4. Significant Governance Issues 2010/11

Although progress continues to be made to improve areas raised as significant governance issues in previous annual governance statements, there are still issues that continue to impact on the governance of the Council:

The local elections in May 2010 saw no change to the situation of no one party achieving an outright majority although there was a change in administration where the Liberal Democrat administration was replaced by a Conservative administration. Following the elections in May 2011, Labour has the highest number of seats, but did not obtain an overall majority. An agreement has been reached between the Conservative Group and the Liberal Democrat Group to form a Conservative led coalition administration.

- The 10 year Derwent New Deal for Communities (NDC) programme was due to end at 31 March 2011. An extension has been granted until September 2011 as difficulties have been encountered in delivering a succession plan. Negotiations have been taking place with stakeholders but agreement has not yet been reached and the assets still remain in the ownership of Derwent Delivers limited. A number of key issues still need to be resolved before the programme can be closed and it is unlikely that the September 2011 deadline will be met. The uncertainty and delay in the closure of the programme, coupled with the failure to deliver a substantial, sustainable legacy for the Derwent Community exposes the Council to potential financial risk (clawback of grant) and ongoing reputational risk.

2010/11:

The Council felt the impact of the Comprehensive Spending Review with central government funding being significantly reduced to all councils. The Council had to find £27 million saving for 2011/12 in a very tight timescale. This was partly achieved through staffing reductions with as much as possible being through voluntary redundancy.

A key element of the Council's transformation programme is to remove wherever possible, the client/contractor relationships that exist between a number of different parts of the council. The main changes in 2010/11 as part of this process were:

- the transfer of responsibilities and operational services of the repairs and maintenance of Council housing to Derby Homes with effect from 1 June 2010.
- the closure of the Public Buildings Service in the Environmental Services Department and the transfer of staff to Derby Homes Ltd.
- the transfer of the responsibilities for Public Buildings maintenance to the Council's property Service section and the procurement of those services from the private sector in the short term.

In February 2011, a combination of human error and insufficient management controls resulted in the Council's monthly payroll not being run on time. Contingency arrangements had to be put into place to enable payments to be made to employees' bank accounts. Following an investigation, the system controls have been improved.

There have been 5 potential breaches of data protection that the Information Governance Manager has been required to investigate. A further case is currently under investigation and the Council has also received a complaint from the Information Commissioner's office regarding the unlawful disclosure of personal data to third parties. The ICO has stated that it is likely that the Council has complied with the Data protection Act 1998, but we are awaiting formal confirmation of this.

In February 2011, the Office of Surveillance Commissioners reviewed the Council's management of covert surveillance under the Regulation of Investigatory Powers Act (RIPA) 2000. The review concluded that although there were elements of good practice, 2 recommendations made at the last inspection in 2009 remained outstanding and that a lack of training and quality assurance resulted in a poor standard of documentation. The inspection also identified that the authorisation and management of covert human intelligence sources (CHIS) was of a poor standard. There is also no current structure to advise elected members of the use of RIPA and the level of covert activity conducted. An action plan has been put in place to address the recommendations made in the review.

Issues reported to Audit and Accounts Committee:

The Audit and Accounts Committee is the body of members charged with governance. During the year the following significant issues were raised:

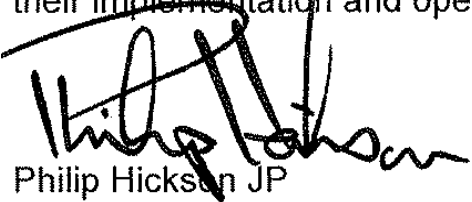
- The Committee receives half yearly reports on all non-compliant contracts, together with an explanation as to the reason for it occurring. All contract waivers requested are reported to the Committee for information. The Committee has the option to call in managers to seek further explanations and assurances that the non-compliance issues will be rectified. In 2010/11, two non-compliant contracts were referred to Committee. One of the contracts is currently out to tender and the Committee has asked for updates to outline compliance with procurement procedures to be provided at its meetings.
- The Committee called in managers to request further assurance on the improvements being made to the internal controls around pre-employment checks. Human Resources management outlined the department's progress on recommendations. A system has already been put in place for pre-employment checks on new starters and HR are planning checks on current employees to start in July 2011. This will be completed by March 2012 and Committee will be provided with a quarterly report on the work.
- The audit of risk management highlighted that the control environment required improvement. The audit identified that operational risk registers were omitted from the business plans for 2010/11. All 2011/12 business plans have to include a register detailing the significant risks facing the service and the proposed mitigating actions.
- Regular updates on the Governance Action plan demonstrated that progress was being made in a number of areas, but slippage was occurring in others. The Governance Working Group's key priority for 2011/12 is to drive forward the improvements outlined in the action plan.

Issues reported to Standards Committee

The Standards Committee considers governance issues as part of its work programme. There were no issues raised that require reporting in this statement.

5. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year with the exception of those areas identified in section 4. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.



Philip Hickson JP
Leader of the Council



Adam Wilkinson
Chief Executive

Statement of Responsibilities

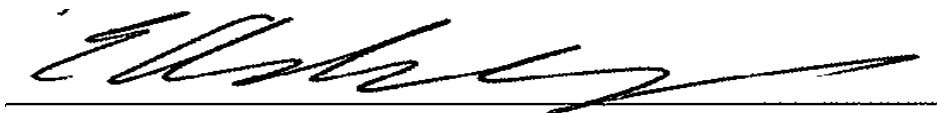
The Authority's Responsibilities:

The Authority is required:

- (1) 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. At Derby City Council that officer is the Strategic Director of Resources
- (2) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (3) To approve the Statement of Accounts.

The Accounts were approved by the Audit and Accounts Committee on 29 September 2011.

Signed:



Councillor Eric Ashburner - Chair, Audit and Accounts Committee

The Strategic Director of Resources' Responsibilities

The Strategic Director of Resources 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).

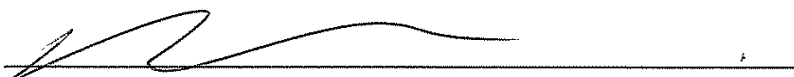
In preparing this Statement of Accounts, the Strategic Director of Resources has ensured that:

- (1) Suitable accounting policies have been selected and then applied consistently
- (2) Judgements and estimates have been made that were reasonable and prudent
- (3) Compliance with the Local Authority Code of Practice

The Strategic Director of Resources has ensured that

- (1) Proper accounting records have been kept which were up to date
- (2) Reasonable steps have been taken for the prevention and detection of fraud and other irregularities

Signed:



Roger Kershaw - Strategic Director of Resources

Date:

30 June 2011

Audit Opinion

Opinion on the Council and Group's accounting statements

We have audited the Council and Group accounting statements of Derby City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account and 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 2010/11 (based on International Financial Reporting Standards).

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

Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of the Strategic Director of Resources' Responsibilities, the Strategic Director of Resources is responsible for the preparation of the Council and Group'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. Our responsibility is to audit and express an opinion on the Statement of Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the accounting statements. We read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of Derby City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended
- give a true and fair view of the state of Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

Opinion on other matters

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

Matters on which we report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounting statements are not in agreement with the accounting records and returns; or
- the Annual Governance Statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we have not received all the information and explanations we require for our audit.

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

Council's responsibilities

The Council 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.

Auditor's responsibilities

We are required, under Section 5 of the Audit Commission Act 1998, to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

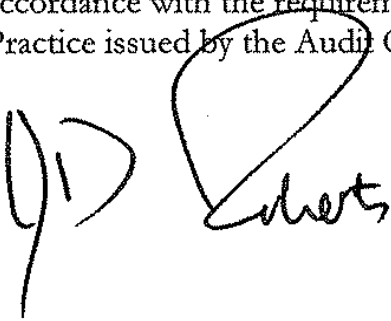
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Derby City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

A handwritten signature in black ink, appearing to read 'J D Roberts', is written over a circular stamp or seal that is partially obscured.

J D Roberts

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Birmingham

30 September 2011

Movement in Reserves Statement

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

All figures relating to 2009/10 have been restated on conversion from UK GAAP to IFRS. An analysis of this restatement is included in Note 1 to these accounts.

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Housing Revenue Account £000 | Earmarked HRA Reserves £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---|------------------------------|---|---------------------------------|--------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|---------------------------|--------------------------------|
| Balance at 31 March 2009 | (12,079) | (51,208) | (17,069) | (2,604) | (11,117) | (716) | (21,891) | (116,684) | (559,753) | (676,437) |
| Movement in reserves during 2009/10 | | | | | | | | | | |
| (Surplus) or deficit on the provision of services | 13,288 | 0 | (20,980) | 0 | 0 | 0 | 0 | (7,692) | 0 | (7,692) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 79,560 | 79,560 |
| Total Comprehensive Income and Expenditure | 13,288 | 0 | (20,980) | 0 | 0 | 0 | 0 | (7,692) | 79,560 | 71,868 |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (15,290) | 0 | 16,271 | 0 | 3,310 | (324) | 3,000 | 6,967 | (6,967) | 0 |
| Net (Increase)/ Decrease before Transfers to Earmarked Reserves | (2,002) | 0 | (4,709) | 0 | 3,310 | (324) | 3,000 | (725) | 72,593 | 71,868 |
| Transfers (to)/from Earmarked Reserves (Note 33) | 1,957 | (5,328) | 3,802 | (19) | 0 | 0 | 0 | 412 | (412) | 0 |
| (Increase)/ Decrease in 2009/10 | (45) | (5,328) | (907) | (19) | 3,310 | (324) | 3,000 | (313) | 72,181 | 71,868 |
| Balance at 31 March 2010 carried forward | (12,124) | (56,536) | (17,976) | (2,623) | (7,807) | (1,040) | (18,891) | (116,997) | (487,572) | (604,569) |

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Housing Revenue Account £000 | Earmarked HRA Reserves £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---|------------------------------|---|---------------------------------|--------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|---------------------------|--------------------------------|
| Balance at 31 March 2010 brought forward | (12,124) | (56,536) | (17,976) | (2,623) | (7,807) | (1,040) | (18,891) | (116,997) | (487,572) | (604,569) |
| Movement in Reserves during 2010/11 (Surplus) or deficit on the provision of services | (28,971) | 0 | 171,283 | 0 | 0 | 0 | 0 | 142,312 | 0 | 142,312 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (95,647) | (95,647) |
| Total Comprehensive Income and Expenditure | (28,971) | 0 | 171,283 | 0 | 0 | 0 | 0 | 142,312 | (95,647) | 46,665 |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | 33,848 | 0 | (170,669) | 0 | 1,932 | (930) | (3,687) | (139,506) | 139,506 | 0 |
| Net (Increase)/ Decrease before Transfers to Earmarked Reserves | 4,877 | 0 | 614 | 0 | 1,932 | (930) | (3,687) | 2,806 | 43,859 | 46,665 |
| Transfers (to)/from Earmarked Reserves (Note 33) | (5,052) | 8,342 | 51 | (101) | (58) | 0 | 0 | 3,182 | (3,182) | 0 |
| (Increase)/ Decrease in 2010/11 | (175) | 8,342 | 665 | (101) | 1,874 | (930) | (3,687) | 5,988 | 40,677 | 46,665 |
| Balance at 31 March 2011 carried forward | (12,299) | (48,194) | (17,311) | (2,724) | (5,933) | (1,970) | (22,578) | (111,009) | (446,895) | (557,904) |

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils 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.

| 2009/10 (restated under IFRS - Note 1) | | | 2010/11 | | | |
|---|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 32,421 | (29,915) | 2,506 | Central services to the public | 35,676 | (24,783) | 10,893 |
| 135,812 | (89,456) | 46,356 | Cultural, environmental, regulatory and planning services | 117,028 | (62,920) | 54,108 |
| 322,864 | (237,480) | 85,384 | Education and children's services | 343,592 | (263,818) | 79,774 |
| 36,426 | (15,501) | 20,925 | Highways and transport services | 36,839 | (17,957) | 18,882 |
| 17,684 | (45,370) | (27,686) | Local authority housing (HRA) | 209,502 | (44,448) | 165,054 |
| 115,426 | (106,056) | 9,370 | Other housing services | 113,609 | (92,574) | 21,035 |
| 83,090 | (27,273) | 55,817 | Adult social care | 94,788 | (36,852) | 57,936 |
| 12,604 | (6,474) | 6,130 | Corporate and democratic core | 14,744 | (6,223) | 8,521 |
| 201 | 0 | 201 | Non distributed costs | 0 | (44,893) | (44,893) |
| 756,528 | (557,525) | 199,003 | Cost of Services | 965,778 | (594,468) | 371,310 |
| | | 1,553 | Other operating expenditure (Note 9) | | | 11,049 |
| | | 32,331 | Financing and investment income and expenditure (Note 10) | | | 26,742 |
| | | (240,579) | Taxation and non-specific grant income (Note 11) | | | (266,789) |
| | | (7,692) | (Surplus) or Deficit on Provision of Services | | | 142,312 |
| | | (9,135) | (Surplus) or deficit on revaluation of Property, Plant and Equipment assets | | | (54,446) |
| | | 84,320 | Actuarial (gains)/ losses on pension assets/ | | | (41,986) |
| | | 4,375 | Restatement of Fixed Assets | | | 785 |
| | | 79,560 | Other Comprehensive (Income) and Expenditure | | | (95,647) |
| | | 71,868 | Total Comprehensive (Income) and Expenditure | | | 46,665 |

Balance Sheet

The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of the Council's net worth, falling into two categories; Usable Reserves and Unusable Reserves.

| 1 April 2009 £000 | 31 March 2010 £000 | | Notes | 31 March 2011 £000 |
|---|--------------------------|--------------------------------------|-------|--------------------------|
| Restated under IFRS (note 1) | | | | |
| 1,193,600 | 1,214,495 | Property, Plant & Equipment | 18 | 1,096,407 |
| 2,719 | 2,895 | Investment Property | 19 | 2,932 |
| 116 | 164 | Intangible Assets | 20 | 137 |
| 22,139 | 3,360 | Long Term Investments | 24 | 0 |
| 6,717 | 7,024 | Long Term Debtors | 27b | 8,806 |
| 1,225,291 | 1,227,938 | Long Terms Assets | | 1,108,282 |
| 62,868 | 27,920 | Short Term Investments | 24 | 3,767 |
| 2,904 | 5,327 | Assets Held for Sale | 26 | 5,497 |
| 1,144 | 1,188 | Inventories | 28 | 592 |
| 35,849 | 49,506 | Short Term Debtors | 27a | 48,064 |
| 49,749 | 29,259 | Cash and Cash Equivalents | 29 | 66,986 |
| 152,514 | 113,200 | Current Assets | | 124,906 |
| (8,969) | (7,951) | Bank Overdrafts | 29 | (8,350) |
| (11,102) | (7,091) | Short Term Borrowing | 24 | 0 |
| (2,519) | (2,358) | Short Term Finance Lease Liabilities | 22/23 | (2,679) |
| (47,453) | (61,527) | Short Term Creditors | 30 | (73,773) |
| (1,126) | (1,970) | Provisions | 32 | (4,034) |
| (71,169) | (80,897) | Current Liabilities | | (88,836) |
| (39,844) | (42,669) | Long Term Finance Lease Liabilities | 22/23 | (44,661) |
| (735) | (710) | Provisions | 32 | (627) |
| (335,488) | (260,930) | Long Term Borrowing | 24 | (267,901) |
| (241,859) | (331,641) | Other Long Term Liabilities | 31 | (252,668) |
| (12,273) | (19,722) | Capital Grants Receipts in Advance | 14 | (20,591) |
| (630,199) | (655,672) | Long Term Liabilities | | (586,448) |
| 676,437 | 604,569 | Net Assets | | 557,904 |
| (116,684) | (116,997) | Usable Reserves | 34 | (111,009) |
| (559,753) | (487,572) | Unusable Reserves | 35 | (446,895) |
| (676,437) | (604,569) | Total Reserves | | (557,904) |

Cash Flow Statement

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

| 2009/10 (restated) £000 | | 2010/11 £000 |
|--|---|-------------------------|
| (14,263) | Net (surplus) or deficit on the provision of services | 142,312 |
| (10,793) | Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 45) | (185,851) |
| (7,106) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 46) | (6,087) |
| (32,162) | Net cash flows from Operating Activities | (49,626) |
| (38,539) | Investing Activities (Note 48) | 1,905 |
| 90,173 | Financing Activities (Note 49) | 10,393 |
| 19,472 | Net (increase) or decrease in cash and cash equivalents | (37,328) |
| 40,780 | Cash and cash equivalents at the beginning of the reporting period | 21,308 |
| 21,308 | Cash and cash equivalents at the end of the reporting period (Note 29) | 58,636 |

1. Explanation of Conversion from UK GAAP to International Financial Reporting Standards

1. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARD

| 2008/09 BALANCE SHEET | | Adjustments for Conversion | | | | | | Restated 2008/09 Accounts for IFRS £000 |
|--|-------------------------------------|------------------------------|-------------------------------|------------------------|-----------------|----------------|----------------|---|
| | 2008/09 UK GAAP Accounts £000 | Employee Benefits £000 | Cash & Cash Equivs £000 | Govt Grants £000 | PPE £000 | Leases £000 | Other £000 | |
| Long-term Assets | | | | | | | | |
| Property, Plant and Equipment | 1,127,110 | | | | 65,558 | 944 | (12) | 1,193,600 |
| Investment Property | 15,511 | | | | (12,793) | | 1 | 2,719 |
| Other Long-term Assets | 27,426 | | | | | 1,546 | | 28,972 |
| Total Long-term Assets | 1,170,047 | 0 | 0 | 0 | 52,765 | 2,490 | (11) | 1,225,291 |
| Current Assets | | | | | | | | |
| Short-term Investments | 109,943 | | (47,075) | | | | | 62,868 |
| Cash and Cash Equivalents | 2,674 | | 47,075 | | | | | 49,749 |
| Assets Held for Sale | 0 | | | | 2,904 | | | 2,904 |
| Other Current Assets | 36,993 | | | | | | | 36,993 |
| Total Current Assets | 149,610 | 0 | 0 | 0 | 2,904 | 0 | 0 | 152,514 |
| Current Liabilities | | | | | | | | |
| Short-term Borrowing | 0 | | | | | | (11,102) | (11,102) |
| Short-term Creditors | (54,645) | (3,910) | | | | | 11,102 | (47,453) |
| Other Current Liabilities | (11,488) | | | | | | (1,126) | (12,614) |
| Total Current Liabilities | (66,133) | (3,910) | 0 | 0 | 0 | 0 | (1,126) | (71,169) |
| Long-term Liabilities | | | | | | | | |
| Government Grants Unapplied and Deferred | (127,704) | | | 127,704 | | | | 0 |
| Capital Grants Receipts in Advance | 0 | | | (12,273) | | | | (12,273) |
| Finance Lease Due Over One Year | (37,412) | | | | | (2,432) | | (39,844) |
| Other Long-term Liabilities | (579,338) | | | | | 130 | 1,126 | (578,082) |
| Total Long-term Liabilities | (744,454) | 0 | 0 | 115,431 | 0 | (2,302) | 1,126 | (630,199) |
| NET ASSETS | 509,070 | (3,910) | 0 | 115,431 | 55,669 | 188 | (11) | 676,437 |
| Usable Reserves | | | | | | | | |
| Capital Grants Unapplied Reserve | 0 | | | (21,891) | | | | (21,891) |
| Other Usable Reserves | (94,793) | | | | | | | (94,793) |
| Unusable Reserves | | | | | | | | |
| Revaluation Reserve | (33,466) | | | | (62,400) | 22 | | (95,844) |
| Capital Adjustment Account | (579,256) | | | (93,540) | 6,731 | 1,316 | 11 | (664,738) |
| Deferred Capital Receipts Reserve | (111) | | | | | (1,526) | | (1,637) |
| Accumulated Absences Account | 0 | 3,910 | | | | | | 3,910 |
| Other Unusable Reserves | 198,556 | | | | | | | 198,556 |
| TOTAL RESERVES | (509,070) | 3,910 | 0 | (115,431) | (55,669) | (188) | 11 | (676,437) |

2009/10 BALANCE SHEET

| | Adjustments for Conversion | | | | | | | Restated 2009/10 Accounts for IFRS £000 |
|--|-------------------------------------|------------------------------|-------------------------------|------------------------|-----------------|----------------|----------------|---|
| | 2009/10 UK GAAP Accounts £000 | Employee Benefits £000 | Cash & Cash Equivs £000 | Govt Grants £000 | PPE £000 | Leases £000 | Other £000 | |
| Long-term Assets | | | | | | | | |
| Property, Plant and Equipment | 1,136,380 | | | | 77,430 | 696 | (11) | 1,214,495 |
| Investment Property | 38,350 | | | | (35,455) | | | 2,895 |
| Other Long-term Assets | 9,006 | | | | | 1,542 | | 10,548 |
| Total Long-term Assets | 1,183,736 | 0 | 0 | 0 | 41,975 | 2,238 | (11) | 1,227,938 |
| Current Assets | | | | | | | | |
| Short-term Investments | 54,011 | | (26,091) | | | | | 27,920 |
| Cash and Cash Equivalents | 3,168 | | 26,091 | | | | | 29,259 |
| Assets Held for Sale | 0 | | | | 5,327 | | | 5,327 |
| Other Current Assets | 50,694 | | | | | | | 50,694 |
| Total Current Assets | 107,873 | 0 | 0 | 0 | 5,327 | 0 | 0 | 113,200 |
| Current Liabilities | | | | | | | | |
| Short-term Borrowing | 0 | | | | | | (7,091) | (7,091) |
| Short-term Creditors | (64,077) | (4,541) | | | | | 7,091 | (61,527) |
| Other Current Liabilities | (10,309) | | | | | | (1,970) | (12,279) |
| Total Current Liabilities | (74,386) | (4,541) | 0 | 0 | 0 | 0 | (1,970) | (80,897) |
| Long-term Liabilities | | | | | | | | |
| Government Grants Unapplied and Deferred | (151,617) | | | 151,617 | | | | 0 |
| Capital Grants Receipts in Advance | 0 | | | (19,722) | | | | (19,722) |
| Finance Lease Due Over One Year | (40,608) | | | | | (2,061) | | (42,669) |
| Other Long-term Liabilities | (594,851) | | | | | 122 | 1,448 | (593,281) |
| Total Long-term Liabilities | (787,076) | 0 | 0 | 131,895 | 0 | (1,939) | 1,448 | (655,672) |
| NET ASSETS | 430,147 | (4,541) | 0 | 131,895 | 47,302 | 299 | (533) | 604,569 |
| Usable Reserves | | | | | | | | |
| Capital Grants Unapplied Reserve | 0 | | | (18,890) | | | | (18,890) |
| Revenue Earmarked Reserves | (53,590) | | | | | | 522 | (53,068) |
| Other Usable Reserves | (45,040) | | | | | | | (45,040) |
| Unusable Reserves | | | | | | | | |
| Revaluation Reserve | (60,269) | | | | (41,317) | 22 | | (101,564) |
| Capital Adjustment Account | (561,124) | | | (113,005) | (5,985) | 1,201 | 11 | (678,902) |
| Deferred Capital Receipts Reserve | (96) | | | | | (1,522) | | (1,618) |
| Accumulated Absences Account | 0 | 4,541 | | | | | | 4,541 |
| Other Unusable Reserves | 289,972 | | | | | | | 289,972 |
| TOTAL RESERVES | (430,147) | 4,541 | 0 | (131,895) | (47,302) | (299) | 533 | (604,569) |

2009/10 INCOME & EXPENDITURE ACCOUNT

| | 2009/10 UK GAAP Accounts £000 | Employee Benefits £000 | Govt Grants £000 | PPE £000 | Leases £000 | Other £000 | Restated 2009/10 Accounts for IFRS £000 |
|---|-------------------------------------|------------------------------|---------------------|-----------------|----------------|---------------|---|
| Central services to the public | 717 | 34 | | 1,386 | (154) | 523 | 2,506 |
| Cultural, environmental, regulatory and planning services | 43,163 | (12) | 3,147 | 89 | (31) | | 46,356 |
| Education and children's services | 70,065 | 632 | 10,050 | 4,640 | (3) | | 85,384 |
| Highways and transport services | 20,486 | (1) | 467 | (27) | | | 20,925 |
| Local authority housing (HRA) | (5,389) | 0 | 9,644 | (31,978) | 37 | | (27,686) |
| Other housing services | 6,032 | (4) | (3,611) | 6,942 | 11 | | 9,370 |
| Adult social care | 55,167 | (19) | 720 | (38) | (13) | | 55,817 |
| Corporate and democratic core | 6,080 | 2 | 48 | | | | 6,130 |
| Non distributed costs | 201 | | | | | | 201 |
| Cost of Services | 196,522 | 632 | 20,465 | (18,986) | (153) | 523 | 199,003 |
| Other operating expenditure | 1553 | | | | | | 1,553 |
| Financing and investment income and expenditure | 32904 | | | (615) | 42 | | 32,331 |
| Surplus or deficit of discontinued operations | 0 | | | | | | 0 |
| Taxation and non-specific grant income | (203,649) | | (36,930) | | | | (240,579) |
| (Surplus) or Deficit on Provision of Services | 27,330 | 632 | (16,465) | (19,601) | (111) | 523 | (7,692) |
| Surplus or deficit or revaluation of Property, Plant and Equipment assets | (36,989) | 0 | 0 | 27,854 | 0 | 0 | (9,135) |
| Actuarial gains/losses on pension assets/liabilities | 84,320 | 0 | 0 | 0 | 0 | 0 | 84,320 |
| Restatement of Fixed Assets | 4,262 | 0 | 0 | 113 | 0 | 0 | 4,375 |
| Other Comprehensive Income and Expenditure | 51,593 | 0 | 0 | 27,967 | 0 | 0 | 79,560 |
| Total Comprehensive Income and Expenditure | 78,923 | 632 | (16,465) | 8,366 | (111) | 523 | 71,868 |

2. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a going concern basis.

ii. Accruals of Income and Expenditure

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

- 1) Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser; it is probable that economic benefits or service potential with the transaction will flow to the Council; and the amount of revenue can be measured reliably.
- 2) Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- 3) 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.
- 4) 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.
- 5) Interest receivable on investments and payable on borrowing is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 6) Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Exceptional Items

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

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

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

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

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

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. untaken flexi leave) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefits. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

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

- 1) The Teacher's Pension Scheme, administered by Capita Teacher's Pensions on behalf of the Department for Education (DfE).
- 2) The Local Government Pensions Scheme, administered by Derbyshire County Council.

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

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

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices, using a discount rate in 2010/11 of 5.5%.

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

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price
- Property - market value.

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

- 1) Current Service Cost - the increases in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

2) Past Service Cost - the increase in liabilities arising from current year decisions whose effect relates to years of service in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

3) Interest Cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

4) Expected Return on Assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term returns - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

5) Gains and Losses on Settlements and Curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

7) Contributions paid to the Derbyshire County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

viii. Events After the Balance Sheet Date

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

- 1) 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.
- 2) Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- Loans and Receivables - assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-Sale Assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

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

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

Available-for-Sale Assets

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

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

- Instruments with quoted market prices - the market price
- Other instruments with fixed and determinable payments - discounted cash flow analysis
- Equity shares with no quoted market prices - independent appraisal of company valuations (unless deemed not to be material then held at historical cost).

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 revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

x. Government Grants and Contributions

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

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

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

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

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

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Council acts as an agent for the Cathedral Quarter Business Improvement District (BID) Company. The only amounts recognised in the Council's Comprehensive Income and Expenditure Statement for the BID scheme are contributions made by the Council and BID levy collection costs and shown within the relevant service line(s) of the Cost of Services section.

xi. Intangible Assets

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

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

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

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

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

xii. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xiii Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either an average cost or first in first out (FIFO) costing formula, depending on which method is most appropriate.

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

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services of 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 valued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xv. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xvi. 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.

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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. if there is a rent-free period at the commencement of the lease).

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to 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.

xix. Overheads and Support Services

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

1. Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
2. Non Distributed Costs - the cost of discretionary benefits awarded to the 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 Net Expenditure on Continuing Services.

xx. Property, Plant and Equipment

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

Recognition

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

In accordance with the Code of Practice 2010, Property, Plant and Equipment assets are only recognised if it is probable that future economic benefits or service potential associated with the item will flow to the Council. The PPE assets of the Council's Community, Voluntary Controlled and Foundation schools are considered to meet the IFRS definition for recognition and are included in the Council's balance sheet. As Voluntary Aided and Academy schools are not owned or fully funded by the Council, they are not considered to meet the recognition criteria and are therefore not included in the Council's Balance Sheet.

Where the Council incurs capital spend on or revalues any property, plant and equipment this will be reviewed to determine whether there are any material components. An identifiable component within a main asset (e.g. a lift within a building) will be recognised separately and accounted for like any other piece of property, plant and equipment. The Council will only review material components where the main asset has a gross book value of £3 million or greater. Individual components will only be recognised where they represent a significant proportion (25% or greater) of the main asset.

Measurement

Assets are initially measured at cost, comprising:

1. The purchase price
2. 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
3. Where relevant, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

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

- Infrastructure, community assets and assets under construction - depreciated historical cost
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUVSH)
- 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 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. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

